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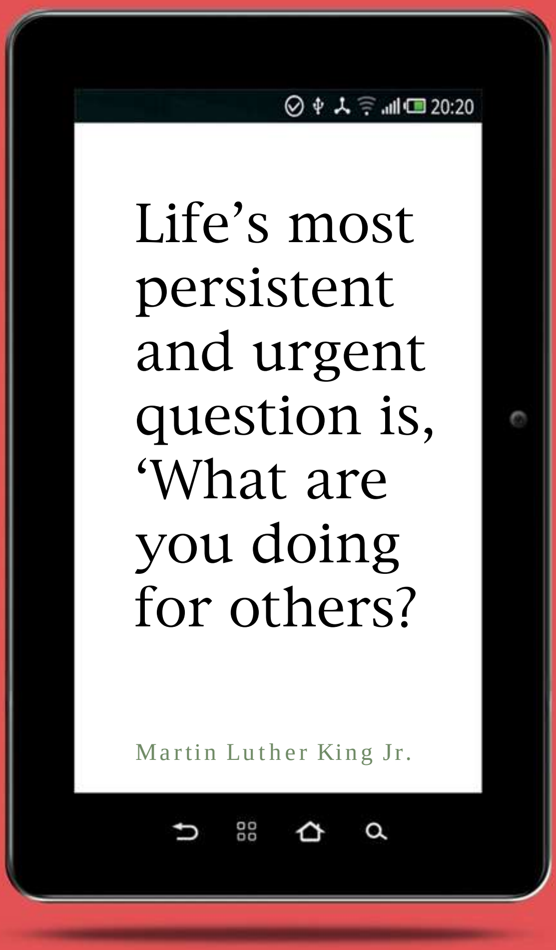



Pakistan Poverty Alleviation Fund

**ANNUAL REPORT 2011**

**CONCEPT & DESIGN:** Mohsin Jamal

The emblem denotes three words: *Ishq, Ilm, Amal* meaning passion, knowledge, action — the core values driving the institution.

## Core Values

Poverty reduction and social development
Environment- friendly development
Equity and social inclusion
Transparency
Accountability
Team work
Creativity and responsiveness
Honesty and integrity
Action based on knowledge and with passion

## Vision

Restoring hope,
Securing the future,
Ending poverty

# Chairman's Message

In recent years Pakistan has been confronted with a multitude of challenges. The country has had to contend with unprecedented flooding and rain, rapid slowdown in economic growth, debilitating power outages and a deteriorating law and order situation.

Against the backdrop of difficult circumstances and under the leadership of a new CEO, PPAF sustained the momentum of growth and turned in another year of sterling performance and achievement. Total financing crossed Rs.95 billion (over US$ 1billion), lending operations (for microcredit) contributing 58% and grant operations (for water, infrastructure, education, health, livelihoods and training) accounting for 42% of total funding deployed. PPAF outreach extended to 129 out of 145 districts across the country.

However, the lasting impact of PPAF is not so much its physical and financial achievements but the PPAF model itself which is non-prescriptive but value driven, with integrity and inclusion at the heart of operational and support activities. It is today an internationally-recognized example of public-private partnership. The comparative advantage of PPAF lies in the strength of its track record, which enables it to convene and co-opt public, private and civil society sectors to the broader objective of grassroot empowerment. These partnerships and relationships aim to put marginalized and excluded households in the driving seat in making resource allocation choices among competing alternatives.

The year saw the formulation of a new operational framework, which significantly re-ordered the strategic objectives of the institution. High priority is being given to the regions/areas of the country with low social and economic indicators, and high levels of conflict and civil strife, with a focus on inclusive, transparent, accountable community organizations. In a country which is very young in terms of its demographic profile, a dedicated emphasis is being placed on training our youth in terms of skills, entrepreneurship and capacity building. Using a gendered approach to development, special consideration is being afforded to women as the burden of poverty falls disproportionately on them.

These investments will Insha Allah yield rich dividends in terms of preservation and renewal of the social fabric and channelizing creative energies to productive purpose.

I would like to thank the Board of Directors and General Body for their constructive role and guidance, the management team who have developed a reputation of credibility and trust. I am particularly grateful to the Government of Pakistan whose confidence and facilitation has been a major factor in the success of this national flagship program.

I would like to profoundly appreciate the strong support and commitment which our donors and partners organisations have given to our work.

Hussain Dawood
Chairman

Established in 1997 as a not-for-profit company, Pakistan Poverty Alleviation Fund helps the poor, landless and assetless in order to encourage them to gain access to resources for their productive self-employment, encourage them to undertake activities of income generation, poverty alleviation and Improving their quality of life.

Sponsored by the Government of Pakistan, PPAF has a 12- member Board of Directors, 3 of which are high level officials nominated by the Government of Pakistan. Financing is primarily provided through agreements between the Government of Pakistan and multilateral and bilateral donors as well as by the corporate sector.

PPAF is reorienting and repositioning itself to focus on the Millennium Development Goals and inclusive grassroots institutions of the poor as strategic drivers for the future. This twin platform enables enhanced access of the poor to capital markets for sustainable commercial microfinance and improvement in overall quality of life standards.

# Year in Review

The Year 2010-11 was a watershed for the Pakistan Poverty Alleviation Fund (PPAF). It marked the completion of a decade of operations and also witnessed a change of leadership at the helm. In the last ten years, PPAF has successfully laid the foundations of a vibrant and responsive development sector by expanding its presence across almost all the districts in the country. At the same time, PPAF worked on developing human and institutional capacities of its partner organizations, thereby enabling small emerging outfits to transform into medium and large organizations. This, therefore, is an opportune time to reflect on what has been achieved and what remains to be done.

As a learning institution, PPAF is uniquely positioned to build on its core strengths and simultaneously reorient itself to address the challenges that lie ahead.

The imperative now is to make a seamless transition from a focus on scale to a focus on depth and intensity of presence. The driver of this approach is to optimize the allocation of resources and maximize outcomes and impact at the grassroots.

Both as a sector developer and as an apex institution, the defining role of PPAF is to realign the sector on an inclusive and sustainable footing, which is crucial for long-term success and continuity of services to the marginalized and disadvantaged. The stress is on constant product development and innovation enabling excluded communities to avail of a wider menu of opportunities and choices.

Through a series of external and internal consultations, PPAF is leveraging its unique experience by gearing up to play a proactive role as a responsive and versatile national institution; an institution that is creating synergies, forming partnerships and forging alliances with diverse stakeholders – government, public-sector agencies, corporate and private entities and academia.

This paradigm shift has required a fundamental recalibration of operations to explicitly address the spatial dimensions of poverty. The new strategy calls for a deliberate shift of priorities towards those regions of Pakistan that have historically lagged behind in socio-economic development and are particularly underserved.

This reorientation now ensures that all PPAF initiatives are rolled out under an overarching strategy, which is community-led and demand driven. Institutional strengthening and development is therefore the central pillar of all interventions. PPAF seeks to significantly improve the quality of community organizations in terms of inclusion, sustainability, effectiveness, and depth of coverage. This is manifested in the move away from project-based criteria to an integrated, appropriately sequenced, muti-sectoral approach.

To date, PPAF has cumulatively financed over 4.7 million microcredit loans, completed 25,500 health, education, water and infrastructure projects, conducted over 11,500 training events and developed a grassroots network of over 297,000 community organizations. PPAF's coverage has simultaneously increased to include 129 districts through 99 partner organizations across all provinces and regions.

PPAF was also at the forefront in responding to the devastating floods that ravaged the country in 2010-11 and is undertaking a comprehensive recovery, rehabilitation and reconstruction effort in the affected areas.

The journey that began in 2000 is far from over. In order to keep serving communities, PPAF has yet to achieve many more milestones. Through a constant process of innovation; through re-orientation towards hard to reach and inhospitable areas; and through a focus on "institutions of the poor," this institution, I am happy to report, is on track towards achievement of its strategic objectives. In a sense, our journey has just begun.

I would like to acknowledge the men and women of PPAF who are at the heart of this new paradigm. I firmly believe that success is not possible without teamwork and each member of Team PPAF is a valued asset.

I am grateful to the Government of Pakistan and to our international partners -- the World Bank and the International Fund for Agricultural Development -- for the unstinting support, assistance and facilitation. I am also grateful to our partner organizations for their hard work and dedicated effort in the field. But above all, I would like to recognize our community organizations for demonstrating resilience in the face of extreme adversity and for being the agents of hope and change in this country.

Qazi Azmat Isa
Chief Executive Officer

# PPAF at a Glance

**Presence in** 129 districts through 99 partner organizations across the country

4.7 million **microcredit loans** with a 100% recovery rate and a market share of almost 45% of the microfinance sector

**Financing deployed** in 91 districts and more then 89,000 villages/rural and urban settlements

Over 11,500 skill development and managerial **training events** for over 462,200 individuals (42% are women

A **grassroots network** of over 297,000 Community Organizations and groups with 62% female beneficiaries

25,500 health, education, water and infrastructure **projects completed**

31.6 million **impacted by credit** (51% female) and 15.8 million by infrastructure, health and education

Around 5,000 **people** have been **benefitted** under Livelihood Enhancement and Protection Program, out of which 47% are women

Figures cumulative June, 2011

# Ahead

# Outcome and Impact

## Credit and Enterprise Development

Fig 1: **Annual microcredit disbursements**

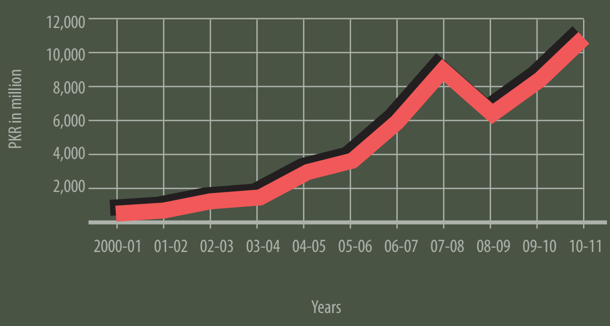



Fig 2: **Loans by gender and region**

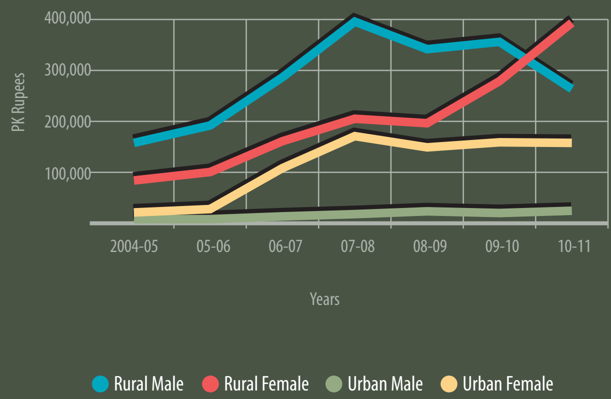



Fig 3: **Annual average loan size by sector**

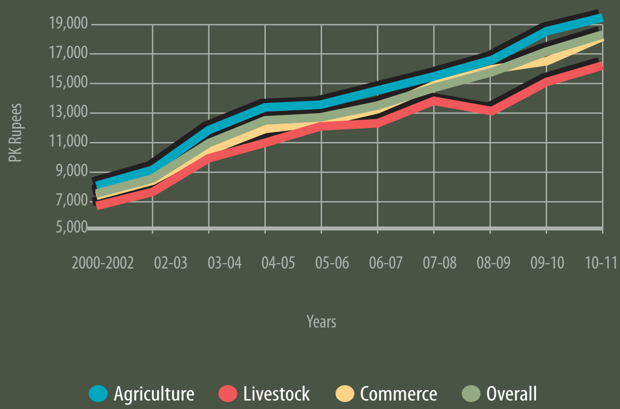



Fig 4: **Ratio of capacity building grants in support of microcredit**

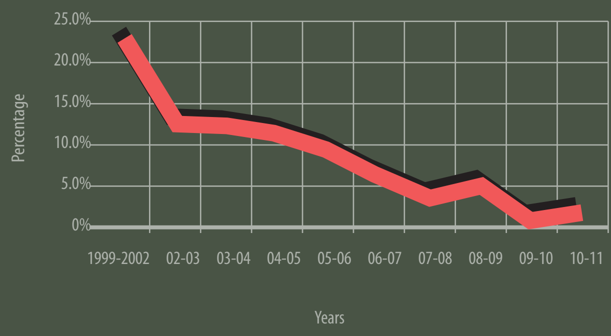
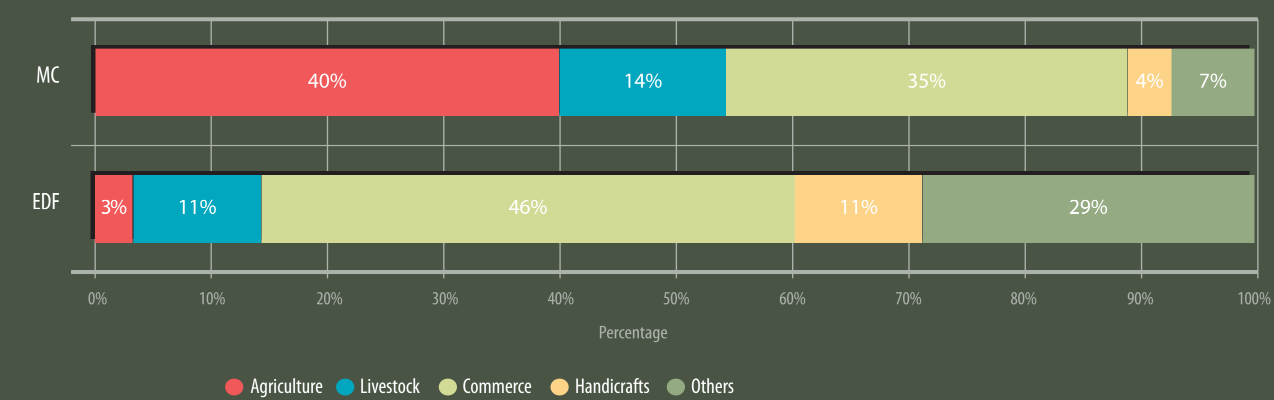
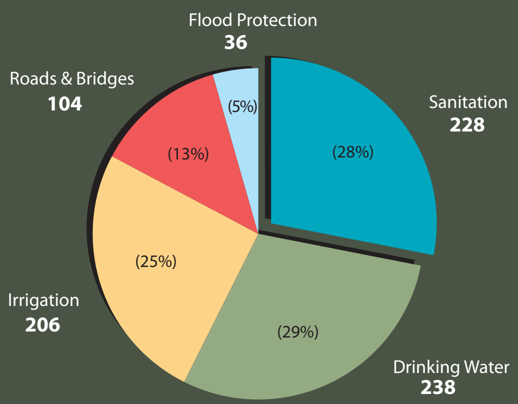



Fig 5: **Sectoral distribution of Microcredit and Enterprise Development Facility disbursements** [FY 2000 - 2011]



## Water, Infrastructure and Renewable Energy

Fig 6: **Sectoral distribution of projects** [FY 2010 - 2011]




## Human and Institutional Development

Fig 7: **Social mobilization community trainings**

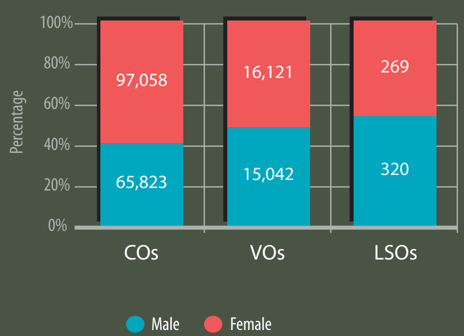



Fig 8: **Gender ratio community trainings**

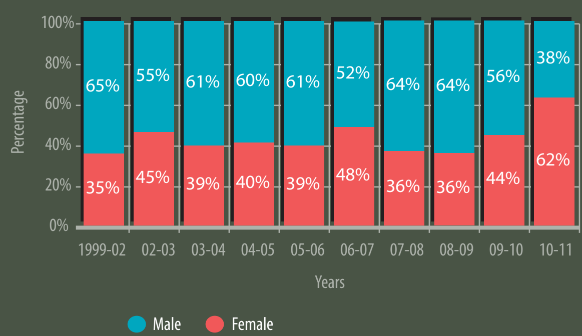



Fig 9: **Annual staff training beneficiaries**

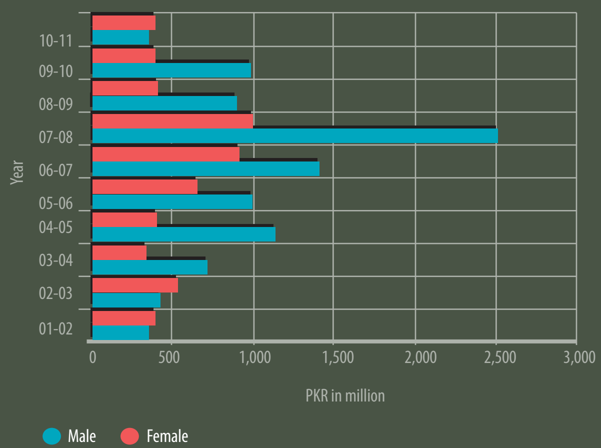
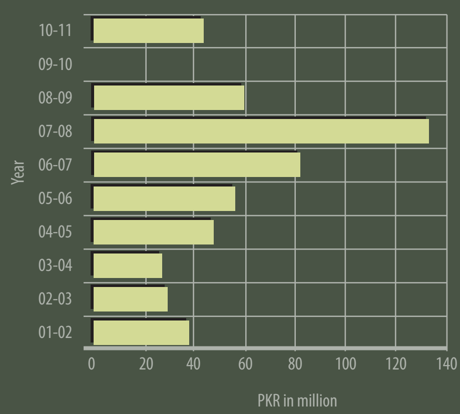



Fig 10: **Annual HID training grants**



# Credit and Enterprise Development

By putting aside the conventional logic of necessary and bankable collateral, microfinance has ushered a paradigm shift in development policy with a potentially unparalleled scope to redress entrenched deprivations.

Lack of access to a sustained and affordable flow of credit exacerbates vulnerability, while significantly decreasing the coping capacity of poor households in meeting periodic shocks precipitated by sickness, famine, old age, loss of work, crop failure or occasional losses in business. Before the coming of grassroots strategies provisioning easy credit to the unbankable masses lingering at the bottom of welfare indices, there was very little progress made in underdeveloped economies by way of successful self-sustaining instruments targeting the poor directly in their individual capacity.

A vast majority of the poor either lack assets altogether or are without proper deeds to asset forms necessary for attracting formal credit. By putting aside the conventional logic of necessary and bankable collateral, microfinance has ushered a paradigm shift in development policy with a potentially unparalleled scope to redress entrenched deprivations. PPAF has realized part of that potential by leading the movement for providing financial services to the poor on the national stage in over a decade of distinguished service at the grassroots.

In June 2011, PPAF resources accounted for 46% market share in gross loan portfolio nationally with cumulative disbursements of Rs. 53,115 million since inception. Of these, over Rs. 12,047 million were disbursed during the current financial year alone benefitting over 834,000 women and men across the country. In addition to provisioning funds for financing loans directly through partner organizations, PPAF continued to facilitate the latter in achieving sustainable grassroots operations through focused support in terms of grants for human and institutional development.

During the current financial year, PPAF achieved significant results from all its mainstream programs with microfinance operations, cumulatively constituting 57% of overall PPAF disbursements to date, dominating PPAF's performance.

The operational responsibility for all PPAF lending instruments lies with the Credit and Enterprise Development (CED) Unit, which comprises five core programs– two supported by PPAF's own resources, one is funded by World Bank and two are financed by International Fund for Agricultural Development (IFAD).

## Microcredit

As an apex mandated to generate positive poverty outcomes, PPAF consciously supports loan products that are more likely to realize better targeting efficiency and maximize gains for the poor. Consequently, PPAF has invested a predominantly large share of its resources in provisioning microloans guaranteed through social collateral within the framework of group/individual lending. The very size of microloans, coupled with the transactional load of frequent group meetings, contains an inherent disincentive for the comparatively better off population, which has been often seen to self-select, out of such programs. During the current financial year alone, PPAF extended microcredit funds worth Rs. 12,047 million for on-lending to 41 partner organizations (POs) [see Fig.1, P8].

PPAF's support for microloans is further conditioned by a deliberate focus on demographic categories more likely to be poor with a correspondingly higher likelihood of being persistently disempowered within households and communities. The approach has guided PPAF to incrementally strengthen its support for loans to women in both rural and urban areas. Compared to only 36% of PPAF microcredit loans contracted by women in FY 2004-5, women constituted 64% of PPAF's annual microcredit borrowers in the current financial year.

Additionally, whereas PPAF's loan portfolio in urban areas has traditionally attracted more women clients, the great bulge in the proportion of PPAF's female clientele in rural areas is a recent phenomenon. While for most part of the last decade PPAF's rural clientele was largely male with women constituting less than approximately 35% of annual borrowers each year, that ratio increased to 47% in FY 2010-11 or over 394,000 rural female borrowers, in the current financial year.

The strong correlation between productivity, household welfare, self-reliance, empowerment and easy access to financial services has been borne out in frequent studies on female microcredit clients under various scenarios. Microcredit loans to female clients have shown to increase investments in the health and education of children, in addition to considerably improving the decision making ability of women at the household level. To the benefit of rural women in particular, enhanced productivity earned from efficient utilization of loans and accompanying skills training programs has begun to redress deep rooted asymmetries in gender relations [see Fig.2, P8].

PPAF's focus on better targeting has been matched by equally strong attempts in broadening outreach through long term partnerships with an increasingly diverse set of institutions from grassroots organizations including rural support programs, microfinance institutions and non governmental organizations to banking sector institutions like the Khushhali Bank Limited and NRSP Microfinance Bank Limited. This has simultaneously allowed PPAF to reach a greater number of communities, while cumulatively enhancing institutional capacity for delivering financial services at the national stage. To date, PPAF has supported 58 partner organizations in providing financial services to the poor. A larger pool of diverse partner organizations has simultaneously allowed PPAF to improve regional imbalances in its loan portfolio.

While a significant share of PPAF microcredit loans continue to be serviced in rural areas where most of the country's poor are situated, the organization's urban portfolio has risen from a mere 3% of total serviced loans in FY 2004-5 to 21% in the current financial year. The growth in PPAF's urban portfolio has simultaneously increased the share of loans in commerce sector. Overall, the latter constitutes 35% of PPAF microcredit loans

A higher incidence of repeat loans has a significant and verifiable impact on poverty and has been additionally shown to contribute effectively towards institutional stability of service delivery providers as repeat loans of bigger sizes are more profitable and are usually extended to old clients with established credit-worthiness.

distributed to date, while 40% and 14% loans have so far been distributed in agriculture and livestock sectors respectively. Greater diversification in PPAF's loan portfolio in terms of gender, regions and sectors of the economy has helped extend outreach and coverage, while contributing significantly towards the realization of positive outcomes over a range of welfare indicators.

There is an increased focus on Poverty Score Card (PSC) and most of the partner organizations are now maintaining the PSC including inclusion of the information in their application forms. This helps them to identify different needs and borrowers preferences during a particular loan cycle. There is a demand from the clients for innovative and diversified products and some of the partner organizations are responding to the client's needs with the help and support of PPAF.

The growing average loan size of PPAF borrowers, as it manifests a higher incidence of repeat loans, is indicative of both sector maturity and a substantially higher likelihood of realizing social objectives. A higher incidence of repeat loans has a significant and verifiable impact on poverty and has been additionally shown to contribute effectively towards institutional stability of service delivery providers as repeat loans of bigger sizes are more profitable and are usually extended to old clients with established credit-worthiness. The average loan size of PPAF microcredit clients has increased across all sectors causing the overall average loan size to more than double in seven years from approximately Rs. 8,500 in FY 02-3 to over Rs. 18,400 in FY 2010-11 [see Fig.3, P8].

As a deliberate strategy to promote sustainable service delivery at the grassroots, PPAF follows a policy of progressively decreasing the proportion of capacity building grants in support of microcredit disbursements. At the same time, this policy is appropriately rationalized keeping in view several factors including coping capacity, which usually varies with size, geographical spread and the income generating potential of partner organizations. Accordingly, partner organizations with a large client base, better income-generating potential in terms of interest-rate structures, and/or an urban focus, received lower capacity building grants on average as a %age of PPAF microcredit funds than partner organizations with a smaller number of active clients and/or a predominantly rural focus.

The policy of gradually decreasing grant funding in support of microcredit is reflected in the falling annual share of such grants: The annual capacity building grant in support of microcredit has decreased from 23% in 1999-02 to 1.63% in 2010-11. [see Fig.4, P8]

PPAF has simultaneously approved an elevated eligibility criterion requiring greater efficiency in operational/financial mechanisms and governance structures for partners seeking large quantum of funding with a view to further strengthening the drive towards promoting sustainable microcredit operations at the grassroots. Partner organizations availing facilities or having exposure of Rs. 500 million or above are classified as "Large" and are required to fulfill several conditions to secure funding including separate books of accounts and audit of microcredit operations, an automated loan tracking system to monitor portfolio performance and reporting, portfolio at risk ratio (greater than 30 days) of less than 5%, operational self-sufficiency of 100%, risk coverage ratio of 100%, and regular publication of periodic reports on performance indicators. Similarly, a market oriented approach has been introduced to discourage reliance on subsidized funding by adjusting lending rates with KIBOR for organizations with over Rs. 500 million in PPAF disbursements and/or in outstanding portfolio over a 12 months period.

Overall, PPAF has cumulatively disbursed Rs. 53,115 million in microcredit funds through 58 partner organizations over the past decade. In turn, these funds have translated into more than 5 million microloans adequately designed and structured to meet the needs of poor communities hitherto un-serviced by the commercial sector.

## Enterprise Development Facility (EDF)

PPAF's Enterprise Development Facility (EDF) caters to a clientele also unserviced by the commercial sector but with credit requirements higher than the traditional thresholds usually imposed on microcredit products in terms of loan size. With a view to decreasing the possibility of default owing to an understandably more risky repayment schedule, EDF applies a more stringent screening and appraisal standard compared to microcredit clients. The facility, which has been in great demand with several partner organizations, has simultaneously generated tremendous potential both in terms of financial rewards for implementing partners as well as clients.

Unlike PPAF microcredit disbursements where most clients are located in the agriculture sector, the commerce sector by far constitutes the largest share under EDF [see Fig.5, P8].

To date, the facility has benefitted

over 12,800 individuals with an average loan size of over Rs. 54,000 [Table 1].

## Microfinance Innovation and Outreach Program (MIOP)

MIOP was launched in 2006 with the aim to improve access of poor rural women and men to productive assets, skills, services and improved technologies, with particular emphasis on enhancing productivity through pilot schemes for new microfinance products and market access initiatives. All program targets have been achieved and all funding available under the program stands pledged. Under the program 25 innovative products/projects were introduced under five broad categories: increasing outreach/low-cost delivery channels, value chains, insurance, social safety nets and projects with special focus. To date, Rs. 2,266 millions have been disbursed to around 73,796 beneficiaries under the program.

Experimentation with low cost settlement branches, village banking and other innovative approaches has facilitated the development of robust models resulting in increased outreach and penetration of services, particularly in areas thus far untapped by the microfinance market. Additionally, branchless banking and other technology intensive models piloted during the fiscal year are expected to strengthen operational and financial efficiency while paving the way for further innovation in the future.

Products launched under value chains have enhanced the effects of microfinance services by

Table 1: **Annual Performance - EDF**

| **Fiscal Year** | **No. of Loans** | **Amount** (Rs. Million) | **Average Loan Size** |
|---|---|---|---|
| 2004-05 | 1,870 | 128.29 | 68,603.00 |
| 2005-06 | 2,052 | 86.97 | 42,385.00 |
| 2006-07 | 740 | 38.00 | 51,358.00 |
| 2007-08 | 1,212 | 61.57 | 50,801.00 |
| 2008-09 | 2,537 | 129.10 | 50,884.90 |
| 2009-10 | 2,944 | 152.48 | 51,793.48 |
| 2010-11 | 1,482 | 103.80 | 70,040.49 |
| **Total** | **12,837** | **700** | **54,546.42** |

maximizing returns accruing to borrowers. For instance, the farmers' emancipation loan has allowed timely access to financial resources and business development services for small farmers, in addition to assisting them in establishing linkages with government line departments, food processing units, producers of fertilizer and providers of seed. Improvement in farmer's connectivity with other actors in the value chain has directly reduced production costs, while emancipating poor farming communities from the influences of middlemen.

Similarly, under the umbrella of social safety nets, several products were designed for the poorest of the poor with a view to breaking the very cycle of poverty that persistently denies the latter a level playing field in terms of deriving equitable gains from standard health, education, training and credit interventions. Following a successful pilot tested in coastal Sind, funds have been subsequently distributed for several such initiatives across the country under the program. Typically, such initiatives incorporate grants for asset transfers, subsistence allowance and health interventions, confidence building and livelihood training followed by carefully sequenced and flexible financial services.

Furthermore, several projects with a special focus were launched to test models aimed at particular geographical areas and individuals with specific requirements not being catered for by standard microfinance facilities. For instance, the microcredit disability project yielded a dramatic improvement in the ability of persons with disabilities to initiate and sustain better livelihoods. In addition to implementing newer products and services for the benefit of the poor, MIOP also seeks to broaden the institutional base for provisioning sustainable financial services, particularly in backward rural areas.

The Young Partners Program (YPP) under MIOP facilitates PPAF in developing new rural microfinance institutions either by supporting new or existing organizations through funds for on-lending and institutional support or through providing young enterprising individuals the opportunity to secure hands-on training experience with a renowned regional microfinance institution subsequently facilitating them in setting up rural MFIs eligible to become full time PPAF partner organizations. Under these initiatives, PPAF has successfully graduated six partners to PPAF's regular microcredit program.

Typically, such initiatives incorporate grants for asset transfers, subsistence allowance and health interventions, confidence building and livelihood training followed by carefully sequenced and exible financial services.

## Program for Increasing Sustainable Microfinance (PRISM)

PPAF initiated the Program for Increasing Sustainable Microfinance (PRISM) in June 2008 with the objective to introduce effective market-oriented instruments allowing sustainable partner organizations to leverage funds from the commercial sector.

The program aimed at channelizing commercial funding to Microfinance Institutions (MFIs), particularly operating in rural areas, through credit enhancement mechanisms, equity funding, technical assistance, knowledge management and policy dialogue. Under the program, PPAF leverages funds available under the credit enhancement facility (in the shape of cash collateral, letters of credit, guarantees, etc.) as collateral against financing facilities extended to partner organizations by commercial banks. These are required to take exposure on the receivables or assets of MFIs so that the total funding extended to the latter is significantly greater than the amount placed by PPAF as collateral. Major milestones have already been achieved including the successful linking of five commercial banks with various MFIs through 10 transactions worth Rs. 2.1 billion with exposure of Rs. 825 million by commercial financial institutions. The leverage is in line with the program target of 33%.

Additionally, the program includes the provisioning of equity funds for viable Microfinance Institutions allowing Commercial Financial Institutions (CFIs) to invest greater resources in the sector. Already, PPAF has extended equity funding to one partner organization with the objective to encourage on-lending by the commercial sector. Additionally, comprehensive independent institutional assessments focusing on several areas including operations, finance, HR, data-entry and update, business plan development and strategic planning were conducted for eight partners. Based on the results of these assessments, PPAF has proposed comprehensive recommendations to partner organizations, who have initiated their implementation with PPAF closely monitoring progress.

Knowledge management comprises a major part of the program with the specific aim to prepare ground for sustainable growth in the sector. Major initiatives have already been undertaken under this component including extensive meetings with banks and other important players in the microfinance sector, encouraging greater coordination and sharing of views and experiences.

## Way Forward

PPAF remains steadfast in promoting sector growth through facilitating capital access within a carefully strategized institutional framework at the grassroots. In its leadership role as the largest wholesaler of microfinance funds in the private sector, PPAF continues to focus on strengthening governance structures and service delivery mechanisms for the poor, while ensuring better targeting through an innovative mix of products.

The introduction of 25 new and innovative products and services designed to address the evolving needs of poor communities through tailor-made products, approaches, services and methodologies is indicative of PPAF's commitment to its social objectives. The persistent focus on deprived districts, which will continue in the future, constitutes another important ingredient in PPAF's inclusive approach towards provisioning adequately designed and targeted financial resources in areas where these are most required.

Additionally, PPAF seeks to strengthen ties with numerous stakeholders including government line agencies, while continuing to support the institutional development of partner organizations. In terms of the latter, PPAF has worked tirelessly to streamline operational and financial management mechanisms, helping grassroots partner organizations to achieve scale in operations.

Conscious of the need to bridge large gaps in the supply of funding resources, PPAF continues to strengthen market mechanisms to attract commercial capital into the sector, while preparing grassroots service providers for the challenges inherent in consolidating such resources. Access to commercial capital will enable MFIs in achieving scale and diversity, facilitating much larger investments in the sector for the benefit of the poor.

Conscious of the need to bridge large gaps in the supply of funding resources, PPAF continues to strengthen market mechanisms to attract commercial capital into the sector, while preparing grassroots service providers for the challenges inherent in consolidating such resources.

# Water, Infrastructure and Renewable Energy

During the last decade, PPAF's interventions in infrastructure development have gradually evolved in consonance with its experience as the largest operating fund for investing targeted infrastructure grants in the private sector.

The efficacy of delivering small scale infrastructure assets to poor communities as an agency for sustainable development and community welfare has been borne out under a variety of social, cultural and geographical contexts. PPAF uses infrastructure development as a deliberate strategy to mitigate deep rooted biases against poor neighborhoods in rural and urban areas, while paving the path for a steady accumulation of future gains directly flowing from a coherent and well designed network of infrastructure assets.

The availability of basic infrastructure in critical sectors like drinking water, sanitation, irrigation and communications is central to a community's long term prospects of defeating poverty. All PPAF infrastructure projects are designed to reach the poorest through an intensive process of community mobilization ensuring project sustainability, while simultaneously seeking to reduce the possibility of elite capture. Several checks and balances are built directly into the very process of forming and running community organizations to ensure meaningful participation of poor households in all projects.

PPAF-sponsored community organizations are carefully structured to adequately meet the organizational prerequisites for inclusive deliberations, informed decision making and efficient management of projects. All community organizations are empowered to make independent choices on all critical issues including the identification of community needs, the selection of project site as well as the appropriate levels and mix of technology needed to meet the requirements of respective communities. Additionally, community organizations are enabled to raise funds for sharing project costs and meeting maintenance expenses to build ownership and ensure long term sustainability of delivered infrastructure assets.

During the last decade, PPAF's interventions in infrastructure development have gradually evolved in consonance with its experience as the largest operating fund for investing targeted infrastructure grants in the private sector. While continuing to provision stand alone small scale infrastructure projects to meet specific community demands, such interventions have increasingly been supplanted by a variety of integrated projects that have since gone through several stages of refinement and innovation. The latter involves larger project areas covering several clusters of villages and correspondingly larger structures of community organizations varying from single-tier institutional frameworks to those with nested hierarchies of representative institutions, including either a single union council level task force or a federation constituting of several such task forces.

PPAF's infrastructure program is currently been implemented by two interlinked units – Community Physical Infrastructure (CPI) Unit and the Water and Energy (W&E) Unit. While the former's operational scope is largely limited to the delivery of stand alone, small scale infrastructure assets to poor households mostly residing in a single village or community, the latter predominantly focuses on designing and implementing integrated infrastructure development initiatives involving a variety of schemes to meet the requirements of a larger conglomeration of villages and communities.

## Community Physical Infrastructure

Under the CPI Unit, PPAF has to date implemented 20,498 small scale infrastructure schemes benefitting 1,368,013 households in approximately 15,000 villages/localities across Pakistan.

These stand alone conventional projects predominantly focus on building community infrastructure in the irrigation, sanitation, drinking water supply and communications sectors. Each sector further subsumes several 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. Similarly, the design of water supply schemes responds to community preferences and variation in topography and constitutes a range of interventions including dug wells, hand pumps, and water tanks.

Under PPAF-I (2000–2004) and PPAF-II (2004 – 09), drinking water supply schemes were most numerous, followed closely by interventions in the irrigation and sanitation sectors. During the current fiscal year, PPAF has successfully managed to implement 812 conventional schemes in the drinking water (238), irrigation (206), sanitation (228), roads and bridges (104) and flood protection (36) under PPAF-III [see Fig.6, P9].

While irrigation schemes have contributed to agricultural growth, improved cropping intensity, and increased cultivable land, schemes aimed at provisioning cleaner drinking water and better sanitation have reduced the cost of living through better health and

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hygiene. In traditional rural communities where the burden of cleaning and fetching water from large distances is traditionally borne by women, the latter have directly reaped maximum benefits. The CPI Unit has at the same time been active in designing cost efficient and sustainable solutions for meeting community demands under its Technological Innovation Projects (TIPs). For instance, wind and solar energy has been employed to power a variety of interventions including reverse osmosis plants for clean drinking water, solar lights for village electrification and solar pumps for irrigation. Simultaneously, the problem of water scarcity in some of the most arid regions in the country is being met through water efficient mechanisms like drip and sprinkler irrigation systems. In FY 2010-11 alone, CPI-led projects under the conventional and TIP categories have benefitted 39.803 households in 925 communities spanning 48 districts.

The first experiments in integrating infrastructure schemes for better outcomes at the community level were initiated under PPAF-I with the inauguration of the Integrated Area Upgradation Program (IAUP), following the success of the pilot project at Dhok Tabarak near Islamabad. The latter involved several infrastructure initiatives within the same community. This successful pilot was immediately upscaled under PPAF-II (2004-09), which provided for the implementation of 142 such projects. A typical IAUP is designed to incorporate 5 to 6 spatially integrated and mutually complimentary infrastructure projects including safe drinking water supply, low cost sanitation, waste water treatment and safe disposal, street surfacing, lighting, and solid waste management. In the current financial year, 3 more IAUPs were successfully completed. To date, CPI led IAUPs has impacted 28,755 households in 150 villages.

## Water and Energy

The gradual shift towards provisioning more holistic infrastructure solutions catering to the needs of several communities over larger project areas was more comprehensively realized with the establishment of PPAF's Water Management Center (WMC). The Center, now further upgraded as the Water and Energy (W&E) Unit under PPAF-III, was initially designed to match the rigorous research required for designing large scale integrated infrastructure projects for better management of an area's water resources. Under its auspices, several big PPAF infrastructure programs were either initiated or upscaled manifold following elaborate refinements to suit demographic idiosyncrasies and topographical variations.

W&E Unit quickly upscaled the pilot Drought Mitigation and

The gradual shift towards provisioning more holistic infrastructure solutions catering to the needs of several communities over larger project areas was more comprehensively realized with the establishment of PPAF's Water Management Center (WMC).

Preparedness Project (DMPP) in Rodh Malazai by carefully refining the range and mix of schemes, services and technologies to meet challenges of water scarcity under conditions of severe water stress in other drought prone areas. All drought mitigation and preparedness projects cover large drought affected areas with each project spanning one to three union councils and constituting approximately a hundred sub-projects on the average. These typically include delay action/check dams for restoring water balance in addition to meeting the community's domestic and agricultural requirements; interventions for rehabilitating crucial aquifers; schemes aimed at more efficient water management for irrigation; and a variety of other interventions for flood protection, land reclamation, rangeland management and the optimization of cropping patterns. The Unit efficiently utilizes its technical expertise and experience to meticulously plan every aspect of each DMPP. The process involves multiple activities including the preparation of comprehensive GIS maps, infrastructure inventories and ground water contour maps, conducting demographic surveys and hydro-geological studies, estimating water consumption and water balance models, studying surface and sub-surface water availability and preparing forecasts for water and pasture consumption.

W&E Unit has so far initiated 33 DMPPs and completed 26 of them constituting 2,313 water-focused interventions benefitting around 2,500 communities in 21 districts experiencing severe drought conditions. Like Rodh Malazai, the transformation has been significant and directly verifiable. For instance, the two successful DMPPs in Soon Valley, Punjab, have been successful in significantly reducing water losses through efficient water conveyance systems, while irrigating an additional 2,500 acres of rain fed area. Concomitantly, significant numbers of farming households continue to save substantial sums every year in potential energy costs that would have been incurred on diesel engine operated pumps, while reaping handsome increments from higher agricultural yields. In addition to implementing a coherent mix of integrated infrastructure assets aimed at directly mitigating conditions that perpetuate water scarcity, W&E Unit has successfully designed a set of parallel initiatives to strengthen community preparedness against possible future droughts through a combination of early warning mechanisms and a series of awareness raising and behavioral change campaigns. These initiatives – second generation activities for sustainable development in DMPP areas – offer technical services to communities aimed at building capacities and raising awareness on a range of subjects including water conservation, watershed and rangeland management, water efficient cropping patterns, market linkages, water balance and environment friendly technologies, in addition to the development and effective utilization of early warning systems.

Like DMPPs, the Sindh Coastal Area Development Program (SCAD) has been strategically designed to incorporate interlinked solutions for holistically dealing with the variegated problems facing coastal Sindh. The program is currently been implemented with the active participation of 10 partner organizations and spans over four districts. Under SCAD, 2,814 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 the introduction of innovative solutions for provisioning safe drinking water and electricity through tapping renewable sources of energy.

The design of SCAD synergizes infrastructure assets with interventions in healthcare, education, livelihood support and the provision of financial services, culminating in the establishment of Rural Growth Centers (RGCs). The success of SCAD was critically reliant on effective coordination within various PPAF units, which effectively combined their collective skills to ensure sustained progress for communities battered by a series of natural disasters over several years.

While SCAD has allowed different PPAF units to integrate their plans for the area, the program has also opened space for joint action amongst implementing partners. Under PPAF's guidance, all the 10 partner organizations have joined hands to closely coordinate their efforts through the Sindh Coastal Areas Development Network (SCAN), which seeks to promote linkages among member organizations through workshops, exchange visits, study tours and regular information sharing.

While SCAD and DMPP constitute large scale integrated projects, W&E Unit has simultaneously maintained a healthy profile in smaller integrated projects supporting poor communities at the village level with peculiar problems easily resolved through comparatively smaller investments. The Integrated Water Efficient Irrigation (IWEI) projects, which incorporate a few interlinked interventions focused on efficient usage of water for improving yields and increasing land under

cultivation, are a case in point. IWEI supports interventions such as precision land leveling, sprinkler/drip irrigation, water channels, water course lining, and conduits. By the end of the current financial year, such projects have benefitted over 24,766 households in 1,025 villages.

For isolated off grid communities, access to clean and affordable energy entails the maximum potential for transforming lives and livelihoods. Through small scale Micro hydel projects, PPAF has successfully and meaningfully contributed to community welfare through meeting household cooking, lighting and heating needs in the mountainous regions of Chitral and Gilgit-Baltistan. Additionally, such projects have yielded several layers of positive externalities including long term economic gains accruing from increased labor hours, better health resulting from smokeless heating, and the accumulating space for greater awareness and empowerment brought about by the availability of extra study hours for children and the coming of modern channels of communication. To date, these projects have benefitted a further 10,817 households in 162 mountain villages.

PPAF infrastructure interventions have cumulatively invested Rs. 10,359 million nationally. Over the past decade, PPAF infrastructure interventions have benefitted further 1,578,881 households in 20,413 villages across Pakistan [Table 2]. Over 26,614 schemes spanning several critical sectors and bearing long

Table 2: **Cumulative Infrastructure Investments (FY 2000 – 2011)**

| Program Category | Funds Allocated | Funds Disbursed | Coverage (Villages) | Beneficiary HHs |
|---|---|---|---|---|
| | *(Rs. Million)* | *(Rs. Million)* | | |
| **CPI Interventions** | | | | |
| Conventional | 6,072 | 6,072 | 14,561 | 1,324,814 |
| IAUP | 341 | 341 | 150 | 28,755 |
| TIP | 186 | 186 | 289 | 14,444 |
| *Sub-total* | *6,599* | *6,599* | *15,000* | *1,368,013* |
| **W&E Interventions** | | | | |
| DMPP/IWRM | 1,053 | 1,053 | 2,116 | 79,231 |
| IWEIP | 294 | 294 | 152 | 14,439 |
| MHDP | 328 | 328 | 162 | 10,817 |
| SCAD | 1,406 | 1,406 | 2,728 | 101,503 |
| SGI | 52 | 52 | 195 | 2,978 |
| CECP | 627 | 627 | 60 | 1,900 |
| *Sub-total* | *3,760* | *3,760* | *5,413* | *210,868* |

term effects on individual household incomes, local economies, food security, community welfare and the environment cover only one aspect of the changes precipitated by PPAF infrastructure investments. The mobilization of poor households and communities and their organization into sustainable forums for collective action at the local level has inaugurated a deep rooted process of change. The outcomes of these changes have begun to surface gradually. Local barriers to change have correspondingly grown weaker as poor communities have effectively pooled their resources and energies to forge common ground against poverty, hunger and decades of inaction [Table 3].

PPAF's contribution to poor communities is yet to be fully recorded and could possibly never be comprehensively understood.

Table 3: **Infrastructure Interventions**

| | FY 2010 - 11 | | | Cumulative (FY 2000 – 2011) | | |
|---|---|---|---|---|---|---|
| **Program Category** | **Numberof** *Projects* | **Sub Projects** | **Coverage** *(Villages)* | **Number** *Projects* | **Sub Projects** | **Coverage** *(Villages)* |
| **CPI Interventions** | | | | | | |
| Conventional | 812 | 812 | 290 | 20,059 | 20,059 | 14,561 |
| IAUP | 3 | 12 | 3 | 150 | 500 | 150 |
| TIP | 3 | 3 | 3 | 289 | 289 | 289 |
| *Sub-total* | *818* | *827* | *296* | *20,498* | *20,848* | *15,000* |
| **W&E Interventions** | | | | | | |
| DMPP/IWRM | 8 | 123 | 123 | 33 | 2,351 | 2,116 |
| IWEIP | 33 | 99 | 33 | 152 | 458 | 152 |
| MHDP | 6 | 6 | 18 | 54 | 54 | 162 |
| SCAD | 985 | 985 | 797 | 2,814 | 2,814 | 2,728 |
| SGI | | | | 73 | 73 | 195 |
| CECP | | | | 16 | 16 | 60 |
| *Sub-total* | *1,032* | *1,213* | *971* | *3,142* | *5,766* | *5,369* |
| **Grand Total** | **2,040** | **2,031** | **1,267** | **23,640** | **26,614** | **20,369** |

### Case Study: **A planned move**

Village Gul Hassan Shoro is situated at a distance of 100 km from Karachi in a coastal Union Council Mehar of District Thatta. There are about 45 households in the village with an estimated population of around 250.

Like every other village in the area, this village has also remained prone to the natural disasters like desertification, cyclone and floods.
PPAF intervened in this village through its partner organization namely, Society for Conservation and Protection of Environment (SCOPE) under the Sindh Coastal Areas Development Program in September 2008. People of this village formed a community organization “Gul Hassan Shoro” in November 2008 with equal participation of men and women.

Owing to the acute shortage of potable water, the community opted to implement a drinking water supply project of hand pumps with a total cost of Rs.283,104 (US$ 3,538), including the community contribution of Rs. 21,223 (US$265). This project benefited the entire population of the village specially the women and the children.

After successful implementation of the first project, the community felt the need for electricity and installed the solar lighting systems as this village is far from the national grid. The total cost of these systems was estimated as Rs. 1,316,114 (US$16,451) with the community contribution of Rs. 39,483 (US$494). The system provides sufficient electricity to light a street and four surrounding houses.

“We had been living without electricity since the establishment of Pakistan. We used to cook and sleep early. But now our routine has been changed and our working hours have increased. We now find sufficient time for sewing and stitching not only for ourselves but for generating some income also,” informed Noor Khatoon, a community activist.

“There are many snakes and other insects in the village, but after getting the electricity, we have been able to safeguard ourselves from them. Moreover, we can easily keep an eye on thieves, and the elderly can also take a stroll at night without any fear,” said Sajan, a resident of the village.

“My husband is farmer, who earns Rs. 200 per day. With this meager income it was too difficult to make both ends meet. But, now I have started to contribute to our household income by sewing bed sheets and making other traditional cloth in the brightness of solar-powered energy savers. My husband sells out these items in the market,” informed another community activist Sabhagi. She added that this facility has also saved our monthly expenses of kerosene oil (approximately Rs. 1,500 per household per day)”.

# Health, Education and Disability

Meaningful and persistent efforts to reduce gender gaps in terms of increased health and education investments can lead to significant gains in poverty alleviation. The Unit seeks to augment PPAF's mission of eradicating poverty through provisioning quality health and education services in poor localities and neighborhoods across Pakistan.

The Health, Education and Disability (HE&D) Unit seeks to augment PPAF's mission of eradicating poverty through provisioning quality health and education services in poor localities and neighborhoods across Pakistan. In addition to establishing new schools and Community Health Centers (CHCs) in areas lacking such services, the Unit also invests substantial technical and financial resources in underperforming health and education facilities in the public sector.

Meaningful and persistent efforts to reduce gender gaps in terms of increased health and education investments can lead to significant gains in poverty alleviation. PPAF has prioritized attempts at redressing gender asymmetries in provisioning health and education services. During the year, PPAF-supported CHCs provided curative and preventive health services to over 2.2 million patients, 60 % of whom were women.

Similarly, the girl-child was prioritized as a special target group in the education sector: girls account for over 45 % of the over 130,000 currently enrolled children in PPAF-supported schools during the current financial year [Table 4].

Increasing education levels of women are generally seen as directly proportional to decreasing levels of maternal and child mortality, lower fertility, higher use of contraception, better child nutrition, a lower incidence of early marriages and a greater willingness to use medical services. Contrarily, illiterate parents, on average, produce less healthy children who generally experience late enrollments, bad educational performance and early dropout from schools, leading to a much lower income earning potential and a higher probability of consistently falling below the poverty threshold.
Investments in the health sector similarly reinforce positive outcomes in education. For instance, pre-natal care and vaccination improves health outcomes for children, while positively affecting their performance in school and future income earning potential in the long term. During the current financial year, PPAF supported health facilities in the private and public sectors administered over 46,859 vaccinations, dealt with over 1.04 million cases of maternal care and provided OPD services to approximately 0.67 million adult patients and almost 0.45 million patients under the age of 18 [Table 5].

The Unit disbursed Rs. 1,845 million in the current financial year to 40 partner organizations. Almost all the allocations went to rural areas in poor districts where health and education indicators, particularly with respect to women and girls, were well below the corresponding national averages. Overall, PPAF is currently provisioning technical and financial support to 876 schools (public sector 711; private sector 165) and 316 health facilities (public sector 203; private sector 113) situated within marginalized communities with little or no prior access to quality education and health services [Table 6].

Of the above health and education facilities, the Unit has administered financial and technical support to 731 schools and 246 health centers under the PPAF Social Mobilization project through 24 POs in 25 of the poorest districts in Pakistan. Under this project alone, the unit has disbursed approximately Rs. 1,490 million for infrastructure development and staff capacity building. Similarly, 215 facilities (schools 145; health centers 70) were supported during the year under the PPAF-III project.

In keeping with PPAF's overall approach, effective quality control and community mobilization are prioritized as necessary components for sustainable interventions in the social sector.

All PPAF financed schools and health centers are encouraged to adopt a stringent monitoring framework ensuring an ongoing system of feedback and reform. While PPAF partner organizations lead the monitoring effort, community-based education and health committees are empowered to play an oversight role in the management of all schools and health centers by identifying bottlenecks and proposing corrective measures. The strategy has paid high dividends by making the management of PPAF supported schools and health centers more accountable, quality conscious and responsive to community needs and aspirations. During the year, the number of active PPAF-supported School Management Committees reached 856. Similarly, a total of 308 Health Management Committees with an overall membership of 2,772, including 888 women, effectively oversaw the affairs of health facilities.

In addition to facilitating the establishment of management committees, the Unit provides the latter with technical assistance to help them in effectively performing their oversight functions. Similarly, capacity building sessions are carefully designed for the staff of schools and health facilities. During the year, a total of 120 need based training sessions were conducted on a wide range of topics under the PPAF's Teachers Training Program. Similarly, under the

Table 4: **Sector-wise Beneficiaries** (FY 2010 – 2011)

| | Education | | Health | |
|---|---|---|---|---|
| | *Public Sector* | *Private Sector* | *Public Sector* | *Private Sector* |
| Male | 56,862 | 13,862 | 614,099 | 254,928 |
| Female | 47,688 | 11,843 | 898,978 | 399,562 |
| **Grand Total** | **104,550** | **25,705** | **1,513,077** | **654,490** |

Table 5: **Beneficiaries of PPAF Health Interventions** (FY 2010 – 2011)

| | OPD (Over 18) | OPD (Under 18) | Maternal Care | Vaccinations | Total |
|---|---|---|---|---|---|
| Punjab | 162,538 | 108,359 | 249,320 | 11,246 | 531,462 |
| Sindh | 142,221 | 94,814 | 218,155 | 9,840 | 465,029 |
| NWFP | 176,083 | 117,388 | 270,096 | 12,183 | 575,751 |
| Balochistan | 155,765 | 103,844 | 238,931 | 10,778 | 509,318 |
| AJK | 6,772 | 4,515 | 10,388 | 469 | 22,144 |
| FATA | 13,545 | 9,030 | 20,777 | 937 | 44,289 |
| Federal Territory | 20,317 | 13,545 | 31,165 | 1,406 | 66,433 |
| **Grand Total** | **677,241** | **451,494** | **1,038,832** | **46,859** | **2,214,426** |

Table 6: **Social Sector Interventions by Province** (FY 2010 – 2011)

| | Education | | Health | |
|---|---|---|---|---|
| | *Public Sector* | *Private Sector* | *Public Sector* | *Private Sector* |
| Number of Interventions | | | | |
| Punjab | 128 | 55 | 11 | 38 |
| Sindh | 259 | 79 | 56 | 28 |
| NWFP | 170 | 6 | 69 | 27 |
| Balochistan | 154 | 15 | 65 | 15 |
| AJK | - | - | 2 | - |
| FATA | - | 2 | - | 2 |
| Federal Territory | - | 8 | - | 3 |
| **Grand Total** | **711** | **165** | **203** | **113** |


WATER BATH 4 HOLES NORMAL
MADE IN CHINA

Health Staff Training Program, the Unit facilitated a total of 62 training sessions during the year for building capacities of medical staff, doctors, LHVs, TBAs and communities [Table 7]. Altogether, 89% of the 2,010 medical staff and 64% of the 8,086 teachers trained during the year were women.

The PPAF training program for teachers and medical staff covered a variety of subjects. In the health sector, the program subsumes subjects like hygiene, counseling, mother-child and reproductive health, balanced diet, family planning, immunization, communicable and non-communicable diseases, safe motherhood and infant care. Similarly, teachers in PPAF supported schools are regularly provided with opportunities to attend subject specific refresher courses. They are further trained in the development of child responsive teaching methodologies, which are complemented by capacity building sessions in syllabus and classroom management, 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.

Table 7: **Training Program**

| | Trainings | Participants | | |
|---|---|---|---|---|
| | | **Male** | **Female** | **Total** |
| Health Staff | 62 | 226 | 1,784 | 2,010 |
| Teachers | 120 | 2,882 | 5,204 | 8,086 |
| **Total** | **182** | **3,108** | **6,988** | **10,096** |

## Capacity Building Program

**A) PPAF Teacher Training Program**

Content-wise trainings: Subject-wise and need-based trainings, e.g. mathematics, grammar, spelling, reading and writing of English and Urdu language

Teaching methodologies: Preparing and maintaining records, teaching and learning, reflection, lesson planning, pedagogy, activity-based lesson learning, teaching aids and tools, material and resource development, classroom management and curriculum development

Training on national curriculum: Development of scheme of studies based on national curriculum

Modern techniques of teaching: Skills in active learning, questioning techniques, group work techniques, storytelling and role-play, record keeping, multiple intelligence, etc.

Developing leadership: Skills in staff management and the importance of motivation and encouragement for improving efficiency

**B) Health Staff Training Program**

Safe motherhood: Basics of female reproductive life, physiology of menstrual cycle, conception, antenatal checkups, nutrition during pregnancy, birth preparedness, three stages of labor, three delays, post abortion care, birth spacing, family planning methods, neonatal health, and importance of breast feeding

Safe delivery practices for TBAs: Pregnancy diagnosis, antenatal checkups, correct advice on minor pregnancy problems, identification of dangers during pregnancy, artificial pains, three stages of labor, three delays during labor pains, demonstration on dummies, infection prevention practices of delivery, complications during natal and post natal care, new born examination, breast feeding and importance of EPI schedule

Emergency obstetric care: Shoulder dystocia, ante partum and post partum hemorrhage and eclampsia.

Malarial and Hepatitis control: Prevention and cure of malaria and Hepatitis, awareness raising

Ultrasound training

Reproductive health: Promoting community participation in the design and management of health care services covering birth preparedness, antenatal care, and importance of immunization

Basic training for health workers: A package training with focus on seven basic ailments, their diagnosis and basic treatment, antenatal post natal checkup

Laboratory diagnosis training. One-month training covering diagnosis of diseases through laboratory tests for medical technicians

## Disability Component

The Disability Program, initially set up in aid of People with Disabilities (PWDs) in areas affected by the devastating 2005 earthquake, has been upscaled following the successful wrap up of PPAF's Earthquake Reconstruction and Rehabilitation project. The program is currently under implementation in 24 selected union councils spread over 7 districts and subsumes several focused interventions in support of PWDs including awareness raising campaigns, assessment camps, devices distribution camps, attendantship training, enterprise development training, and business incubation.

In a carpet survey of the current project area, a total of 39,500 PWDs were identified and earmarked for future assistance under the program. As a first step, a comprehensive strategy was put in place to raise awareness in the project area. Several awareness raising events were organized with the objective of changing mindsets within the target communities. The events were attended by persons with disabilities, their families, and representatives from a larger cross section of society including educationists, media persons and government officials. Special seminars were arranged on focused subjects including promoting inclusive education to reduce prevailing biases against PWDs in the school environment.

In order to strategize assistance packages for individual categories of PWDs, 20 assessment camps were held during the year where professional practitioners including optometricians, audiologists, physiotherapists, certified prosthetic officers, psychologists, speech therapists and general practitioners provided voluntary services. Altogether, the assessment camps provided 168 days of free assessment services in 20 union councils, where 17,948 rehabilitation forms were filled. Similarly, expert technicians were also present during distribution camps to train recipients on the use of distributed devices. A total of 16 camps were organized for the purpose in 16 union councils, where over 3,700 devices were distributed including crutches, white canes, walking frames, wheel chairs, toilet seats, tripods, orthotic and prosthetic devices, glasses and hearing aids [Table 8].

As part of a holistic strategy to support PWDs, the disability program undertook attendentship trainings targeted at families of the severely disabled. The trainings are designed to capacitate families of PWDs in methods that can maximize their care with particular focus on hygiene to avoid ailments and infections and to train the attendants about activities for daily livings skills. A total of 11 attendantship trainings were conducted for 373 family members of PWDs during the year.

In order to promote self-reliance amongst PWDs, the disability program has designed special training programs to capacitate PWDs in undertaking sustainable income generating initiatives. For this purpose, 247 PWDs were selected for carefully designed trainings in enterprise development to facilitate economic self reliance amongst individuals with functional limitations.

Similarly, 79 PWDs were selected for support under the program's Business Incubation component, which seeks to encourage, support or set up businesses of PWDs. The Program's focus on mainstreaming PWDs is manifested in its efforts to harness greater avenues for their meaningful inclusion within communities. For instance, the program has encouraged the inclusion of PWDs in community organizations and schools. As part of their reporting requirements, partner organizations participating in the program regularly report on progress made in terms of PWDs included in community organizations and admitted in schools. During the year, partner organizations facilitated a total of 827 admissions for PWDs, while 837 PWDs acquired membership within community organizations. Similarly, PPAF has encouraged partner organizations to reserve 2% jobs for PWDs, while facilitating the latter in establishing self help groups.

Under the program, PPAF has further focused on developing capacities of Community Rehabilitation Workers (CRWs). During the year, CRWs were trained on identifying livelihood opportunities for PWDs in focused workshops on Sustainable Livelihoods and Enterprise Development for Vulnerable Groups [Table 9].

Table 8: **Numbers and Types of Assistive Devices Delivered**

| Type of Assistive Device | No of Devices Delivered |
|---|---|
| Wheelchair/CP Chair/Tri Cycle | 343 |
| Elbow & Auxiliary Crutches | 91 |
| Walking Stick/Tripod/Frame | 65 |
| Toilet Seat | 255 |
| White Cane | 42 |
| Orthotic & Prosthesis | 506 |
| Glasses | 1,479 |
| Hearing Aids | 959 |
| **Grand Total** | **3,740** |

Table 9: **Number and Types of Disability Interventions**

| Activities | Male | Female | Events |
|---|---|---|---|
| Workshops (PO Staff) | 10 | 10 | 1 |
| Assessment Camps | - | - | 16 |
| Awareness Raising | - | - | 184 |
| Enterprise Development Training | 166 | 81 | 12 |
| Business Incubation | 43 | 36 | 4 |
| Attendant-ship Training | 147 | 226 | 11 |
| **Grand Total** | **366** | **353** | **228** |

# Human and Institutional Development

In its role as an apex capacity building outfit, the HID Unit follows a three-tier approach focusing respectively on three sets of stakeholders: participating communities, grassroots partner organizations and service providers provisioning professional capacity building support at the regional and national level.

The Human and Institutional Development (HID) Unit assists PPAF in developing and consolidating human and institutional capacities for effective policy interventions at the grassroots. In its role as an apex capacity building outfit, the Unit follows a three tier approach focusing respectively on a triple set of stakeholders: participating communities, grassroots partner organizations and service providers provisioning professional capacity building support at the regional and national level.

Within participating communities, the Unit has sequentially instilled a coherent set of core competencies in diverse fields ranging from community management and enterprise development to project maintenance and the effective administration of financial assets. The successful fusion of such competencies has in time developed a trained cadre of development activists, especially within poor communities, with the capacity to effectively utilize development funds and implement projects sustainably in the long run.

The PPAF social mobilization framework is predicated on the strong belief that poor communities possess a profound latent capacity to lead the process of development at the grassroots as agents of change. As a necessary precondition for transferring financial and non financial assistance to communities, social mobilization fundamentally focuses on transforming attitudes and ensuring effective collective action for the common good of the poor.

Community mobilization lies at the heart of all PPAF development initiatives. The community organization provides the poor with an effective platform to voice demands, pool savings, plan investments and manage development projects, while enabling them to take those crucial first steps on the long road to empowerment. On the wider economic landscape, the increasing number of organized communities contributes to making growth at the same time less sporadic and more broad-based with poor communities effectively lobbying to extract maximum benefits from donor agencies, political representatives and government functionaries.

In recognition of its far reaching effects on mainstreaming poor communities, PPAF, with support from the World Bank, initiated a focused project on social mobilization in 2008. The Social Mobilization (SM) project was subsequently implemented with objectives of: a) mobilization of poor households in over 500 union councils in 25 districts into approximately 50,000 well-managed transparent and accountable community organizations, b) mobilization of these and existing community organizations to form federations (Local Support Organizations) at the union council level, and c) development of a leadership cadre of 250,000 men and women, to be trained to manage their community organizations and federations and to link them to service providers and local governments.

The project area was carefully selected to include some of the country's poorest districts in terms of critical development indicators. Additionally, blanket coverage of households was planned in selected union councils to achieve maximum inclusion of the poor. All community organizations formed under the project were to have a mandatory 50% membership of poor households, in addition to a compulsory 40% participation of women. The project has met resounding success on all the above counts.

All targets in terms of the number of community organizations (COs), as well as their agglomeration into higher order federations at the village (Village Organizations – VOs) and union council (Local Support Organizations – LSOs) levels have been surpassed [Table 10].

Additionally, by the end of the current financial year, over 800,000 women have successfully been organized into community organizations against the target of 400,000. Targets for women membership at higher tiers (VOs and LSOs) have similarly been exceeded.

All COs formed under the project were encouraged to make savings a permanent feature, with the frequency and level of savings left to the discretion of the former. On its part, PPAF ensured that all COs and VOs receive training in financial literacy including focused sessions on the importance of savings, maintenance of bank accounts, internal lending, and the formation of rotating savings and credit associations. To encourage capital formation further, COs were encouraged to initiate internal lending. By the end of the current financial year, CO records show a cumulative saving of over Rs. 100 million. Additionally, internal lending within COs has benefited over 26,000 members involving funds of over Rs. 34 million.

The SM Project also planned and executed special training sessions for women members with the objective to educating them in their basic rights as citizens, including their rights under the laws of marriage and inheritance. Over 168,000 sessions were

Table 10: **Social Mobilization Achievements**

| Indicators | WB Target | Target assigned to POs | Progress till June, 2011 |
|---|---|---|---|
| **COs** | | | |
| Districts | 28 | 28 | 28 |
| UCs | - | 788 | 788 |
| Villages | - | 17,121 | 17,121 |
| Households | 100,000 | 1,127,560 | 1,127,560 |
| Community Organizations | 50,000 | 53,000 | 72,134 |
| CO Members (Total) | 1,000,000 | 1,148,404 | 1,287,860 |
| Female CO Members | 400,000 | 510,555 | 804,635 |
| % of Female members | 40 | 44 | 62 |
| **VOs** | | | |
| VOs (number) | 3,250 | 4,072 | 8,971 |
| VO Members | 65,000 | 81,274 | 89,032 |
| Female VO Members | 26,000 | 32,109 | 53,765 |
| % of Female VO Members | 40 | 40 | 60 |
| % of COs federated into VOs | 65 | 70 | 75 |
| **LSOs** | | | |
| LSOs (number) | 81 | 107 | 232 |
| LSO Members | 1,620 | 2,782 | 5,984 |
| Female LSO Members | 648 | 1,315 | 3,194 |
| % of Female LSO Members | 40 | 40 | 53 |

conducted for women in their rights under marriage and in the event of divorce, while over 65,000 sessions were organized for women in their rights under the laws of inheritance. Simultaneously, communities were encouraged to make national identity cards and register themselves as voters. Over 500,000 members, predominantly women, have acquired national identity cards with facilitation from PPAF partner organizations, while over 105,000 members have successfully registered as voters.

An informed citizenry cognizant of their rights under the law of the land constitutes a strong deterrent against exploitation. The SM project designed special training sessions for poor communities on fundamental civic and constitutional rights, in addition to educating them on the importance of vote and registering births and deaths.

Simultaneously, PPAF partner organizations undertook over 10,000 training sessions for community members to ensure better management of CO affairs, while building their capacities for successful need prioritization, project management and maintenance. These capacity building sessions benefitted over 194,000 community members, including approximately 113,000 (58%) women, at the CO, VO and LSO level [see Fig.7, P9]. In addition to sponsoring capacity building sessions for community organizations, the SM project also focused on enhancing the capacity of PO staff for better results at the grassroots. Through 245 training sessions, over 2,600 staff of partner organizations, including over 1,100 women, have to date been trained.

The lingering prejudices along ethnic, racial and linguistic divisions continue to mar attempts at building bridges across nationalities and cultures at the national level. These fissures impact development outcomes by diverting scarce resources towards meeting legitimate security concerns. The SM project, as part of its mandate to promote a healthy environment for sustainable development at the grassroots, seeks to reverse the above stereotypes through 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. By providing people from different cultural, linguistic, and ethnic backgrounds the opportunity to interact as citizens, the project aims at promoting mutual peace, respect and a common stake in the development of present and future generations.

To facilitate an institutionalized response in meeting grassroots needs, the project undertook a coherent strategy to publish descriptive material for an eclectic audience constituting development practitioners, grassroots activists, staff of partner organizations and communities. The SM publications subsumed a large number of subjects including social protection, village development, resource mobilization, civil and constitutional rights, rights of inheritance and the importance of savings.

## SM Publications

**Manuals**

— Social Mobilization: Implementation Manual and Guide Book

**Booklets**

— Budget Importance, Benefits and its Appropriate Utilization
— Access to Social Protection System
— Village Development Planning
— Awareness Campaign for Women
  i) ID Card,
  ii) Birth and Death Certificate
  iii) Voters' Registration
  iv) Right of Inheritance
  v) Post-Marital Rights
  vi) Marriage Deed Registration and Cancellation of Marriage Deed
— Linkages Development and Resource Mobilization
— Civil and Constitutional Rights
— Disaster Risk Management at Community Level
— Promotion of Hygiene Practices and Importance of Female Education
— Preparation and Formulation of Project Proposal

**Pamphlets**

— Institutional Development through Social Mobilization
— Environmental Sensitization at Community Level
— Basic Civic and Constitutional Rights
— Garbage Disposal and Management
— Importance of VDP
— Saving and its Utilization

HID's success in fostering skill sets for effective community management and entrepreneurship has been equally matched by its contributions in enhancing institutional capacity of partner organizations to further consolidate accrued gains at the community level. The Unit regularly facilitates partner organizations in charting effective policy goals through coordinating regular strategic planning exercises. These are designed to facilitate partner organizations in setting the right priorities given their specific strengths, weaknesses, operational context and maturity level. Additionally, the Unit has a pivotal role in strategizing the personnel development needs of PPAF partners in the context of future support. This is ensured by carefully analyzing staff capacity and designing specific training programs for further improvement.

HID is actively involved in assisting partner organizations towards the development of relevant policies, systems and processes for more effective delivery of services to the poor. During the year, 1364 staff members of PPAF's partners attended PPAF supported training sessions on diverse subjects including community mobilization, Project Management, Gender Mainstreaming, Finance & Accounts for Non Financial Managers, Auto CAD, Strategic Management, Monitoring and Evaluation, Communication and Presentation Skills, Credit Appraisal, Loan Portfolio Management, Delinquency Management and Interest Rate Setting [see Fig.9, P9].

During the year, HID sanctioned an additional Rs. 456.14 million (WB, MIOP & SMP) worth of training grants to partner organizations. With a cumulative Rs. 330.86 million disbursed to partner organizations for capacity building of participating communities and partner organizations' staff, PPAF continues to lead as the largest support fund for developing grassroots human and institutional capacities in the private sector [see Fig.10, P9].

HID has proactively concentrated on filling gaps in the availability of skilled human resource for particular sectors. For instance, the Unit has housed and trained several batches of interns for the microcredit sector, to address the sector's persistent lag in trained professionals over the last decade. This was of importance to PPAF in general, as the largest wholesaler of microcredit funds in the private sector nationally.

Other internship initiatives by the HID Unit have also aimed at providing the sector at large with well oriented young professionals.

The Young Professionals Scheme (YPS) provided young enterprising individuals from poor rural households with an opportunity to join PPAF as interns, with an additional provision for supporting a further eight months attachment to a partner organization. During the current financial year alone, three batches constituting 62 interns successfully completed training with the unit. To date, YPS has cumulatively benefitted 161 men and women, who have in turn provided critical support to partner organizations burdened by a high turnover rate, as the sector grows at a fast pace.

HID has an additional component in its internship program that caters to specific regional needs of the country. For instance, the Unit successfully graduated 33 interns during the year in two batches under the FATA Internship Training Program. Given FATA's specific socio-economic and security situation, the program seeks to provide its youth with employment opportunities and defeat the root cause of anti state sentiments.

HID has in the recent past expanded its scope of operations by signing Memoranda of Understanding with a number of renowned Professional Services Providers for provisioning training and consulting services to PPAF and its partner organizations. During the year, the Unit in coordination with such service providers and other PPAF units conducted several special courses on a wide range of topics including Communication and Presentation Skills, TOT-Social Mobilization, Finance and Accounts for Non-Financial Managers, Auto CAD, Monitoring and Evaluation, in addition to courses on useful computer applications like AutoCad and MS. Excel.

HID has critically enhanced human and institutional productivity to optimize resource utilization and economic gains on the national stage, while simultaneously facilitating development of a demand responsive institutional framework catering to the long term needs of marginalized communities. Through well targeted and calibrated interventions, it continues to play an important role in supporting PPAF's multi-layered approach for alleviating poverty.

# Responding to Emergencies

The 2010 floods affected around 20 million people spread over approximately 796,000 square kilometers, or around one-fifth of Pakistan's total area. The disaster left behind 2000 dead and over 17 million homeless, in addition to causing widespread destruction of property, livelihood and infrastructure. Like in 2005 at the time of the massive earthquake in AJK and Northern Khyber Pakhtunkhwa, PPAF's response was swift and effective.

Provisioning food and adequate shelter to affectees was the first priority. Between August and November, PPAF distributed over 5 million kilograms of dry food (flour, rice, oil/ghee, sugar, pulses, black tea, biscuits, milk, salt and spices), in addition to over 40,000 liters of milk and around 6,000 hygiene kits to over 550,000 affectees in 18 flood affected districts. Also, PPAF teams provided around 1,500 tents and installed 140 hand pumps, while ensuring the provision of pit latrines near shelters/camps of displaced population.

Medical assistance to affectees was another primary concern as millions were at risk of falling prey to diseases following the inundation of whole villages and cities. PPAF was successful in providing critical medical assistance through 110 medical camps in 20 flood-hit districts from Kohistan, Shangla, Swat, and Dir Upper in the mountainous north all the way down to Sukkur and Thatta in the plains of Sind. These camps successfully treated close to 300,000 patients, including over 120,000 children. Medical services covered a number of diseases to cure fever, malaria, diarrhea, cholera, scabies, eye/ear infection, gastric pain ulcer, malnutrition, gastro, respiratory tract infections and scores of allergies.

The floods caused widespread damages to small scale infrastructure, particularly in the drinking water supply, sanitation and irrigation sectors with adverse consequences for the long term rehabilitation of affected communities. PPAF has responded by planning to implement 774 schemes in 13 flood affected districts. Of these, 107 schemes have been completed.

All income generating activities came to a grinding halt as livelihoods were completely shattered. There was an urgent need to enhance local capacities for long term restoration of livelihoods. Through carefully planned interventions, PPAF successfully provided 2,655 trainings, 2,411 wage compensations, 1,735 asset transfers, and 36 community investment grants. Affectees received training in several areas including enterprises, livestock, poultry and agriculture management, skill enhancement trainings and toolkits.

Losses to livestock, which constituted the principal means of livelihood for most poor and landless households in the affected areas, were substantial. A large number of livestock were washed away in flash floods in hilly areas, while significant losses to grazing animals and poultry were recorded in the plains. Also the damages incurred by stores of animal feed threatened to starve surviving livestock assets in many areas. Responding immediately, PPAF made provisions for blended feed and pallets for 70,000 animals, while over 20,000 animals were vaccinated and drenched bottles were provided for another 9,480 animals.

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# Livelihood Enhancement and Protection

As one of its primary functions, the Unit provides livelihood grants to support two important interventions: Asset Transfers aimed at the ultra poor and vulnerable and Community Livelihood Funds (CLF) designed to stimulate internal lending within community organizations.

The Livelihood Enhancement and Protection (LEP) Unit facilitates poor communities in developing market relevant skills and establishing and strengthening of micro enterprises for enhanced productivity and sustainable income generation. The LEP Unit, which has been mandated to run the program, seeks to achieve these objectives through a series of well coordinated interventions aimed at encouraging savings and internal lending within organized communities, in addition to implementing efficient mechanisms for identifying and supporting innovative micro-enterprises.

As one of its primary functions, the unit provides livelihood grants to support two important interventions: Asset Transfers aimed at the ultra poor and vulnerable and Community Livelihood Funds (CLF) designed to stimulate internal lending within community organizations. Livelihood Grants are disbursed on the basis of Livelihoods Investment Plans (LIPs) developed by community members themselves with the assistance of implementing partners and community organizations.

Livelihood grants are designed to finance asset transfer to the poor. The selection of eligible beneficiaries is based on objective measures including the poverty scorecard, which has become a standard for ascertaining the level of household welfare at the national level. The type of assets to be transferred follows an equally standardized and vigorous methodology taking into account the ability, knowledge and skills of prospective beneficiaries.

The approval, selection and transfer of assets is completely transparent and involves active participation from communities, implementing partners and PPAF. Not only is the selection of assets and beneficiaries validated by the community organization through a properly documented resolution, the procurement process also involves approval from a committee comprising the beneficiary, as well as representatives of the implementing partner and concerned CO. Additionally, the Unit also keeps a watchful eye on the whole process through random monitoring checks on the field. During the year, over 1,400 ultra poor and vulnerable families were provided support under Asset Transfers.

CLF constitutes a one-time grant to community organizations meeting standard criteria for on lending to members at interest rates sufficient to sustain the process. Community organizations are granted maximum autonomy in setting interest rates, which cannot be lower than market rates and ensures sustainable internal lending operations. The 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.

The LEP Unit further seeks to transfer capacity building grants for livelihood trainings including vocational and technical training to community members. All such grants are disbursed following rigorous needs analysis by partner organizations. During the year, a total of 2,885 community members were trained under this component.

In order to secure participation of the ultra poor – for whom the opportunity cost of attending training sessions involve critical losses `in terms of labor days – program design includes the incentive of wage compensations in the shape of training allowance for the duration of the training. Additionally, each ultra poor trainee (eligible for asset transfer) receives a tool kit relevant to the skill/ vocation for which he/she has been trained. Under the program, 1,986 ultra poor training participants received wage compensations during the current financial year.

The Unit places a high premium on ensuring the quality of all training sessions. Accordingly, all technical and vocational training institutes shortlisted to deliver community trainings under this component have been carefully selected keeping in view their respective capacity, experience and reputation.

For the efficient implementation of the program, the Unit is in the process of developing a customized database application, which will be simultaneously integrated with the larger PPAF database. All participating partner organizations have begun to submit routine information on a well designed reporting format capturing information on a host of relevant indicators. Careful design considerations will minimize the possibility of duplication and fraud, while paving the way for improved governance.

During the year, the Unit appraised 21 partner organizations for prospective funding under the program. The appraisal process included a thorough examination of relative strengths and weaknesses of partner organizations in terms of several administrative and financial indicators including, among other things, institutional maturity, eligibility for funding under the program, absorption capacity, and appropriateness and relevance of proposed interventions in the project area.Following routine desk and field appraisals, the funding proposals were vetted by a credit committee, whose recommendations were placed before the Board of Directors for approval. During the year, the PPAF Board approved funding of Rs. 1,457 million for 21 partner organizations under the program.

In addition to undertaking appraisal visits, the Unit continued routine monitoring visits to physically verify progress against set targets. A total of 15 such monitoring visits were undertaken to project areas across the country during the year. Similarly, 23 missions visited selected partner organizations to provide orientation training and implementation support in several key areas ranging from the implementation of the poverty score card and participatory wealth ranking to the development of LIP and analysis of value chains. Comprehensive reports were drafted for PPAF management following each field visit detailing mission findings, the status of project implementation and agreed actions.

In addition to the above facilitation missions, the Unit organized two focused workshops for PO staff with the aim to introducing program goals and objectives. The workshops also focused on sharing personal and institutional experiences, in addition to disseminating the range of implementation methodologies and organizational profiles of partner organizations participating in the program. During these workshops, the Unit conducted important brainstorming sessions on the efficacy, relevance and effectiveness of various program aspects including process flow, implementation modalities and budgetary standards required to achieve program objectives. A total of 58 representatives from partner organizations attended these workshops.

Similarly, the Unit organized a workshop to disseminate and share information on the Targeting Ultra Poor (TUP) project under implementation in coastal Sindh. The workshop included representatives from implementing partners under the project. The workshop constituted informative sessions where implementing partners from coastal Sindh shared their experiences in designing context specific strategies for assets transfer to the poor and vulnerable in their respective project areas. The workshop schedule included focused presentations, brainstorming sessions, group discussions, case studies and field visits. During field visits, participants met with beneficiaries of the TUP project. The workshop included active participation from PPAF staff from various relevant units.

During the year, the LEP Unit continued to support initiatives aimed at building capacities of its own staff members. In addition to undertaking several in-house capacity building sessions involving comprehensive orientation on alternative livelihood approaches and models practiced within and outside Pakistan, staff members were provided opportunities to attend short training programs on micro-enterprise development and project management.

Under the PPAF-III project (2009 - 2014), the LEP Unit is committed to form and capacitate at least 2,300 community groups, impart livelihood trainings to 460,000 individuals, and provide wage compensation and assets to 142,857 and 57,143 ultra poor households respectively.

Additionally, women will constitute 45% of the total beneficiaries under asset transfers. With substantial progress already achieved during the current financial year, the unit is well on its way to meeting its objectives.

In addition to undertaking several in-house capacity building sessions involving comprehensive orientation on alternative livelihood approaches and models practiced within and outside Pakistan, staff members were provided opportunities to attend short training programs on micro-enterprise development and project management.

# Monitoring, Evaluation and Research

The Monitoring, Evaluation and Research (MER) Unit supports PPAF in formulating effective policies through evidence based research and timely dissemination of information. Additionally, it facilitates partner organizations in the development of relevant and accurate systems for reporting, monitoring and evaluating program outputs and outcomes on a regular basis.

As part of its routing functions, the Unit collects, consolidates, and analyses a rich and vast reserve of technical, financial, and socio-economic data received from partner organizations, third party evaluators, and in-house assessment exercises. In this, the Unit utilizes a multi-layered standardized management information system customized to its requirements and efficiently maintained by a dedicated and professional staff.

In addition to functioning as PPAF's main data bank, the Unit has the additional responsibility for regularly disseminating information through a series of ongoing and periodic reporting formats including quarterly progress reports, annual reports, case studies, knowledge management portal, thematic reports, baseline reports and impact assessment studies. During the financial year, the Unit prepared four quarterly progress reports, in addition to facilitating the preparation of the annual report. Also, customized bi-annual progress reports were prepared for specific PPAF programs including the Microfinance Innovation and Outreach Program (MIOP) and the Program for Increasing Sustainable Microfinance (PRISM).

Over the years, the Unit has carefully guided the process for evolving a comprehensive integrated management information system with the ability to effectively chart progress on all PPAF programs, while at the same time being able to integrate new modules with growth in the scope and nature of PPAF activities. For instance, during the current financial year, the Unit worked closely with the LEP Unit in developing an efficient database capturing all relevant monitoring indicators, while carefully standardizing it for subsequent integration with the larger PPAF database. Similarly, the Unit took

MER Unit has been central to PPAF's drive towards a results-based evaluation framework with an eye to scientifically measuring the impact of interventions at the grassroots.

# Monitoring sécures

a proactive part in appraising partner organizations with an eye on improving reporting standards and arrangements for capturing the whole gamut of required monitoring indicators.

MER Unit has been central to PPAF's drive towards a results-based evaluation framework with an eye to scientifically measuring the impact of interventions at the grassroots. For the PPAF-III Project, the Unit successfully prepared a cohort-based impact evaluation design to provide evidence on the achievement of project development objectives.

During the year, a baseline survey under Cohort-I was conducted in Punjab. The first draft of the report has already been finalized. During the current financial year, the Unit engaged and supervised a team of consultants for conducting a user/beneficiary assessment survey to assess the impact of PPAF interventions in the medium term. Similarly, the Unit conducted a baseline survey to furnish information for prospective assessment of possible changes in the target group on a number of standard IFAD project impact indicators (RIMS). Also, the Unit facilitated a research study undertaken in collaboration with the Development Economics Research Group (DECRG), World Bank.

The conduct of baseline and impact assessment studies has been a regular feature at the Unit. Through several such studies, the Unit has successfully furnished PPAF management with critical information for better decision making at the policy level. Based on representative data on PPAF beneficiaries and projects, these studies simultaneously provide a rich resource for academics and development practitioners interested in the viability and effects of specific grassroots interventions on a host of relevant subjects including poverty alleviation, rural development, economic growth, microfinance and gender and development.

During the current financial year, the Unit completed a number of evaluative and diagnostic case studies: assessing the quality of social mobilization in Litra village, District Dera Ghazi Khan; village banking under MIOP; settlement branches under MIOP; and documentation of transactions among Kashf Foundation, Standard Chartered Bank, and PPAF to promote provision of private sector finance for poverty alleviation. The Unit played an important role in advancing Government of Pakistan's objective of identifying eligible individuals and households for cash grants under the Benazir Income Support Program. During the year, the Unit organized a series of training workshops for

The Unit played an important role in advancing Government of Pakistan's objective of identifying eligible individuals and households for cash grants under the Benazir Income Support Program.

organizations and firms entrusted with the responsibility for conducting door to door surveys in districts allocated to PPAF. Participants were thoroughly briefed on the survey instrument (poverty scorecard), in addition to detailed sessions on implementation issues, quality assurance, and the institutionalization of the poverty scorecard. Also, the Unit was proactively involved in the supervision of consulting firms conducting the poverty scorecard census in 21 lots spread over 12 districts [Table 11].

The Monitoring and Evaluation Unit continues to lead PPAF's effort in trying to better understand the causes and remedies that simultaneously induce and redress poverty and vulnerability in different social, cultural and geographical settings. The Unit is continuously engaged in guiding PPAF towards finding the correct solutions through relevant and verifiable research, while providing the management with a continuous feed-back loop for informed decision making.

Table 11: **Phase and District-wise Enumeration Progress Summary, National Targeting Survey, Benazir Income Support Program**

| | | National Survey 2010-11 | | Test Phase 2009 | | Total | |
|---|---|---|---|---|---|---|---|
| **Province** | **District** | **Estimated Household* 2010** | **Household Covered** | **Estimated Household* 2011** | **Household Covered** | **Estimated Household* 2012** | **Household Covered** |
| 1. Azad Jammu & Kashmir | Poonch ( Rawalakot) | - | - | 69,007 | 87,843 | 69,007 | 87,843 |
| 2. Balochistan | Muskhel | - | - | 24,567 | 20,133 | 24,567 | 20,133 |
| 3. Khyber Pakhtunkhwa | Bannu | 97,137 | 111,414 | - | - | 97,137 | 111,414 |
| 4. Khyber Pakhtunkhwa | Kohistan | 74,641 | 62,112 | - | - | 74,641 | 62,112 |
| 5. Khyber Pakhtunkhwa | Lakki Marwat | - | - | 74,999 | 86,586 | 74,999 | 86,586 |
| 6. Khyber Pakhtunkhwa | Shangla | 78,933 | 109,866 | - | - | 78,933 | 109,866 |
| 7. Khyber Pakhtunkhwa | Upper Dir | 99,796 | 98,803 | - | - | 99,796 | 98,803 |
| 8. Punjab | Bahawalnagar | 409,454 | 384,714 | - | - | 409,454 | 384,714 |
| 9. Punjab | Bahawalpur | 507,459 | 515,054 | - | - | 507,459 | 515,054 |
| 10. Punjab | Bhakkar | 219,840 | 248,032 | - | - | 219,840 | 248,032 |
| 11. Punjab | Dera Ghazi Khan | 308,642 | 355,107 | - | - | 308,642 | 355,107 |
| 12. Punjab | Khushab | 186,361 | 203,440 | - | - | 186,361 | 203,440 |
| 13. Punjab | Layyah | - | - | 215,000 | 258,475 | 215,000 | 258,475 |
| 14. Punjab | Muzaffargarh | 536,091 | 676,029 | - | - | 536,091 | 676,029 |
| 15. Punjab | Rajanpur | 222,426 | 308,922 | - | - | 222,426 | 308,922 |
| 16. Sindh | Ghotki | 240,825 | 230,520 | - | - | 240,825 | 230,520 |
| 17. Sindh | Sanghar | - | - | 339,193 | 287,048 | 339,193 | 287,048 |
| **Total** | | **2,981,605** | **3,304,013** | **722,766** | **740,085** | **3,704,371** | **4,044,098** |

# Environment and Social Management

The Environment and Social Management Group (ESMG) is mandated to provide oversight in the implementation of PPAF's environmental and social management framework at all levels including PPAF, its partners and community institutions. Environment and social management is central to the design and implementation of all PPAF interventions and draws upon a coherent policy framework constituting the Environmental Protection Act 1997 and World Bank' Operational Policies vis-à-vis Environmental and Social Safeguards.

Conscious of the importance of integrating a sound environment and social management framework into operations, Environment and Social Management Group has carried out a number of activities to assess the environmental and social consequences of PPAF's interventions and to oversee the compliance of ESMF within PPAF and at the level of partner organizations.

During the FY 2010-11 the ESM Group has made significant strides that include three capacity building workshops for POs, two environment and social audits on sample basis and one awareness-raising session for the PPAF staff.

The Group has designed a comprehensive capacity building program to institutionalize environmental and social assessment within PPAF and its partner organizations. In addition to conducting a series of PO specific and province-wise workshops to disseminate ESM and to provide hands-on training to field staff, the Group further plans to incorporate ESM capacity building program into the Community Managerial Skills Trainings. Also, the Group has formulated a comprehensive strategy to develop linkages with renowned national, regional, and international institutions, as well as, indigenous peoples' organizations for technical and policy support.

In order to ensure the objectivity of its compliance role, ESM Group commissioned two assessment studies namely; Evaluations on Environmental and Social compliance in PPAF interventions, to be carried out by a third party, in addition, running regular compliance probes of partner organizations, who are made to guarantee sound environmental and social safeguards through legally binding commitments. By putting in place a strong legal and procedural framework to protect the implementation of a coherent set of environmental and social principles, the Group has incrementally mainstreamed Environment and Social Management Framework (ESMF) into the operations of CPI and W&E.

The Group has designed a comprehensive capacity building program to institutionalize environmental and social assessment within PPAF and its partner organizations.

# Environment éndorse

# Internal Audit

The significance of efficient corporate governance, appropriate risk management and effective internal control systems in the successful functioning and development of institutions has been widely recognized. Simultaneously, effective governance structures necessitate integrity, accountability, transparency and reliability of organizational systems and are crucial to the confidence of stakeholders. The Internal Audit (IA) Unit seeks to ensure due diligence within PPAF and its POs through the periodic reviews of systems, procedures and processes.

In continuously striving to remain a viable, credible and transparent institution enjoying broad based support, PPAF seeks to stand out as a role model for grassroots organizations across the country. In pursuit of these objectives, while simultaneously conscious of injecting transparency and strengthening accountability within PPAF, the Board of Directors has put in place a strong mechanism for oversight through delegated responsibility to an Audit Committee.

The Internal Audit Unit fulfills its responsibilities to the Board and audit committee by delivering the following within PPAF and its partner organizations:

- An objective evaluation of existing risk and internal control systems
- Systematic analysis of business processes and associated controls
- Review of all indicators of fraud and irregularities
- Reviews of the compliance framework and specific compliance issues
- Review of operational, project and financial performance against set targets
- Recommendations for effective and efficient operations
- Capacity building of partner organizations in weaker areas of institution building

The Unit regularly reports to the Audit Committee of the Board of Directors. During the current financial year, the committee held two meetings to review the Unit's performance.

As part of its regular functions, the Unit reviews performance of all operational Units to ensure

In continuously striving to remain a viable, credible and transparent institution enjoying broad based support, PPAF seeks to stand out as a role model for grassroots organizations across the country.

# Audit énsures

adherence with PPAF's standard operating procedures and donor guidelines. Recognizing that excellence is a process rather than a state, internal audit continuously reviews the adequacy and efficiency of systems and procedures within PPAF's operational units in pursuit of set goals and PPAF's core values. All identified gaps and recommended alternatives are discussed with respective units to find effective solutions.

During the year, the Unit successfully carried out annual reviews of all operational and support units of PPAF with a particular focus on the effectiveness of appraisal and monitoring activities Similarly, quarterly reviews of support units were carried out to ensure compliance with standard procedures. Compliance with guidelines for procurement and exercise of control over fixed assets was thoroughly checked and verified. Investment portfolio along with receipt and payments were reviewed to ensure transparency and seamless application of internal controls at various stages. Also, the MER Unit and the Human Resource and Administration Unit were comprehensively reviewed in terms of their effectiveness to provide critical and timely support to operational units.

Since the success of PPAF interventions critically hinges on the performance of partner organizations, the Unit also carries out timely audit of the latter on an annual basis. During the year, the Unit carried out review of a large sample of partner organizations constituting 90% of total PPAF portfolio. In each case, the Unit focused on reviewing organizational governance, management and risk management systems, compliance with financing agreements and other regulations and the reliability of financial reporting. The Unit has further developed an effective and timely follow-up mechanism to ensure implementation of all actions agreed upon with both PPAF units and POs.

The Unit critically facilitates the growth and development of partner organizations through gradually introducing effective risk management systems in addition to catering to all necessary support required in areas relevant to the Unit's scope of activities. During the year, the Unit carried out capacity building initiatives through technical training workshops of partner organizations in Sindh and Balochistan provinces.

# 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, the Unit strives to maintain the highest standards of financial management, while strictly following standard operating procedures laid out in PPAF's comprehensive and standardized Operational Manual.

The 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), International Fund for Agricultural Development (IFAD), and KfW Development Bank (Germany).

As part of its responsibilities, the Unit 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 Unit has implemented a system of accounting control which is sound in design and has effectively been implemented and monitored, with an ongoing effort for further improvement. Accounting controls comprise of plans, procedures and records that are concerned with safeguarding assets and 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

In the conduct of its routine business, the Unit strives to maintain the highest standards of financial management, while strictly following standard operating procedures laid out in PPAF's comprehensive and standardized Operational Manual.

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 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.

The 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 microcredit portfolio as well as grant interventions. Mark-up schedules of POs are system generated ensuring accuracy and completeness.

F&A achieved a milestone towards its objective of developing a fully automated environment by introducing web based SOE tracking system for its partner organizations to further facilitate them and provide them with prompt feedback on their disbursement status.

Transparency of financial information for different stakeholders is a prime consideration of the Unit. In order to ensure this, the Unit has put in place an accurate and reliable reporting framework. Mechanisms are in place to ensure that the reporting requirements related to all donors funded projects and regulatory agencies are met and checklists are used to monitor compliance.

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, the 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, 2011 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 WB and IFAD Projects for the year ended June, 30, 2011. 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, 2011 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. 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.

During the reporting period, the Unit played a critical role in the finalization of EUR 31.56 million KfW Project on "Livelihood Support and Promotion of Small Community Infrastructure" to be implemented in Khyber- Pakhtunkhwa and EUR 40 million Italian Government Project on "Poverty Reduction through Development Activities" to be implemented in Balochistan, Khyber- Pakhtunkhwa and Federally Administered Tribal Areas.

During the national emergency precipitated by large scale floods in FY 2010-11, the Unit played an important role in expediting the release of funds worth Rs. 571

During the reporting period, the unit played a critical role in the finalization of EUR 31.56 million KfW Project on "Livelihood Support and Promotion of Small Community Infrastructure" to be implemented in Khyber- Pakhtunkhwa and EUR 40 million Italian Government project on "Poverty Reduction through Development Activities" to be implemented in Balochistan, Khyber- Pakhtunkwa and Federally Administered Tribal Areas.

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.

million from PPAF reserves for the early recovery program. The early release of these funds was crucial in PPAF's effective response.

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 the close of the financial year, 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 and ensured 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 strives for further innovations to strengthen its financial management and procedural efficiency in the next financial year. So far, it has achieved its results owing to a 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, the Unit looks forward to achieving similar standards of professional excellence in the future.

# Communications and Media

The Communications and Media Unit critically supports PPAF in raising awareness on multiple forums. It provides structured solutions for effective public relations with an eye on nurturing committed support behind PPAF's mission through organizing concerted media campaigns, producing documentaries and publishing important source materials on PPAF and its activities for a large and diverse audience including development practitioners, academia, partner organizations, donors, participating communities as well as the larger population.

Building the appropriate PPAF image commensurate with its mission and vision for the future is an important aspect of the Unit's work. In pursuit of this objective, the Unit seeks to develop strong linkages with mainstream national and international print and electronic media, leveraging their mass outreach to effectively implant PPAF's message on screen and in print. Sensitive to the importance of PPAF's work, the Unit carefully selects media formats best suited to deliver the message substantively. From popular talk shows in the electronic media to regular write-ups appearing in newspapers with mass readership, the Unit continuously keeps the nation abreast of PPAF's efforts to alleviate poverty, disempowerment and deprivation.

PPAF communities share a space wider than the combined coverage of mainstream television networks and newspapers. For a large number of PPAF communities residing in far-flung areas divorced from the national mainstream, the radio continues to present only link with the outside world. For those PPAF communities, and for those who are still cut off and are yet to join the PPAF family, the Unit uses the radio for communicating its message. Quality radio programs on PPAF-supported initiatives have been regularly aired, attracting great reviews while capturing the imagination of millions. The PPAF radio programme "Roshan Raahein" has become a household name over the years, targeting both near and distant listeners.

Over the years, the Unit's work has started to take effect. The revolutionizing message of participatory development in motion, as it has reached out into people's homes in near and far off places, has left its mark on the subconscious. The possibilities have been pondered over by larger numbers of people. If continuously pursued and carefully exploited with perseverance and a sense of purpose, good media strategies can make a substantial difference. On its part, the Unit persistently seeks to broaden the scope of

PPAF's successes by consistently airing practical ways in which people can start to make a difference in their lives and in the lives of those around them. In addition to information on PPAF projects, the Unit also transfers information on how a PPAF partner organization in a particular area can be reached, while further sharing guidelines on community mobilization and ways in which useful community oriented projects could be initiated and implemented.

Immersion visits for journalists in mainstream media, where the latter are directly exposed to PPAF communities in settings hidden from the camera's glaze, are a direct extension of the Unit's policy to mainstreaming PPAF's work. Change at times has to be seen first-hand to be believed. Most visitors on these immersion visits have been won over to the wide ranging opportunities inherent in PPAF's methodology and scope of operations. Many have written independent eulogies, adding to the critical mass of popular acceptance. Such proactive efforts in trying to infiltrate the popular discourse, dominated as it is by issues of politics and security, with comparatively mundane subjects like rural development and community mobilization, is not an easy task. The Unit deserves credit for all that it has achieved on this front to date.

The change witnessed by visitors on such immersion visits has taken a long time to materialize. Changing the rural landscape through a series of hard interventions is easier than changing attitudes and mindsets. The carefully designed attempts at mobilizing communities that predates every PPAF intervention are precisely designed to defeat views that either suspect or reject the very feasibility of participatory development. Similar attitudes are at play in resisting change on a number of important social issues like for instance on girls' education. Changing attitudes on such issues constitutes a critical component in inclusive development and is absolutely vital for paving the way towards a more egalitarian social structure at the grassroots. The Unit, through exploiting the full potential of interactive theatre as a communication tool, has sought to address such issues on a regular basis, while effectively educating conservative communities in their basic rights and responsibilities.

As PPAF's publishing arm, the Unit regularly publishes annual reports, research reports, case studies, brochures, manuals, flyers and fact-sheets, in addition to preparing support materials for seminars, workshops and ceremonies. Case studies are carefully selected to showcase the whole range of PPAF initiatives with particular focus on sharing

PPAF's experience and learning from the field. Each case study catalogues the problems faced by individual beneficiaries and participating communities during each phase of a particular intervention, while clearly narrating the process undertaken to overcome each problem. In addition to case studies, the Unit also produces video documentaries on PPAF projects, critically analyzing their impact on participating communities.
The quarterly publication of newsletter in English and Urdu furnishes a comprehensive stream of information on PPAF's growth, programs and future directions, keeping all stakeholders abreast of progress made on past commitments in addition to introducing all new developments within PPAF.

The Unit also continues to play its part in providing technical support to partner organizations and building their capacities in areas relevant to the Unit's scope of activities. During the current financial year, the Unit continued to assist POs in building effective communication channels for raising awareness to effectively induce behavioral change as a necessary corollary to meaningful change.

### Interactive Theater

The Communication & Media Unit organized a series of interactive theatre in five union councils of district Ghotki, Sindh, for raising awareness on social issues such as girl's education, mother-child health, importance of Computerized National Identity Cards (CNIC), deforestation, etc.

With help from the Interactive Theatre Group (ITG) and one of its partner organizations, the Unit organized these events with an aim to mobilize communities and raise awareness among the poor. Community members were highly appreciative of the initiative, despite the fact that it drew attention towards issues that are usually not discussed often.

The theater was attended by a large number of men, women and children from poor communities as well as by representatives from civil society and media. At the end of each performance, the audiences were requested to give their feedback on possible solutions to their problems and their perceptions on basic human rights issues discussed during the course of the theater.

# Corporate Relations Management

Corporate Relations Management (CRM) Unit acts to mobilize the national and international corporate sector in implementing the Corporate Social Responsibility and Corporate Philanthropy initiatives. In this regard CRM Unit has established contacts with several corporate sector organizations in Pakistan and initiated correspondence with international private trusts and foundations. Purpose of forming linkages with local and international corporate is two-fold; one is to diversify PPAF funding resources and the second and most important is to build synergies to better serve the marginalized classes of the community. PPAF, being a sector developer aimed to take the lead in this regard for collective achievement of poverty alleviation goals involving local, multinational and international corporate, media, academia, non-profit organizations and institutions of the poor.

The vision of the Unit is “To comprehensively co-opt the private and corporate sector (local & international) in the process of poverty reduction & grassroot development”.

For proper working while executing its operations effectively and efficiently, the Unit is divided into two main components; fundraising and resource mobilization, project implementation and liaison.

During the year CRM Unit was pivotal in working on different projects to benefit the poor in different areas. The Unit is in the process of finding new partners for project up scaling and replicating success all over the country.

**CRM Projects and Programs**

| Projects | Corporate Partners | Areas of Intervention | Types of Interventions | Partner Organizations |
|---|---|---|---|---|
| Village Development Program | Engro Foundation | Ihsanpur Village Muzaffargarh) | CPI, Health, Education | SRSO |
| Ihsanpur Village Muzaffargarh) | Engro Foundation Ghotki, Sukkur, | Ihsanpur, Dist Muzaffargarh | SM, CPI, H&E, LEP | FDO, PPAF, AMC, Engro Foods, Govt. of Punjab |
| School Improvement Program | Agritech Industries | Iskanderbad, Mianwali Dist | Education | MIED |
| Drinking Water | Unilever Pakistan | Kasur | CPI | RCDS |
| Goth Noor Muhammad Village Development | Shell Pakistan | Goth Noor Muhammad, Near Karachi | CPI, H&E, LEP | HANDS |

Agritech Industries part of AZGARD-9 Group, agreed to form an alliance to complement PPAF activities and jointly fund for poverty alleviation projects; starting with 'School Improvement Program' worth Rs. 100 million at Iskanderabad, district Mianwali through its CSR arm named Nightingale Foundation.
Since March, 2010, school improvement program stared with the ultimate aim of strengthening educational services for improving quality of education in the schools with PPAF's implementing partner organization namely Mountain Institute of Educational Development (MIED).

The objectives of the project are to enhance teacher's knowledge and skills in pedagogy, developing skills and knowledge of principals and middle managers for effective school leadership and management, enriching curriculum to promote holistic development of students in the project schools.

## Achieved Objectives

1. Baseline study conducted.
2. Capacity building of principals and vice principals.
3. Capacity building of teachers through trainings.
4. Formed Parent Support Groups.
5. Formed Student Representative Councils.
6. Appointment of 12 teachers and eight support staff.
7. Changed the culture of schools, involved parents and raised confidence in teachers and students.
8. Established labs and purchase books and equipment.
9. Developed digital library. software for school children and teachers.
10. Provided furniture to schools along with school renovations etc.
11. Student and teacher behaviour, quality education and overall environment is better now.

In order to build teachers and principal's professional competencies, capacity building sessions were conducted for them during the reporting period. The capacity building programs include; leadership and management training for school leadership, pedagogical skills enhancement training for teachers, ECCD training for pre-primary schools teachers, pre-service training for support teachers, English language enhancement training for teachers of Urdu medium schools, and IT orientation workshops for the teachers of some schools.

For the third year of the project proper sustainability plan has been developed by all the partners and is being implemented. PPAF supported staff in selected schools including 16 MIED support teachers, two gardeners, and two part time attendants are now employed by agritech industries. The decision has further boosted up the confidence and motivation level of the teachers, and they have started working with more dedication and commitment.

CRM Unit strived to facilitate affected people through actively participating in relief and rehabilitation activities in flood affected areas for the floods of 2010. For this purpose, 'Implementation of Relief and Rehabilitation Services' a joint project of Rs. 200 million has been launched in collaboration with Engro Foundation. The project areas include affected districts of Punjab and Sindh. The partnership contributes 30% of the amount to relief services and 70% to rehabilitation. PPAF and Engro Foundation adopted Ihsanpur village in District Muzaffargarh for rehabilitation project under this agreement.

Assuring the PPAF theme of community involvement, inclusion and deepening, PPAF and Engro Foundation undertook joint initiatives through PPAF components of social mobilization, health and education, community physical infrastructure and livelihood along with MER Unit for facilitating research studies and poverty scorecard. PPAF and Engro Foundation went through several brainstorming sessions to plan and implement the program at Ihsanpur, Muzaffargarh.

The construction of houses, streets and other development work is in progress. Land has been adopted with the consent of the government. All the activities involve communities and their institutions through PPAF's implementing partner organization namely Farmer Development Organization (FDO).

The best feature of Ihsanpur Village project includes social mobilization process as per PPAF's focus on women's participation and inclusion in the development process. 12 community organizations have been formed which are further graduated to village organization. Engro Foundation has contributed in the construction of houses and started giving ownership of the newly constructed houses in the names of the female members of the family/community while independent solar panels have been installed at each house to provide 24 hour uninterrupted power supply. Along with these initiatives Tetra Pak Pakistan joined hands with other partners and initiated the concept of dairy hub in the village to improve livelihood opportunities for the people of Ihsanpur. PPAF has launched a separate program for livelihood enhancement and protection for the community which included skill development training program, asset transfer to ultra poor etc.

The program is the best example of public-private partnership in which PPAF and Engro Foundation have managed to attract multilateral partners from within and outside the country including government, development agencies, local, multinational corporate sector. The project is being taken care of by the local community.

A unique concept of adopt a village has been introduced by PPAF whereby the CRM Unit along with corporate organizations mutually selects village(s) and start need-based interventions from housing, roads, sanitation to health and education aimed at providing holistic village infrastructure upgrade. In this connection, PPAF and SHELL agreed for the development of a model village (Goth Noor Muhammad in the suburbs of Karachi near Hub).

Complete restructuring of the village along with the provision of health, education, infrastructure, and sanitation will involve approximately over Rs. 100 million. The role of SHELL Pakistan would be limited to financial support for the construction of houses while PPAF along with financial assistance from its own resources is also providing technical support for the integrated development of the village.

The implementation of the project started with the ground breaking at the village site on 23rd September, 2010. Regular steering committee meetings are conducted taking onboard all the partners. Till now construction of houses is in progress while some housing units have been completed.

A comprehensive program for livelihood improvement has been launched by PPAF provide skill development trainings, transferring assets to ultra poor and creating linkages with the potential markets.

# Administration, Procurement and Human Resources

## Administration

The Administration Unit provides critical managerial and logistical support to PPAF's routine operations, in addition to maintaining PPAF offices and physical resources. The Unit ensures smooth work flow through well coordinated secretarial services. As part of its regular functions, the Unit is responsible for arranging all meetings and conferences inside PPAF premises. This includes accurate scheduling, travel arrangements and checking the availability of staff and guests for all scheduled visits and meetings.

The Administration Unit further provides critical logistical support to all PPAF field visits, which are a crucial facet of PPAF operations. During the year, the unit finalized close to 1569 travel arrangements for PPAF staff nationally. Additionally, all necessary visa and travel arrangements were made for PPAF staff visiting foreign countries on official tours. The unit facilitated a total of 31 such foreign visits during the year to nine countries.

The Unit also plays a central role in providing PPAF employees with the best work environment by running timely repairs on all physical assets including office furniture, heating and cooling appliances, work stations, vehicles and buildings.

In its capacity as in charge of all support staff, the Unit has shown remarkable skills in optimally utilizing available human resource effectively for multiple tasks including travel, hospitality and the facilitation of guests and visitors.

The Unit has ensured transparency by maintaining accurate travel logs for all office vehicles Also, the unit maintains daily attendance records of all employees and keeps track of staff history in terms of availed leaves.

## Procurement

The Procurement Unit facilitates PPAF in the timely procurement of goods and services in accordance with PPAF procedures and donor guidelines clearly laid out in a comprehensive Operational Manual.

In the procurement of services for time-bound activities, which include a wide range of out-sourced studies and assignments commissioned by various PPAF units, the Unit has to date maintained high standards in terms of quality and competitiveness. In all such cases, the Unit follows a comprehensive rating scale incorporating several well defined indicators to ensure the quality of procured services. Additionally, the Unit coordinates closely with the concerned Unit in all matters pertaining to outsourced activities.

All prospective outsourced studies and assignments are advertized well in advance to give fair opportunity to all aspirants who wish to compete. All applications are thoroughly scrutinized by a committee consisting of representatives from the procurement Unit and the concerned Unit. The committee shortlists candidates on the basis of set rules and criteria.

Subsequently, all qualifying candidates are requested to submit technical and financial proposals, which are thoroughly reviewed in accordance with the PPAF rating scale and contracts are awarded to the most suitable candidate. During the financial year, 142 contracts were awarded to various organizations and individual consultants for a range of tasks and services including training and capacity building, surveys, impact assessment and evaluation studies, and thematic reports. In addition to successfully managing the procurement of services, the Unit expedited 105 cases of goods procurement during the period under review while strictly adhering to set procedures. All cases of goods procurement were thoroughly and independently scrutinized by audit teams and found to be completely in accordance with the due process.

As part of its regular activities, the Unit undertakes procurement trainings to guide Partner Organizations in adopting sound goods procurement practices. Additionally, the Unit regularly monitors existing procurement procedures within partner organizations and provides crucial help to redress identified gaps.

## Human Resources

The Human Resource Unit seeks to ensure transparency in recruitment and promotions, while simultaneously helping to maximize staff competencies through provisioning need based training opportunities for better outcomes in terms of career development, professional capabilities and program objectives.

The Unit is particularly mindful of consolidating staff morale through focused steps aimed at creating the right incentives. For instance, the introduction of an Internal Vacancy Notification System has allowed existing employees equitable opportunities in competing for lucrative advertized positions. The system has enabled PPAF to retain quality staff and utilize their skills more effectively.

Internal vacancy notifications have considerably consolidated the

Unit's objective of promoting greater transparency within the organization. The successful introduction of an E-Portal has further contributed to the process. The Portal maintains a data bank of CVs furnishing ready information on all aspiring candidates in a user friendly format with the ability to extract relevant criteria based details. The Portal has additionally simplified the process of short listing candidates for particular positions.

During the year, the Unit has led the process of refining the PPAF Performance Appraisal Mechanism, which has served the organization well in terms of rewarding employees through an objective performance evaluation framework. The framework has been further strengthened with the addition of employee work plans to existing key performance indicators, making the overall rating system more objective and comprehensive.

The retention of quality staff has always been a major priority for the Unit. Recognizing the importance of competitive salary packages, the Unit has helped PPAF management in revising the salary structure in accordance with current market trends. New and better salary slabs have been introduced for all staff cadres to ensure employee satisfaction and increase staff retention.

As one of its primary functions, the Unit formulates plans for building staff capacities in diverse disciplines in line with their respective scope of work and job descriptions. During the year, a total of 57 staff members attended training courses in a number of reputed national and international institutes covering a large number of subjects including Organizational Development, Action Research, Climate Change, Knowledge Management, Project Management, Information Technology, Social Mobilization, Finance for Non Finance People, Livelihood and Enterprise Development, Communications, Leadership, and Proposal Writing. The selection of candidates in each instance was need based and carried out in close coordination with the concerned Unit.

Similarly, the Unit facilitated the participation of PPAF staff members to a host of international workshops and conferences held at venues around the world including Nepal, China, Bhutan, Mongolia, Vietnam, Malaysia and France.

During the year, the Unit facilitated the office of the Chief Strategy Officer (CSO) in conducting an Internal Strategic Review to gauge employee perceptions on a host of issues ranging from HR policies, PPAF's mission and strategic direction, and the quality of its interventions to its relationship with partner organizations and the extent to which PPAF holds itself accountable. The views expressed by staff were further explored in a Strategic Envisioning workshop organized to provide inputs for setting future organizational priorities in key areas of governance, policy, and operations. The workshop was attended by over 150 PPAF staff from all Units and management tiers.

While eliciting the views of all participants in carefully planned participatory sessions, the workshop concluded with the identification of several key actionable steps: 1) the need to revamp the current corporate structure; 2) putting in place simplified and coherent work processes and procedures; 3) addressing gaps in compensation, benefits, incentive structure and performance assessment; 4) the need to work towards the realization of a productive and conducive work environment; 5) proactive stakeholder management; and 6) the introduction of new initiatives, products and services.

# Facts and Figures







## Company Information

### Board of Directors:

Mr. Hussain Dawood
*Chairman*

Dr. Nuzhat Ahmad

Mr. Rafiud Deen Ahmad

Mr. Rana Assad Amin

Dr. Naved Hamid

Dr. Rajab Ali Memon

Dr. Aisha Ghaus Pasha

Mr. Asif Qadir

Mr. Zafar Hasan Reza

Mr. Zubyr Soomro

Mr. Qazi Azmat Isa
*Chief Executive Officer*

### BOD Committees:

**Board Compensation Committee:**

Mr. Hussain Dawood
*Chairman*

Mr. Zubyr Soomro

Dr. Rajab Ali Memon

Dr. Aisha Ghaus Pasha

Mr. Zafar Hasan Reza

**Audit Committee:**

Mr. Rafiud Deen Ahmad
*Chairman*

Mr. Rana Assad Amin

Dr. Nuzhat Ahmad

Dr. Naved Hamid

Mr. Asif Qadir

**Risk Oversight Committee:**

Mr. Zubyr Soomro
*Chairman*

Dr. Aisha Ghaus Pasha

Mr. Asif Qadir

**Company Secretary:** Mr. 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, Citibank, Faysal Bank Limited, First Women Bank Limited, Habib Bank Limited, Hong Kong and Shanghai Banking Corporation Limited, National Bank of Pakistan, NDLC-IFIC Bank Limited, Silk Bank Limited, Standard Chartered Bank Limited

**Registered Office:** House No. 1, Street No. 20, Sector F-7/2, Islamabad, Pakistan.
UAN: (+92-51) 111-000-102, Ph: 2653304-05, 2653597
Fax: (+92-51) 2652246, Email: info@ppaf.org.pk
Website: www.ppaf.org.pk

## General Body:

**Chairman:**

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 | Former Senior Partner, Orr, Dignam & Co. |
| 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. |
| Shoaib 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, Beachonhouse National University. |
| Asif Qadir | President Engro Polymer and Chemicals. |
| Aijaz Ahmed Qureshi | Former General Manager, Sindh Irrigation & Drainage Authority. |
| Fazlullah Qureshi | Former Member, National Electric Power Regulatory Authority. |
| Muhammad Ismail Qureshi | Former Federal Secretary, Government of Pakistan. |
| Syed Ayub Qutub | Executive Director, Pakistan Institute of Environment Development & Research. |
| Zafar Hasan Reza | Joint Secretary, Economic Affairs Division. |
| Sadiqa Salahuddin | Executive Director, Indus Resource Center. |
| M. Suleman Shaikh | Chairperson Sindh Graduates Association. |
| Zubyr Soomro | Director Sanjan Nagar Public Education Trust. |
| Jahangir Tareen | Former Federal Minister, Government of Pakistan. |
| Fareeha Zafar | Director, Society for the Advancement of Education. |



# Financial Highlights

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Outreach** - Numbers [Cumulative] | | | | | |
| Partner Organizations | 99 | 87 | 77 | 74 | 70 |
| Districts | 129 | 127 | 124 | 117 | 111 |
| Loans ('000) | 4,700 | 3,600 | 3,000 | 2,300 | 1,513 |
| Water & Infrastructure Projects | 25,500 | 21,000 | 18,500 | 17,000 | 14,900 |
| **Disbursements** [Rs. in million] | | | | | |
| Microcredit/enterprise development loans | 10,952 | 9,048 | 6,949 | 9,075 | 6,228 |
| Grants | 4,786 | 4,798 | 6,117 | 7,622 | 9,578 |
| **Total disbursements** | **15,738** | **13,846** | **13,066** | **16,697** | **15,806** |
| **Balance Sheet** [Rs. in million] | | | | | |
| LIABILITIES | | | | | |
| Equity and reserves | 7,530 | 6,114 | 4,785 | 3,755 | 2,817 |
| Long term loans | 13,761 | 12,246 | 11,031 | 10,770 | 10,777 |
| Other liabilities | 3,274 | 5,269 | 2,693 | 4,398 | 5,059 |
| **Total liabilities** | **24,565** | **23,629** | **18,509** | **18,923** | **18,653** |
| ASSETS | | | | | |
| Fixed assets | 62 | 73 | 65 | 63 | 42 |
| Loans to Partner Organizations (POs) | 11,098 | 10,572 | 9,141 | 7,983 | 5,642 |
| Total investments | 9,885 | 7,422 | 6,755 | 7,492 | 8,762 |
| Other assets | 3,520 | 5,562 | 2,548 | 3,385 | 4,207 |
| **Total assets** | **24,565** | **23,629** | **18,509** | **18,923** | **18,653** |
| **Operational Results** [Rs. in million] | | | | | |
| INCOME | | | | | |
| Service charges on loans to POs | 1,055 | 934 | 745 | 504 | 326 |
| Income on investments/savings accounts | 755 | 656 | 723 | 653 | 792 |
| Grant from donors | 388 | 309 | 200 | 155 | 135 |
| Income on grant fund | 267 | 170 | - | - | - |
| Other income | 18 | 1 | 1 | 3 | 2 |
| **Total income** | **2,483** | **2,070** | **1,669** | **1,315** | **1,255** |
| EXPENSES | | | | | |
| General and admin expenses | 349 | 358 | 274 | 218 | 161 |
| Seminar, workshop and trainings | 25 | 47 | 10 | 8 | 8 |
| Consultancy charges | 351 | 176 | 38 | 58 | 37 |
| Project and relief activities | 208 | 9 | - | - | - |
| Loan loss provision | 28 | 76 | 236 | 145 | 51 |
| Financial charges | 109 | 75 | 81 | 84 | 84 |
| **Total expenses** | **1,070** | **7 41** | **639** | **513** | **341** |
| **Net surplus** | **1,413** | **1,329** | **1,030** | **802** | **914** |
| **Financial Ratios** [Percentage] | | | | | |
| Net surplus / total income | 57% | 64% | 62% | 61% | 73% |
| Repayment rate | 100% | 100% | 100% | 100% | 100% |
| Return on average loan portfolio | 10% | 9% | 9% | 7% | 7% |
| General and admin expenses / total disbursements | 2.22% | 2.59% | 2.10% | 1.31% | 1.02% |
| General and admin expenses / total income | 14% | 17% | 16% | 17% | 13% |
| **Debt/equity** | 65 : 35 | 67 : 33 | 70 : 30 | 74 : 26 | 78 : 22 |
| **Current ratio** | 7: 1 | 4: 1 | 6: 1 | 4: 1 | 3: 1 |

# Directors' Report

**PAKISTAN POVERTY ALLEVIATION FUND**
**DIRECTOR'S REPORT**

The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the eleventh Annual Report alongwith audited financial statements of the Company for the year ended June 30, 2011.

During the year 2010-11, the Company witnessed positive trends in its operational and financial activities, which helped in addressing the needs of the poor through multi-dimensional programmes and maintaining strong financial base. In areas of PPAF sponsored interventions, the poor have started reaping benefits of community driven development. Over the years, PPAF has emerged as a credible institution and an internationally recognized model for effective delivery mechanism at the grassroot level enjoying support of diverse stakeholders. As an apex institution PPAF is committed to building institutions for the poor and of the poor and dedicating its efforts to ensuring quality, cost effectiveness, sustainability, outcomes and impact and pursues the double bottom line of financial sustainability and social responsibility. The steady advancement made in pursuit of its poverty alleviation objectives is reflective of an ongoing commitment to the poor communities who repose trust and faith in us. With the passage of time the identity of the Company has merged with dreams of the poor and today we share with them the prospects of a better tomorrow.

PPAF has designed and implemented effective strategies in a variety of socio-economic contexts, disaster situations and natural calamities. Pakistan encountered a natural disaster of massive proportions in the form of devastating floods which began in July 2010 and damaged one-fourth of the country's agricultural heartland destroying crops and live stock. PPAF was quick to respond to this tragedy and focused on immediate relief through provision of food, milk, water, medicines, shelter and related items for the affectees. The relief operations were carried out in 22 districts (132 union councils) of flood affected areas of Khyber Pakhtunkhwa, Punjab and Sindh. PPAF had distributed over 5 million kg of food items; supplied 40,000 liters milk; set up 110 medical camps; distributed 6,000 hygiene kits; and sunk 140 hand pumps principally through its own resources. In addition, fodder was provided for 70,000 animals of which several were vaccinated. PPAF is following up its relief and recovery efforts with rehabilitation and reconstruction activities to allow people in affected areas to rebuild their lives and livelihoods.

PPAF has successfully completed a decade of service to the disadvantaged and marginalized. 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 to basic community needs. Effectiveness is ensured through capacity building of the poor themselves as well as civil society organizations that serve them. Of equal importance is the adaptability and lesson learning approach adopted by PPAF, which in turn has led to the evolution of the participatory multi-faceted and integrated yet flexible development model. While this model is aimed at addressing poverty of entire communities, the primary focus of all its interventions on women has enabled PPAF to address the weakest link in economic development.

By the end of June 2011, PPAF funding had been disbursed in urban and rural areas of 129 districts of the country (to about 297,000 community organizations / groups) through 99 partner organizations of which 12 were focusing exclusively on women. On cumulative basis, PPAF financed 4,700,000 microcredit loans, of which 2,400,000 were to women. 25,500 infrastructure projects have been completed and 462,200 staff and community members trained. In earthquake affected areas, PPAF provided financing to 122,000 households to construct earthquake resistant homes and also build capacities of over 100,000 individuals in seismic construction and related skills, across the board.

**Operational and Financial Overview:**

During the year, the Company exhibited impressive performance that was evident from the widened asset base, improved equity, stronger capital base and sustained returns. These results allowed PPAF to maintain a strong financial position which is key to the sustenance and continuity of operations.

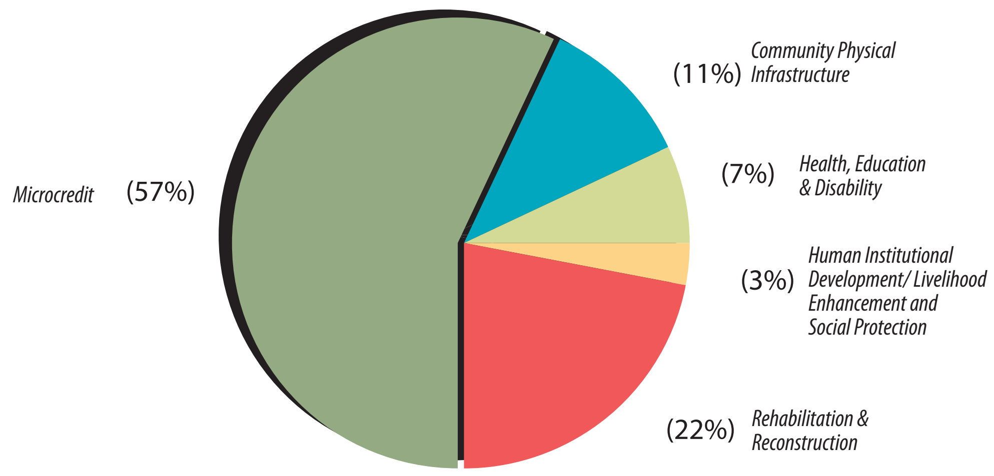
Fig 2: **Disbursements**

| | Rs. in million | | % |
|---|---|---|---|
| | ***2011*** | ***2010*** | ***Variance*** |
| Credit and Enterprise Development | 10,952 | 9 ,048 | + 21 |
| Water and Infrastructure | 1 ,449 | 1 ,800 | - 20 |
| Capacity Building | 5 50 | 4 63 | + 19 |
| Social Mobilization | 9 41 | 9 99 | - 06 |
| Health and Education | 8 66 | 1 ,088 | - 20 |
| Livelihood enhancement | 409 | - | - |
| Project and relief activities | 5 71 | 4 01 | + 27 |
| **Total** | **1 5,738** | **1 3,799** | **+ 14** |

Total disbursements during the year were Rs 15,738 million as compared to Rs. 13,799 million in FY 2010, indicating an increase of 14% [fig. 2]. Disbursements of loan (microcredit and enterprise development facilities) were Rs 10,952 million as compared to Rs 9,048 million; water and infrastructure disbursements were Rs 1,449 million as compared to Rs 1,800 million; capacity building disbursements were Rs 550 million against Rs 463 million; social mobilization disbursements were Rs 941 million as against Rs 999 million, and education and health disbursements were Rs 866 million as against Rs 1,088 million during the preceding year and Rs 409 million were disbursed for livelihood enhancement and protection for the first time. In addition, Rs 571 million was disbursed for flood and relief activities as against Rs 401 million in the preceding year, for the IDP crises.

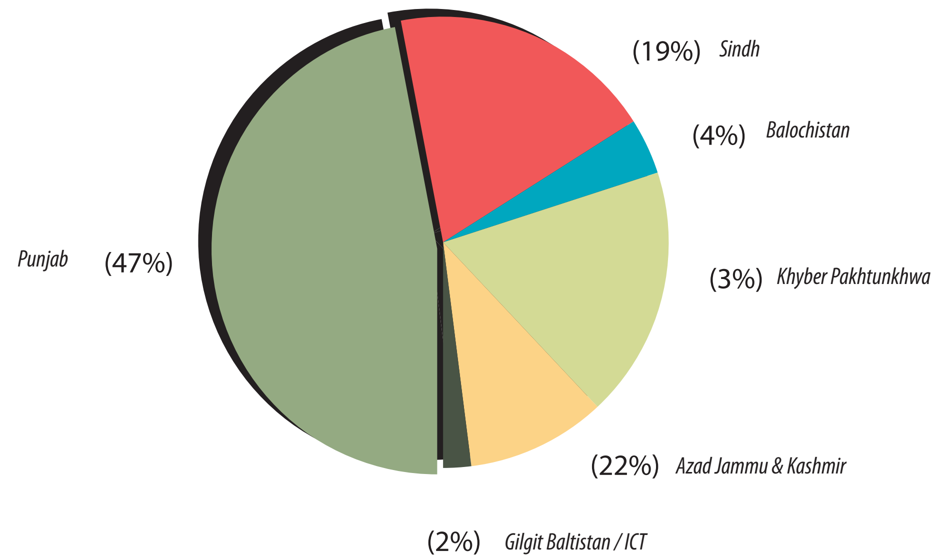
By the end of June 2011, the total cumulative disbursements were Rs 91,544 million. Credit and enterprise development accounted for 57% of total disbursements followed by relief, rehabilitation and reconstruction activities (22%); community physical infrastructure (11%); human and institutional development (including social mobilization)/livelihood enhancement and protection (7%); and health & education (3%) [fig. 3].

Fig 3: **Share of funds disbursed — core operations**




PPAF interventions are being carried out nationwide with 47% of the resources deployed in Punjab, 19% in Sindh, 18% in Khyber Pakhtunkhwa, 4% in Balochistan; 10% in Azad Jammu and Kashmir; 1% each in Gilgit Baltistan and Islamabad Capital Territory.

Fig 4: **Provincial Distribution of funds**



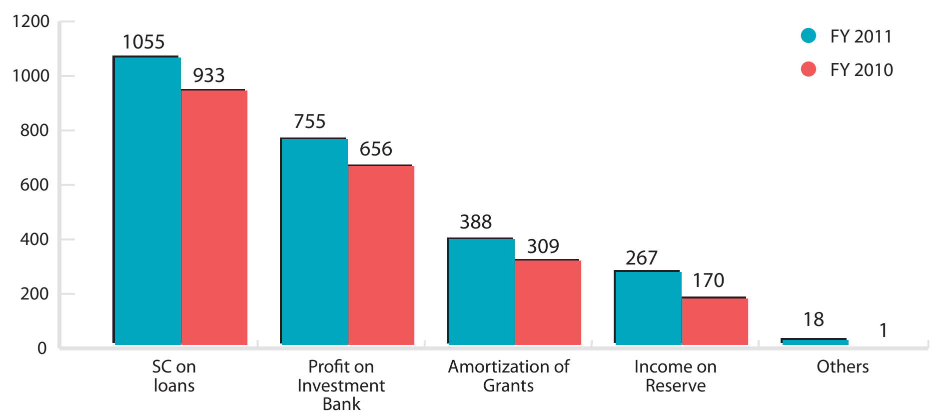
As per the Financing Agreements signed with the Government of Pakistan (GoP), PPAF is required to repay the loan amount alongwith service and commitments charges to GoP at the stipulated rate. PPAF is current in all its repayment obligations to GoP. During the year, the Company paid Rs 109.62 million (FY 2010: 109.62 million) as loan installment and Rs 111.05 million (FY 2010: Rs 98.31 million) as service/commitment charges to the GoP.

The Company is primarily meeting its lending obligations through its own reserves built up from repayments received from partner organizations. As of June 30, 2011, out of total disbursement of Rs 52,628 million, an amount of Rs 38,785 million (74%) was disbursed from PPAF own resources. Total equity and reserves were Rs 7,530 million as at June 30, 2011 as against Rs 6,114 million as at June 30, 2010. Total assets of the Company on June 30, 2011 stood at Rs 24,565 million against Rs 23,629 million as at June 30, 2010. The amount of loans receivable from partner organizations was Rs 11,755 million on June 30, 2011 as against Rs 11,202 million as at June 30, 2010. PPAF continued to maintain 100% recovery rate in respect of its lending operations.

Cognizant of the need to sustain grant based operations in the absence of external financing, the Board of Directors approved the creation of a reserve for grant activities. The principal amount of the reserve is held in investments and interest earned thereon is used for grant based health, education, infrastructure, emergency and any other activity that falls within the overall strategic purview of PPAF objectives. As at June 30, 2011 the reserve stood at Rs 2,572 million as against Rs 1,763 million as at June 30, 2010.

The Company recorded income of Rs. 2,483 million as compared to Rs. 2,070 million for the year 2010, an increase of 20% over last year. The service charges on loan to partner organizations increased by 13% 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 24% due to increase in level of investments and reserve. This includes income of Rs 267 million that was generated on investments specific to grant based activities. During the year, capacity building grant increased by 26% due to the availability of financing from Government of Pakistan and donor agencies for PPAF operational support [fig. 5].

Fig 5: **Total Income** [Rs in million]




The general and administrative expenses during the year were Rs 349 million as against Rs 358 million during the preceding year, a decrease of 3%. The ratio of general and administrative expenses to total income was 14% (2010 : 17%). Seminar, workshops and training expenses of Rs 25 million included Rs 3.40 million spent on trainings and Rs 21.36 million incurred on seminar and workshops. Total consultancy charges of Rs 351 million included Rs 285 million in respect of poverty scorecard survey that has been made mandatory by the donors for subsequent disbursement of funds for operational activities. During the year under review, PPAF spent, from its own resources, an amount of Rs 196 million on relief activities in flood affected areas and Rs 12 million on the school milk project. 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 1,416 million improved by 7% as compared to 2010 (Rs 1,329 million). The debt equity ratio improved from 67:33 (year 2010) to 65:35 (year 2011). The Company achieved these through improved operating performance and cost controls.

**Financial results are summarized as follows:**

[Rs. in million]

| | *2011* | *2010* |
|---|---|---|
| Service charges (profit) on loans | 1,055 | 934 |
| Income on investments/saving accounts | 755 | 656 |
| Amortization of deferred grant | 388 | 309 |
| Income on grant fund | 267 | 170 |
| Other income | 18 | 1 |
| ***Total Income*** | ***2,483*** | ***2,070*** |
| General and administrative expenses | 349 | 358 |
| Seminars, workshop and trainings | 25 | 47 |
| Consultancy charges | 351 | 176 |
| Project and relief activities | 208 | 9 |
| Loan loss provision | 28 | 76 |
| Financial charges | 109 | 75 |
| ***Total expenditure*** | ***1,070*** | ***741*** |
| **Surplus for the year** | **1,413** | **1,329** |

## Sectoral and Program Overview:

PPAF is the largest provider of financial and technical assistance to the civil society development institutions in the country. The needs of the poor were served by following an integrated approach focusing on social mobilization followed by credit, infrastructure, health, education, livelihood enhancement and skill development. 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. In areas of PPAF sponsored interventions, the poor have started reaping benefits of self-reliance and community driven development. PPAF's unique structure and its key position in the grassroots poverty alleviation efforts in Pakistan have enabled it to leverage its innovative capabilities through the vast network of partner organizations. This ability to leverage assures maximum coverage and impact. The Company plays a pivotal role between the donors and communities that enables transparency, efficiency and sustainability. PPAF adopts a participatory development model with a holistic approach using social mobilization, skill development and capital accumulation as guiding principles. The approach is community based and involves formation of groups at the grass roots. It focuses on social organization, creates awareness and builds capacity. 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.

Social mobilization constitutes the bedrock 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. PPAF follows an inclusive development strategy which seeks to prioritize community needs within an inclusive implementation framework. The contrasting communities are provided essential tools to promote sustainable joint action, through organized forums for planning and deliberation in the shape of community organizations. PPAF has been successful in mainstreaming voiceless communities ensuring their full participation in the decision making processes. 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 the local level. PPAF is playing its part in national integration by paving the way for increased contact amongst citizens from diverse ethnic, linguistic and cultural backgrounds. Through exposure visits for community members across regional and provincial boundaries, we hope to change divisive and isolated elite structures restricting the nation's full potential in addressing poverty and empowerment.

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 over 40%. Its partner organizations account for the bulk of the current retail outreach in the sector. PPAF 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. Having played a key role by investing in the development of sustainable mechanisms for delivering financial services to the poor, PPAF has accelerated efforts to promote growth in the microfinance sector with declining dependence on subsidized funding. To this end, PPAF has successfully intermediated between microfinance institutions and formal financial institutions, allowing selected partner organizations to leverage their funding with strategic support from PPAF. At the same time, PPAF has continued to expand outreach with a particular focus on areas with low penetration of microfinance and high incidence of poverty. It has been enhancing access of the rural poor to productive assets, skills, services and improved technologies through new products and market access initiatives. It has supported development and testing of microfinance products including village banking, women cooperatives, livestock farming and social safety nets in addition to careful pilot testing approaches aimed at increasing outreach in areas with low levels of access to financial services particularly isolated and un-served regions of Balochistan, Sindh and Kyber Pakhtunkhwa.

Local, need-based, demand driven, small scale infrastructure interventions of PPAF have demonstrated poverty outcomes and have 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 helped in transforming lives and livelihoods through increasing crop yield, labor productivity and market access, while decreasing the probability of disease, famine and economic shocks. PPAF is focusing on integrated development and dissemination of low cost, appropriate, innovative and emerging technologies such as micro/ mini-hydels, renewable energy, windmills and solar projects. PPAF's infrastructure allocations are purposively designed to reduce geographical bias and target the poorest and marginalized communities. PPAF is also playing a proactive role in deploying effective policies, strategies and systems for prudent water management, better preparedness for drought as well as focused generation and dissemination of knowledge. This is pivotal to PPAF's long term strategy of reducing food, health and income insecurity and enhancing capacity to cope with natural disasters. PPAF has a dedicated water management center that has strategically contributed to finding long term solutions for efficient management of water resources through integrated programs within appropriately defined spatial boundaries.

The objective of building human and institutional capacities as a pre requisite for effective long term poverty alleviation, is a key learning of PPAF over the last decade of work. In addition to enhancing capacities for effective resources and services mobilization, PPAF facilitates communities in developing sustainable frameworks for identifying and implementing development interventions. Simultaneously, it strives to develop efficient mechanisms for service delivery through strengthening supply side response with increased technical and financial support. PPAF places special emphasis on building strategic capacities through institutionalizing relevant approaches, methodologies and development tools for an equitable and inclusive development process at the community level. Staff of PPAF and partner organizations have been provided with valuable opportunities to meaningfully engage and interact with eminent speakers from diverse fields and of varied expertise on a range of relevant issues.

PPAF's social sector initiatives are conceptually grounded in its integrated demand driven grassroot development, where access to better health and education are a necessary condition for progress. By providing poor families access to quality health and education services, PPAF has helped reduce critical gaps in the development process at the grassroots. It has made 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 supported interventions prioritize strict quality control, long term sustainability and durable linkages between communities and government. Quality of service delivery is ensured through regular training, provision of modern technologies and rigorous monitoring and feedback.

PPAF livelihood enhancement and protection programme aims at enhancing the productivity of the poorest individuals and communities through focused interventions intended at developing skill sets and assets for greater income generating opportunities and better livelihoods. In pursuit of these objectives, savings and internal lending are encouraged within organized communities, while striving to introduce efficient mechanisms for identifying and supporting innovative micro-enterprises. Under this programme, members of community organizations develop livelihood investment plans with the assistance of and in coordination with PPAF's implementing partners and community organizations. These in turn form the basis of livelihood/income generating loans from community organizations and possibly, commercial banks. PPAF provides grants to support asset transfers to ultra poor and vulnerable households and cover investments under a Community Livelihood Fund. These funds constitute a one-time grant to community organizations meeting standard criteria for on lending to members at markup rates sufficient to sustain the process. This mechanism helps in building sound financial management practices; saving and lending discipline; and enabling the poor to become credit worthy and bankable clients for commercial banks and other financial intermediaries.

PPAF has in place an environmental and social management framework to ensure that all its interventions take place in a socially inclusive and environmental friendly manner. A dedicated group disseminates the framework and builds capacity among partner organizations. Furthermore it ensures compliance with social and environmental safeguards by all partner organizations through regular monitoring and periodic environmental and social audits.

The vision of PPAF is disseminated 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. PPAF has helped influence public debate and discourse on the efficacy of participatory grassroots development as an effective mean for transforming lives of the poor and marginalized. Print and electronic media, which constitutes an effective means educating and sensitizing public opinion, forms an important component of PPAF's multi-faceted communication strategy.

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 the business and corporate sectors, PPAF plans to further increase its country wide activities through bilateral relationships. This enables the poor to access, and benefit from wider private sector markets and opportunities for value addition. Partnerships are at various stages of implementation/completion with the local and multinational corporates.

The 7th Citi-PPAF Microentrepreneurship Awards ceremony was held in Islamabad on February 22, 2011 to acknowledge the extraordinary contributions that individual microentrepreneurs across Pakistan have made to economic sustainability of their families as well as their communities. Supported by Citigroup Foundation, the goal of the awards program is to encourage and support best practices among both microentrepreneurs and microfinance institutions throughout Pakistan and to draw public, media and government attention to the important role that inclusive financial services play in promoting economic development at the local level.

PPAF won international acknowledgement for its work in development of innovative products and services for the poor and marginalized communities across the country. The "Exclusive Group of Champions" award was conferred on PPAF at the 2010 Annual Project Review Workshop for Asia and the Pacific, held in China. The "Women Livestock Cooperative Farming" product being recognized is part of Microfinance Innovation and Outreach Programme, which is financed by the International Fund for Agricultural Development.

## Treasury Management:

The Company has placed an effective cash flow management system whereby cash inflows and outflows are projected on a regular basis. Repayments of all long term and short term loans have been duly accounted for. Working capital requirements have been planned to be financed through internal cash generations. Cash that is available is invested in an investment portfolio that is fairly diversified and secure. At present, the Company sees no immediate pressure on its short and long term financing needs. There are sufficient reserves with banks to meet any contingency in liquidity.

## Business Risks and Challenges:

The Board of Directors and Management ensure that an appropriate system exists in the Company for the identification and management of the business risks. The Company uses a structured approach in identifying, assessing and minimizing the threats to its business through its risk management system.

An effective Internal Audit function exists in the Company which serves as an effective appraisal of internal controls which are meant to safeguard assets, monitor compliance with best practices of Corporate Governance, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The Audit Committee of the Board in accordance with its terms of reference also ascertain that the internal control system including financial & operational controls and accounting system are adequate, effective and comply with applicable laws and regulations and professional best practices.

Management is committed to address the various challenges within its ambit of controls with a strong core of trained and experienced professionals, high quality technology and solid finances. Following are the major risks faced by the Company:

***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 credit worthiness, and creating lien on 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 the 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.

***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 to ensure availability of adequate amount of funding to meet 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 does not have 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.

## Best Corporate Practices:

The Management places paramount importance on adherence to international and local principles of 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.

The Management gives high priority on true and fair presentations 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 and nine monthly un-audited financial statements alongwith Management Reviews are published and circulated to stakeholders. These statements are also made available on the Company website.

## Corporate Governance:

The Company is committed to high standards of corporate governance to ensure business integrity and upholding the confidence of all its stakeholders. In order to comply with best practices, PPAF has endorsed the code of corporate governance of listing regulations. We have made corporate governance a system of structuring, operating and controlling the Company with a view to achieve long term strategic goals to satisfy all our stakeholders. The Management is continuing to comply with the provisions of best practices set out in the Code of Corporate Governance, which is reflected in the following specific statements:

- The financial statements prepared by the Management, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored with ongoing efforts to improve it further.
- The Company's ability to continue as a going concern is well established.
- There has been no material departure from the best practices of corporate governance.
- Key operating and financial data of the last six (6) years in summarized form is annexed.

## Board of Directors:

***Composition of the Board***

The legal and regulatory framework defines parameters regarding qualification and composition of the Board of Directors for smooth running of operations and promotion of good corporate culture. In view of these requirements, the Company has on its Board highly competent and committed personnel with vast experience, expertise, integrity and strong sense of responsibility required for safeguarding the interest of different stakeholders. The present Board comprises of eleven Members including the Chairman and the Chief Executive Officer of the Company. The Chief Executive Officer is the only Executive Member on the Board while all other Members, including the Chairman, represent the non-executive directorship of the Company. Of the eleven Board Members, three were nominated by the Government; seven elected by the General Body; and the Chief Executive Officer appointed by the Board.

***Role and Responsibilities of the Board***

The Board is fully aware of the immense responsibilities bestowed on them for smooth running of the Company and safeguarding its assets. The Board stands firmly committed in its objective to add value through effective participation and contribution towards achievement of the 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.

The Board participates actively in major decisions of the Company including appointment of the Chief Executive Office; review and approval of 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 alongwith Management Reviews; audited financial statements alongwith Directors' and Auditors' Reports.

***Meetings of the Board***

The Board is required to meet at least every quarter to monitor the Company's performance aimed at effective and timely accountability of its management. During the year the Board held five meetings, agendas of which were circulated in a timely manner beforehand. Decisions made by the Board during the meetings were clearly stated in the minutes of the meetings maintained by the Company Secretary, which were duly circulated to all the Directors for endorsement and were approved in the following Board meetings. The Directors of the Company did not have any personal interest in decisions taken by the Board in these meetings. All meetings of the Board had the minimum quorum attendance as stipulated in the Articles of Association. 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***

As per the Articles of Association of the Company, 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 through a formal election process. However, no such Member of the Board of Directors shall serve for more than two consecutive terms of three years each except for Government nominees. Consent to act as Director is obtained from each Director prior to election. The Members do not share any relationship other than that of fellow colleagues on the

Board. Election of the Directors was held on December 7, 2009 and seven Directors were elected unopposed, for a term of three years.

***Change of Directors***

After successfully managing the affairs of the Company for over twelve years, Mr. Kamal Hyat relinquished the charge of Chief Executive Officer. The Board appointed Mr. Qazi Azmat Isa as the new Chief Executive Officer of the Company, who assumed his responsibilities with effect from January 3, 2011.

The Board placed on record its profound appreciation for professional acumen and meritorious services rendered by Mr. Kamal Hyat. He was a capable and dynamic person who worked for the progress of the Company with dedication. Under his leadership, PPAF exhibited immense growth and demonstrated its viability as a unique and innovative model of public private partnership. The Company accumulated an enviable track record of outreach and performance, with presence across the country. PPAF exhibited impressive operational as well as financial results over the years that allowed it to maintain a very strong financial base, which is vital for its sustainability. PPAF quality of work and grass root penetration is now being applauded internationally, especially the World Bank our premier financier.

The Board welcomed Mr. Qazi Azmat Isa as the new CEO of the Company. Mr. Isa has diversified experience of working in leadership positions in local and multinational organizations. We are confident that his experience, professionalism and leadership will further add value and esteem to the organization. The Board placed on record its appreciation for the valuable contributions made by the outgoing Directors, Mr. Shahid Ahmad and Mr. Ahmad Farooq, nominees of Government of Pakistan, who represented thye Economic Affairs Division.

## Board Committees

The Board endorsed the code of corporate governance of listing regulations by constituting Audit and Board Compensation committees in January 2007.

***Board Audit Committee:***

This Committee comprises five members including its Chairman who are appointed by the Board from the independent non-executive Directors. The Head of the Internal Audit Unit acts as Secretary of the Committee.

The terms of reference of the Board Audit Committee have been drawn up by the Board in conformity with the code of corporate governance and the Board proceeds 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 the 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; un-audited condensed interim financial statements alongwith Management Review; audited financial statements alongwith Auditors' and Directors' Reports of the company; and project specific audited financial statements as per donor requirements.

The Committee held separate meetings with the Chief Financial Officer, Head of the Internal Audit 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 meetings.

***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 of the Committee.

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; and continuous development and skill enhancement of employees.

The Committee meets as often as may be deemed necessary or appropriate in its judgment and at such times and places as the Committee shall determine. The Chief Executive Officer and other management employees are invited to attend meetings for discussion and suggestions. Minutes of meetings are drawn up expeditiously and circulated for the information and consideration of the Board in the immediately succeeding Board meetings.

***Risk Oversight Committee:***

In order to assist the Board to review the effectiveness of risk management framework, the Board recently constituted a Risk Oversight Committee. The Committee comprises three members including its Chairman who is appointed by the Board from the non-executive Directors. The head of Credit & Enterprise Development Unit acts as Secretary of the Committee.

The Committee assists the Board to review the effectiveness of overall risk management framework; assess and advise on adequacy of risk management policies; procedures in identifying, measuring, monitoring and controlling risks and to advise thereof, with particular emphasis on ensuring risk management framework which includes risk policies, strategies, risk tolerance and risk appetite limits.

## Role and Responsibilities of the Chairman and the Chief Executive Officer:

The roles of the Chairman and the Chief Executive Officer are segregated and they have distinct responsibilities. The 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's Management is supervised by the Chief Executive Officer 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 Officer 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 Officer 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:

As with any successful organization, PPAF recognizes the need to review its strategy periodically so as to remain relevant, meet the needs of its stakeholders and respond to emerging opportunities. In this context, a strategic envisioning exercise was commissioned in March 2011 with a view to develop a consensus based strategy for the next five years. As a part of this exercise, extensive consultations were held with different stakeholders including Government of Pakistan, multilaterals, bilaterals, communities, intermediaries as well as all the professional staff of the Company. The whole process was lead by an external facilitator of international repute. The strategy was considered and duly approved by the Board of Directors in its meeting held on April 30, 2011. The strategic drivers governing the future operations of the Company are as follows:

- Build institutions of the poor.
- Address spatial dimension of poverty.
- Increased focus on the poorest districts.
- Institutional restructuring and operational coherence.
- Emphasis on quality of social mobilization.
- Proactive pursuit of outcomes, impact and grievance redressal.
- Improving service delivery, quality assurance and compliance.

The strategic thrust would be on building institutions for poverty alleviation. The pivotal role of the company would be on mobilization and capacity building of institutions of the poor (community organizations) and for the poor (partner organizations) that work with community institutions in 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 funding 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. The interventions will be based on needs assessment as a continuous and participatory process. PPAF emphasizes multi-sector programming that generates deep and tangible impacts at the community level. These programmes are designed to be inclusive, paying special attention to the identification, mobilization and inclusion of women, persons with special needs, youth and the poorest.

Recognizing needs of stakeholders and with the aim of supporting technological innovations for the microfinance sector, PPAF and Pakistan Microfinance Network have joined hands to launch an online platform which will allow microcredit lenders and other stakeholders to assess competitive situation in their specific markets. The mapping tool will enable stakeholders to identify geographical locations of all branches of microfinance providers in Pakistan. This online platform will also allow microfinance providers to input their data such as branch location and population density, thus enabling stakeholders to identify markets.

### 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, 2011 and shall retire at the conclusion of 15th 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, 2012 and the Board also endorsed the recommendations of the Audit Committee.

### Conclusion:

PPAF has remained committed to its overarching objective of alleviating poverty through concerted and sustainable efforts at the grassroots. PPAF has expanded 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. PPAF's track record as a robust institution for transferring development resources to the poor through cost effective and efficient delivery mechanisms has secured trust and confidence of all stakeholders, including the Government of Pakistan, international bilateral and multilateral donor agencies, private and corporate sector institutions, grass root partner organizations and above all the men, women and children in participating communities. We are fully committed to realizing their potential and affording them opportunities to becoming stronger. Accomplishment is not an end-result for us; it is an everlasting quest, one that will continue to have us reach for new horizons and surpass new milestones.

### Acknowledgement:

I would like to express my sincere appreciation to the Board members whose valuable guidance has always enlightened us in our decision making. Their willful determination, focused involvement and ongoing commitment helped in bringing PPAF to the level and position it deserves. I look forward to working in partnership with them to benefit from their vision and valued experience which I am confident will go a long way in the future growth and prosperity of the Company.

The Board remains indebted to the Members of the General Body for their invaluable counsel and guidance. We look forward to their continuous support to ensure future growth of the Company. The Board would also like to commend the partner organizations and their communities for their support and ownership of the programme, which contributed to our collective success.

The Company has come a long way from its beginning as a single donor project to a multi-donor leading institution for poverty alleviation with its presence in all the provinces of the Country. The success we achieved would not have been possible without unwavering support of all our 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 result based monitoring missions. We would like to thank the 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 their support, understanding and co-operation. Considering the achievements made by the Company together, we remain confident of the Company's growth and success in the years ahead.

We are deeply indebted to management team for their extraordinary performance and dedication without which we would not have succeeded in winning the hearts and minds of all our stakeholders. We thank them for proving that given good governance and a level playing field our people can perform wonders and establish institutions that compare with the best in the world. Talented and motivated people are our most precious resource. They form the fundamental platform of our strategic drivers and are essential to our success.

Challenges along the way are inevitable; we would overcome them with the integrity and professionalism that are at the very heart of our institution, as we make our way through unfamiliar surroundings. Leveraging on its strengths, PPAF will continue to capitalize on different opportunities and meet the needs of the poor with willful enthusiasm and go beyond targeted milestones.

Karachi
August 04, 2011

Hussain Dawood
Chairman

PAKISTAN POVERTY ALLEVIATION FUND

# Financial Statements

FOR THE YEAR ENDED
JUNE 30, 2011

pwc

A. F. FERGUSON & CO.

## AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Poverty Alleviation Fund (the Company) as at June 30, 2011 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, 2011 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 4, 2011

Engagement partner: Sohail M Khan

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PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET AS AT JUNE 30, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| FIXED ASSETS - TANGIBLE | 5 | 58,824 | 64,972 |
| INTANGIBLE ASSETS | 6 | 3,493 | 7,724 |
| LONG TERM INVESTMENTS | 7 | 800,000 | 600,000 |
| TERM INVESTMENTS-SPECIFIC TO GRANT FUND | 8 | 350,896 | - |
| LONG TERM LOANS TO PARTNER ORGANIZATIONS | 9 | 1,466,675 | 764,158 |
| CURRENT ASSETS | | | |
| Current maturity of long term investments | 7 | 200,000 | 400,000 |
| Current maturity of term investments-specific to grant fund | 8 | 2,221,252 | 1,763,431 |
| Current maturity of loans to Partner Organizations | 9 | 9,630,919 | 9,807,923 |
| Short term investments-specific to projects | 10 | 1,445,000 | 600,000 |
| Short term investments-other | 11 | 4,867,535 | 4,058,342 |
| Advances, deposits, prepayments and other receivables | 12 | 72,259 | 89,390 |
| Profit/service charges receivable | 13 | 682,095 | 410,937 |
| Bank balances-specific to projects | 14 | 2,734,888 | 5,013,642 |
| Cash and bank balances | 15 | 31,332 | 48,720 |
| | | 21,885,280 | 22,192,385 |
| | | 24,565,168 | 23,629,239 |
| FUND AND RESERVES | | | |
| Endowment fund | 16 | 1,000,000 | 1,000,000 |
| Grant fund | 4.7 | 2,572,148 | 1,763,431 |
| Reserve for grant based activities | 4.7 | 222,180 | 161,052 |
| Accumulated surplus | | 3,736,073 | 3,189,978 |
| | | 7,530,401 | 6,114,461 |
| LONG TERM LOANS | 17 | 13,760,923 | 12,246,272 |
| CURRENT LIABILITIES | | | |
| Deferred liabilities - grant fund | 18 | 2,826,743 | 5,040,206 |
| Deferred income - grant fund | 19 | 31,427 | 59,700 |
| Current portion of long term loans | 17 | 282,795 | 109,617 |
| Service and commitment charges payable | 20 | 37,194 | 39,211 |
| Accrued and other liabilities | 21 | 95,685 | 19,772 |
| | | 3,273,844 | 5,268,506 |
| CONTINGENCIES AND COMMITMENTS | 23 | | |
| | | 24,565,168 | 23,629,239 |

The annexed notes 1 to 35 are an integral part of these financial statements.

Chairman

Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| INCOME | | | |
| Service charges on loans to Partner Organizations | 24 | 1,055,042 | 933,371 |
| Income on investments and saving accounts | 25 | 1,022,302 | 826,616 |
| Amortization of deferred income - grant fund | 19 | 389,582 | 309,216 |
| Other income | 26 | 18,360 | 829 |
| | | 2,485,286 | 2,070,032 |
| EXPENDITURE | | | |
| General and administrative expenses | 27 | 349,046 | 358,378 |
| Seminars, workshops and trainings | 28 | 24,759 | 46,992 |
| Consultancy charges | 29 | 350,940 | 175,958 |
| Project and relief activities | 30 | 207,908 | 9,251 |
| Loan loss provision | 9 | 27,660 | 75,322 |
| Financial charges | 31 | 109,033 | 75,026 |
| | | 1,069,346 | 740,927 |
| SURPLUS FOR THE YEAR | | 1,415,940 | 1,329,105 |

The annexed notes 1 to 35 are an integral part of these financial statements.

Chairman

Chief Executive Officer

## PAKISTAN POVERTY ALLEVIATION FUND
### CASH FLOW STATEMENT
### FOR THE YEAR ENDED JUNE 30, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Surplus for the year | | 1,415,940 | 1,329,105 |
| Adjustment for non cash items: | | | |
| Depreciation | | 26,439 | 25,502 |
| Amortization of intangible assets | | 4,680 | 5,727 |
| Amortization of deferred income | | (389,582) | (309,216) |
| Loan loss provision | | 27,660 | 75,322 |
| Gain on sale of fixed assets | | (3,523) | (340) |
| Financial charges | | 109,033 | 75,026 |
| | | (225,293) | (127,979) |
| | | 1,190,647 | 1,201,126 |
| Working capital changes | | | |
| (Increase) / decrease in current assets: | | | |
| Advances, deposits, prepayments and other receivables | | 17,131 | 1,898 |
| Profit/service charges receivables | | (271,158) | 40,926 |
| Increase / (decrease) in current liabilities: | | | |
| Accrued and other liabilities | | 75,913 | 11,129 |
| | | (178,114) | 53,953 |
| Cash generated from operations | | 1,012,533 | 1,255,079 |
| Disbursements to partner organizations: | | | |
| Loan | | (10,952,195) | (9,048,466) |
| Grants | | (4,579,529) | (4,798,394) |
| Recoveries of loans from partner organizations | | 10,399,022 | 7,542,028 |
| Financial charges paid | | (111,050) | (98,312) |
| | | (5,243,752) | (6,403,144) |
| Cash flows from operating activities | | (4,231,219) | (5,148,065) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investments - net purchases | | (2,462,910) | (667,131) |
| Capital expenditure incurred | | (20,973) | (40,098) |
| Proceeds from disposal of fixed assets | | 3,757 | 1,062 |
| Cash flows from investing activities | | (2,480,126) | (706,167) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Long term loans - received | | 1,836,364 | 1,325,023 |
| Long term loans - repaid | | (109,617) | (109,617) |
| Deferred liabilities - grant fund receipts | | 2,327,147 | 7,387,377 |
| Deferred income - grant fund receipts | | 361,309 | 308,000 |
| Cash flows from financing activities | | 4,415,203 | 8,910,783 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | (2,296,142) | 3,056,551 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | 5,062,362 | 2,005,811 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 14&15 | 2,766,220 | 5,062,362 |

The annexed notes 1 to 35 are an integral part of these financial statements.

Chairman

Chief Executive Officer

## PAKISTAN POVERTY ALLEVIATION FUND
### STATEMENT OF CHANGES IN FUND AND RESERVES
### FOR THE YEAR ENDED JUNE 30, 2011

| | Note | Endowment Fund | Grant fund | Reserve for grant based activities | Accumulated Surplus | Total |
|---|---|---|---|---|---|---|
| | | (Rupees in '000) | | | | |
| **Balance as at June 30, 2009** | | 1,000,000 | - | - | 3,785,356 | 4,785,356 |
| Surplus for the year | | | | | 1,329,105 | 1,329,105 |
| Transfer from accumulated surplus to grant fund | 4.7 | | 1,763,431 | | (1,763,431) | - |
| Transfer from accumulated surplus to reserve for grant based activities | 32 | | | 161,052 | (161,052) | - |
| **Balance as at June 30, 2010** | | 1,000,000 | 1,763,431 | 161,052 | 3,189,978 | 6,114,461 |
| Surplus for the year | | | | | 1,415,940 | 1,415,940 |
| Transfer from accumulated surplus to grant fund | 4.7 | | 808,717 | | (808,717) | - |
| Transfer from accumulated surplus to reserve for grant based activities | 32 | | | 61,128 | (61,128) | - |
| **Balance as at June 30, 2011** | | 1,000,000 | 2,572,148 | 222,180 | 3,736,073 | 7,530,401 |

The annexed notes 1 to 35 are an integral part of these financial statements.

Chairman

Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

## 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 form other sources. Actual results may differ from these estimates.

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

The area involving a higher degree of judgment or complexity or area where assumptions and estimates are significant to the financial statements is loan loss provision (note 9) 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, 2011, 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 sub-clause (3) of clause (58) of Part I of the Second Schedule to 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.

-3-

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 sufficent 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 as grant fund, 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% (2010: 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. 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-

**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 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.

-5-

### 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.

-6-

## 5. FIXED ASSETS - tangible

| | Cost | | | | Depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | As at July 01, 2010 | Additions/ (Deletions) | As at June 30, 2011 | Annual rate of depreciation | As at July 01, 2010 | Charge for the year / (On deletions) | As at June 30, 2011 | Book value as at June 30, 2011 | Book value as at June 30, 2010 |
| | (Rupees in '000) | | | % | (Rupees in '000) | | | (Rupees in '000) | (Rupees in '000) |
| Furniture and fixtures | 13,223 | 1,712 | 14,935 | 20 | 8,504 | 1,747 | 10,251 | **4,684** | **4,718** |
| Vehicles | 60,555 | 12,607<br>(6,579) | 66,583 | 20 | 38,309 | 10,034<br>(6,533) | 41,810 | **24,773** | **22,246** |
| Office equipment | 41,603 | 1,454<br>(819) | 42,238 | 20 | 20,109 | 6,486<br>(631) | 25,964 | **16,274** | **21,493** |
| Computer equipment | 51,000 | 4,751<br>(2,462) | 53,289 | 25 | 34,486 | 8,172<br>(2,462) | 40,196 | **13,093** | **16,515** |
| **2011** | 166,381 | 20,524<br>(9,860) | 177,045 | | 101,408 | 26,439<br>(9,626) | 118,221 | **58,824** | **64,972** |
| **2010** | 132,281 | 36,816<br>(2,716) | 166,381 | | 77,901 | 25,502<br>(1,995) | 101,408 | **64,972** | |

## 6. INTANGIBLE ASSETS

| | Cost | | | | Amortisation | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | As at July 01, 2010 | Additions | As at June 30, 2011 | Annual rate of amortisation | As at July 01, 2010 | Charge for the year | As at June 30, 2011 | Book value as at June 30, 2011 | Book value as at June 30, 2010 |
| | (Rupees in '000) | | | % | (Rupees in '000) | | | (Rupees in '000) | (Rupees in '000) |
| Satellite imageries | 18,547 | - | 18,547 | 25 | 11,631 | 4,353 | 15,984 | **2,563** | **6,916** |
| Other softwares | 4,577 | 449 | 5,026 | 25 | 3,769 | 327 | 4,096 | **930** | **808** |
| **2011** | 23,124 | 449 | 23,573 | | 15,400 | 4,680 | 20,080 | **3,493** | **7,724** |
| **2010** | 19,841 | 3,283 | 23,124 | | 9,673 | 5,727 | 15,400 | **7,724** | |

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **7. LONG TERM INVESTMENTS - held to maturity** | | | |
| Pakistan Investment Bonds (PIBs) | 7.1 | 1,000,000 | 1,000,000 |
| Less: PIBs maturing within next twelve months shown as current asset | | (200,000) | (400,000) |
| | | 800,000 | 600,000 |

7.1 Represents investments in PIBs as follows:

| Principal (Rupees) | Issue Date | Maturity Date | Coupon rate % per annum | Payment terms |
|---|---|---|---|---|
| 200 million | 22-08-2001 | 22-08-2011 | 13.00 | Semi annually |
| 400 million | 29-04-2004 | 28-04-2014 | 8.00 | Semi annually |
| 200 million | 22-07-2010 | 22-07-2020 | 12.00 | Semi annually |
| 200 million | 22-07-2010 | 22-07-2020 | 12.00 | Semi annually |

| | 2011 | 2010 |
|---|---|---|
| **8. TERM INVESTMENTS - specific to grant fund** | (Rupees in '000) | |
| Term Deposit Receipts (TDR) | 2,572,148 | 1,763,431 |
| Less: TDRs maturing within next twelve months shown as current asset | 2,221,252 | 1,763,431 |
| | 350,896 | - |

8.1 These investments include term deposit receipts of various commercial and investment banks at annual markup rates ranging from 12.15% to 13.75% (2010:11.10% p.a. to 12.04% p.a).

| **9. LOANS TO PARTNER ORGANIZATIONS - secured, considered good** | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| AGAHE | 8,117 | - |
| Al Mehran Rural Develpoment and Welfare Organization | 62,783 | 25,259 |
| ASA Pakistan Ltd. | 85,000 | - |
| Asasah | 222,338 | 359,775 |
| Badbaan Enterprise Development Forum | 2,292 | 600 |
| Baidarie | 22,042 | 5,412 |
| Balochistan Rural Development & Research Society | 1,860 | 1,208 |
| BRAC Pakistan | 966,387 | 715,202 |
| Buksh Foundation | 5,417 | 2,800 |
| Bunyad Literacy Community Council | 14,500 | 13,250 |
| Centre for Women Cooperative Development | 219,420 | 254,361 |
| Chenab Development Foundation | 3,000 | - |
| Community Support Concern | 270,298 | 244,453 |
| Development Action for Mobilization and Emancipation | 596,842 | 609,474 |
| Dia Welfare Organization | 4,638 | - |
| Farmers Friend Organization | 61,716 | 20,667 |
| Indus Resource Centre | 1,282 | 6,457 |
| Jinnah Welfare Society | 295,916 | 218,718 |
| Karwan Community Development Organization | 12,353 | 5,575 |
| Kashf Foundation | 1,846,500 | 2,351,650 |
| Khajji Cooperative Society | 16,000 | 9,500 |
| Khwendo Kor Women and Children Development Programme | 1,052 | 646 |
| Kiran Welfare Organization | 1,500 | 2,350 |
| Marvi Rural Development Organization | 34,605 | 18,596 |
| Mashal Development Organization | 3,471 | 350 |
| Mojaz Foundation | 26,920 | 12,710 |
| Balances continued - carried forward | 4,786,249 | 4,879,013 |

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| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Balances continued - brought forward | | 4,786,249 | 4,879,013 |
| Narowal Rural Development Programme | | 35,137 | 26,061 |
| National Rural Support Programme | | 4,397,851 | 4,293,387 |
| Network Leasing Corporation Limited | | 15,125 | 59,125 |
| Orangi Charitable Trust | | 261,500 | 273,393 |
| Organization for Participatory Development | | 47,264 | 75,122 |
| Orix Leasing Pakistan Limited | | 216,542 | 158,650 |
| Poverty Eradication Network | | 2,777 | 2,787 |
| Punjab Rural Support Programme | | 363,942 | 339,871 |
| Rural Community Development Society | | 297,819 | 221,387 |
| SAATH Development Society | | 24,300 | 3,675 |
| Sarhad Rural Support Programme | | 5,000 | 15,333 |
| Save The Poor | | 28,916 | 22,667 |
| Sayya Foundation | | 3,980 | - |
| Sindh Agricultural & Forestry Workers Coordinating Organization | | 261,400 | 206,663 |
| Sindh Rural Support Organization | | 452,473 | 188,030 |
| Sindh Rural Support Programme | | 200 | 200 |
| Soon Valley Development Programme | | 24,300 | 10,060 |
| Support with Working Solution | | 6,550 | 8,437 |
| Thardeep Rural Development Programme | | 492,845 | 398,155 |
| Villagers Development Organization | | 4,950 | 1,408 |
| Women Social Organization | | 18,993 | 10,516 |
| Young Pioneers Society | | 7,250 | 8,250 |
| | 9.1 | 11,755,363 | 11,202,190 |
| Less: Loan loss provision | 9.2 | (657,769) | (630,109) |
| | | 11,097,594 | 10,572,081 |
| Less: Amount receivable within next twelve months shown as current asset | | (9,630,919) | (9,807,923) |
| | | 1,466,675 | 764,158 |

9.1 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.

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| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **9.2 Movement of loan loss provision** | | |
| Opening balance | 630,109 | 554,787 |
| Provision during the year | 27,660 | 75,322 |
| | 657,769 | 630,109 |
| **9.3 Movement of loans to Partner Organizations** | | |
| Opening balance | 11,202,190 | 9,695,752 |
| Disbursements during the period | 10,952,195 | 9,048,466 |
| | 22,154,385 | 18,744,218 |
| Recoveries during the period | (10,399,022) | (7,542,028) |
| | 11,755,363 | 11,202,190 |
| Less: Loan loss provision | (657,769) | (630,109) |
| | 11,097,594 | 10,572,081 |

**10. SHORT TERM INVESTMENTS - specific to projects**

10.1 These represent investments in term deposit receipts 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 (2010: 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 | 500 million | 750 million |
| National Rural Support Programme | 500 million | 850 million |
| Orangi Charitable Trust | 150 million | 150 million |
| BRAC Pakistan | 150 million | 175 million |
| Sindh Agricultural & Forestry Workers Coordinating Organization | 50 million | 60 million |
| Asasah | 50 million | 55 million |
| Jinnah Welfare Society | 20 million | 22 million |
| Rural Community Development Society | 25 million | 28 million |

**11. SHORT TERM INVESTMENTS - other**

11.1 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 10.80% p.a to 16.25% p.a (June 2010: 11.10% p.a.to 12.40% p.a.).

11.2 These include investments of Rs 2,351,072 thousand (equivalent to 20% of the loan receivable from Partner Organizations) to safeguard against any major default on loan receivable and provide capital adequacy and Rs 2,516,463 thousand as funds available for lending activities.



| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **12. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES** | | | |
| Loans and advances - considered good | | | |
| Employees | 12.1 | 6,816 | 3,391 |
| Suppliers | | 1,045 | 3,166 |
| | | 7,861 | 6,557 |
| Deposits | | 2,065 | 2,200 |
| Prepayments | | 10,275 | 28,999 |
| Income tax refundable | | 49,384 | 49,384 |
| Other receivables - considered good | | 2,674 | 2,250 |
| | | 72,259 | 89,390 |

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. (2010: 3% p.a.) and 8% p.a (2010: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly installments.

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **13. PROFIT / SERVICE CHARGES RECEIVABLE** | | |
| Profit receivable on | | |
| Pakistan Investment Bonds (PIBs) | 35,622 | 16,738 |
| Term deposit receipts / saving accounts | 220,867 | 74,750 |
| Short term investments specific to grant based activities | 109,447 | 67,956 |
| Project bank accounts / investments | 56,403 | 25,229 |
| | 422,339 | 184,673 |
| Service charge receivable on loans to POs | 259,756 | 226,264 |
| | 682,095 | 410,937 |
| **14. BANK BALANCES - SPECIFIC TO PROJECTS** | | |
| Cash at banks - current accounts | | |
| Specific to IDA II | - | 2,154,795 |
| Specific to IDA III | 2,472,254 | 2,280,293 |
| Specific to IFAD-MIOP | 121,304 | 61,592 |
| Specific to IFAD-PRISM | - | 232,280 |
| Specific to CECP grant | 30,267 | 74,329 |
| Specific to Shell Pakistan | 8,001 | - |
| | 2,631,826 | 4,803,289 |
| Cash at banks - deposit accounts | | |
| Specific to USDA grant | 103,040 | 210,331 |
| Specific to CECP | 22 | 22 |
| | 103,062 | 210,353 |
| | 2,734,888 | 5,013,642 |
| **15. CASH AND BANK BALANCES** | | |
| Cash in hand | | |
| in head office | 14 | 3 |
| in field coordination offices | 30 | 85 |
| | 44 | 88 |
| Cash at banks - current accounts | 9,476 | 26,693 |
| Cash at banks - deposit accounts | 21,812 | 21,939 |
| | 31,288 | 48,632 |
| | 31,332 | 48,720 |

The balances in deposit accounts carry average mark up of 5 % p.a. (2010: 6.50% p.a.). These include foreign currency balances aggregating to US$ 3,878 (2010: US$ 3,878).

| | | 2011 | 2010 |
|---|---|---|---|
| **16.** | **ENDOWMENT FUND** | (Rupees in '000) | |
| | PPAF - I | 500,000 | 500,000 |
| | PPAF - II | 500,000 | 500,000 |
| | | 1,000,000 | 1,000,000 |

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

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| **17.** | **LONG TERM LOANS - Unsecured** | | (Rupees in '000) | |
| | Government of Pakistan - PPAF - I (IDA financing) | 17.1 | 2,202,789 | 2,343,784 |
| | Government of Pakistan- PPAF - II (IDA financing) | 17.2 | 8,313,889 | 8,321,429 |
| | Government of Pakistan - (IFAD financing-MIOP) | 17.3 | 1,137,540 | 813,980 |
| | Government of Pakistan - (IFAD financing-PRISM) | 17.4 | 1,279,000 | 609,175 |
| | Government of Pakistan- PPAF - III (IDA financing) | 17.5 | 1,110,500 | 267,521 |
| | | | 14,043,718 | 12,355,889 |
| | Less: Amount payable within next twelve months shown as current liability | | (282,795) | (109,617) |
| | | | 13,760,923 | 12,246,272 |

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

| | | |
|---|---|---|
| Opening balance | 2,343,784 | 2,453,401 |
| Amount repaid | (109,617) | (109,617) |
| Amount transferred to deferred liability | (31,378) | - |
| | 2,202,789 | 2,343,784 |

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.

| | | 2011 | 2010 |
|---|---|---|---|
| 17.2 | Government of Pakistan- PPAF - II (IDA financing) | (Rupees in '000) | |
| | Opening balance | 8,321,429 | 8,321,429 |
| | Amount transferred to deferred liability | (7,540) | - |
| | | 8,313,889 | 8,321,429 |



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.

| | | 2011 | 2010 |
|---|---|---|---|
| 17.3 | Government of Pakistan - (IFAD financing MIOP) | (Rupees in '000) | |
| | Opening balance | 813,980 | 281,911 |
| | Amount received | 323,560 | 532,069 |
| | | 1,137,540 | 813,980 |

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.

| | | 2011 | 2010 |
|---|---|---|---|
| 17.4 | Government of Pakistan - (IFAD financing PRISM) | (Rupees in '000) | |
| | Opening balance | 609,175 | 83,742 |
| | Amount received | 669,825 | 525,433 |
| | | 1,279,000 | 609,175 |

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.

-13-

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.

| | | 2011 | 2010 |
|---|---|---|---|
| 17.5 | Government of Pakistan- PPAF - III (IDA financing) | (Rupees in '000) | |
| | Opening balance | 267,521 | - |
| | Amount received | 842,979 | 267,521 |
| | | 1,110,500 | 267,521 |

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 167.2 million over a period of five years to be utilized by GOP through the Company.

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 | 2011 | 2010 |
|---|---|---|---|---|
| **18.** | **DEFERRED LIABILITIES - GRANT FUND** | | (Rupees in '000) | |
| | Government of Pakistan - IDA I&II | 18.1 | - | 2,085,857 |
| | Government of Pakistan - IDA III | 18.2 | 2,388,314 | 2,278,886 |
| | US Agency for International Development/Pakistan | 18.3 | 115,984 | 115,984 |
| | Government of Pakistan - USDA | 18.4 | 100,144 | 206,227 |
| | Government of Pakistan - IFAD (MIOP) | 18.5 | 125,631 | 61,294 |
| | Government of Pakistan - IFAD (PRISM) | 18.6 | (301) | 217,127 |
| | USAID - Flood Relief | 18.7 | - | - |
| | Benazir Income Support Program | 18.8 | 56,868 | - |
| | Committee Encouraging Corporate Philanthropy (CECP) | 18.9 | 30,768 | 74,831 |
| | Shell Pakistan Ltd.- Model Village | 18.10 | 6,446 | - |
| | Engro Foundation - Flood Relief | 18.11 | 2,889 | - |
| | Grant for Flood relief from corporations and individuals | 18.12 | - | - |
| | | | 2,826,743 | 5,040,206 |

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

-14-

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| **18.1** | **Grants from Government of Pakistan - IDA I & II** | | (Rupees in '000) | |
| | Opening balance | | 2,085,857 | 1,539,410 |
| | Amount received | | 128,530 | 4,037,511 |
| | Amount transferred from long term loans | | 38,918 | - |
| | Amount transferred to deferred income | | (178,817) | - |
| | | | 2,074,488 | 5,576,921 |
| | Less: Disbursements for | | | |
| | Community physical infrastructure | | - | 1,400 |
| | Social sector development | | - | 18,097 |
| | Capacity building - POs | | - | 143,985 |
| | Social mobilization project | 18.1.1 | 2,074,488 | 3,137,118 |
| | Disability project | | - | 190,464 |
| | | | 2,074,488 | 3,491,064 |
| | | | - | 2,085,857 |

Disbursements to POs

| | 2011 | 2010 |
|---|---|---|
| Aga Khan Rural Support Programme | - | 37 |
| AKPBS-Water and Sanitation Extension Programme | 84,089 | 112,007 |
| AL Mehran Rural Development and Welfare Organization | - | 2,594 |
| Awaz Foundation Pakistan - Centre for Development Services | 6,688 | 23,697 |
| AZAT Foundation | 28,766 | 7,375 |
| Baanhn Beli | 10,000 | 17,198 |
| Badin Rural Development Society | 45,970 | 68,785 |
| Balochistan Environmental and Educational Journey | 5,211 | 68,547 |
| Balochistan Rural Development & Research Society | 27,496 | 88,954 |
| Balochistan Rural Support Programme | 164,085 | 174,016 |
| Bunyad Literacy Community Council | - | 2,431 |
| Centre for Women Cooperative Development | - | 527 |
| Community Development Concern | - | 2,316 |
| Community Mobilisation and Development Organization | 45,269 | 113,729 |
| Community Support Concern | - | 4,626 |
| Community Uplift Programme | 22,999 | 76,612 |
| Development Action for Mobilization and Emancipation | - | 1,810 |
| Direct expenses by PPAF on seminars, workshops and trainings | 4,163 | - |
| Disability devices to POs | - | 77,643 |
| Family Planning Association of Pakistan | 11,907 | 57,009 |
| Farmers Development Organization | 50,835 | 63,247 |
| Farmers Friend Organization | - | 8 |
| Health and Nutrition Development Society | 22,041 | 109,720 |
| Indus Earth Trust | 37,490 | (432) |
| Indus Resource Centre | 32,436 | 47,480 |
| Islamic Relief | - | (56,002) |
| Karwan Community Development Organization | - | 817 |
| Khwendo Kor Women and Children Development Programme | 18,361 | 41,961 |
| Kiran Welfare Organization | - | 2,248 |
| Marvi Rural Development Organization | - | 12 |
| Mountain Institute of Educational Development | 30,624 | 22,181 |
| National Rural Support Programme | 557,215 | 286,415 |
| Disbursements continued - carried forward | 1,205,645 | 1,417,568 |

-15-

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Disbursements continued - brought forward | 1,205,645 | 1,417,568 |
| Organization for Participatory Development | - | 144 |
| Participatory Integrated Development Society | 26,848 | 130,966 |
| Punjab Rural Support Programme | 68,019 | 150,185 |
| Salik Development Foundation | 33,760 | 62,607 |
| Sarhad Rural Support Programme | 62,124 | 543,085 |
| Save The Poor | - | 2,273 |
| Seminars, workshops and media projection | - | 89,979 |
| Sindh Agricultural & Forestry Workers Coordinating Organization | 244,764 | 259,666 |
| Sindh Rural Support Organization | 81,968 | 158,518 |
| Sindh Rural Support Programme | 22,739 | 30,796 |
| Society for Conservation and Protection of Environment | 39,076 | 23,365 |
| SOS Children's Village | - | 969 |
| South Asia Partnership Pakistan | 8,231 | 96,909 |
| Strengthening Participatory Organization | 77,195 | 99,366 |
| Sungi Development Foundation | - | 4,216 |
| Support with Working Solution | 38,757 | 90,562 |
| Taraqee Foundation | 33,009 | 125,604 |
| Thardeep Rural Development Programme | 132,353 | 203,836 |
| Women Welfare Organization Poonch | - | 450 |
| | 2,074,488 | 3,491,064 |

18.1.1 Disbursements for social mobilization project include

| | 2011 | 2010 |
|---|---|---|
| Social Mobilization | 575,960 | 965,169 |
| Community Physical Infrastructure | 945,782 | 1,257,186 |
| Social Sector Development | 552,746 | 914,763 |
| | 2,074,488 | 3,137,118 |

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 Projects (SSIP) and Social Sector Development Projects (SSDP-Health & Education) under this project.

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.

-16-

**18.2 Grants from Government of Pakistan - IDA III**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Opening balance | | 2,278,886 | - |
| Amount received | | 1,661,265 | 2,734,572 |
| Less: Disbursements | | | |
| Social mobilization | | 240,253 | 34,748 |
| Institutional building | | 128,823 | 74,909 |
| Livelihood enhancement and protection | | 414,941 | 4,892 |
| Micro credit access | | 52,165 | - |
| Health and education | | 313,571 | 155,682 |
| Water and infrastructure | | 402,084 | 185,455 |
| | | 1,551,837 | 455,686 |
| | | 2,388,314 | 2,278,886 |

Disbursements to POs

| | 2011 | 2010 |
|---|---|---|
| Aga Khan Education Support Programme | 4,160 | - |
| Aga Khan Health Support Programme | 4,245 | - |
| Aga Khan Rural Support Programme | 12,957 | 61,120 |
| AKPBS-Water and Sanitation Extension Programme | 21,886 | 30,387 |
| ASA Pakistan Ltd. | 3,180 | - |
| Awami Development Organization | 10,191 | - |
| Awaz Foundation Pakistan - Centre for Development Services | 6,200 | - |
| Baanhn Beli | 3,512 | - |
| Badin Rural Development Society | 333 | - |
| Baidarie | 7,359 | 913 |
| Balochistan Environmental and Educational Journey | 4,286 | - |
| Balochistan Rural Development & Research Society | 1,566 | - |
| Balochistan Rural Development Society | 8,397 | - |
| Balochistan Rural Support Programme | 23,383 | - |
| BRAC - Pakistan | 10,299 | 5,847 |
| Bunyad Literacy Community Council | 1,774 | 1,579 |
| Community Mobilisation and Development Organization | 4,464 | - |
| Community Support Concern | 1,278 | 430 |
| Community Uplift Programme | 29,014 | - |
| DEVCON An Association for Rural Development | 3,283 | - |
| Development in Literacy | 7,749 | 1,770 |
| Direct expenses by PPAF on seminars, workshops and trainings | 5,580 | 384 |
| Environment Protection Society | 45,361 | 5,073 |
| Family Planning Association of Pakistan | 29,917 | 24,354 |
| Farmers Development Organization | 39,964 | 2,719 |
| Farmers Friend Organization | 3,364 | 125 |
| Hazara Development and Advocacy Foundation | 8,013 | 42,257 |
| Health and Nutrition Development Society | 10,404 | 2,898 |
| Himalayan Wildlife Foundation | 3,601 | - |
| Human Development Foundation | 5,603 | - |
| Human Resource Development Society | 21,603 | 3,881 |
| Indus Earth Trust | 6,689 | - |
| Indus Resource Centre | 32,275 | 22,325 |
| Karwan Community Development Organization | 4,777 | 3,678 |
| Kashf Foundation | 20,284 | - |
| Khwendo Kor Women and Children Development Programme | - | 826 |
| Disbursements continued - carried forward | 406,951 | 210,566 |

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Disbursements continued - brought forward | | 406,951 | 210,566 |
| Marafie Foundation | | 5,538 | - |
| Marvi Rural Development Organization | | 54,552 | 13,139 |
| Mashal Development Organization | | 2,512 | 3,556 |
| Mountain and Glacier Protection Organization | | 4,498 | - |
| Mountain Institute of Educational Development | | 43,964 | 17,689 |
| Narowal Rural Development Programme | | 17,793 | 9,690 |
| National Rural Support Programme | | 351,641 | 51,416 |
| Participatory Integrated Development Society | | 31,118 | - |
| Punjab Rural Support Programme | | 21,223 | - |
| Rural Community Development Society | | 32,853 | 37,859 |
| Rural Development Project | | 15,332 | - |
| Salik Development Foundation | | 89,599 | 22,101 |
| Sarhad Rural Support Programme | | 42,213 | 1,465 |
| Save The Poor | | - | 839 |
| Sindh Agricultural & Forestry Workers Coordinating Organization | | 88,806 | - |
| Sindh Rural Support Organization | | 23,005 | 22,568 |
| Society for Conservation and Protection of Environment | | 956 | - |
| Society for Human Empowerment and Rural Development | | 6,556 | 1,317 |
| Soon Valley Development Programme | | 26,381 | 5,883 |
| SOS Children's Village | | 38,555 | 18,964 |
| South Asia Partnership Pakistan | | 30,506 | - |
| Support With Working Solutions | | 115,736 | 37,413 |
| Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment | | 18,817 | - |
| Taraqee Foundation | | 22,387 | - |
| Thardeep Rural Development Programme | | 57,619 | - |
| Women Social Organisation | | 2,726 | 1,131 |
| Young Pioneers Society | | - | 90 |
| | | 1,551,837 | 455,686 |

**18.3 Grants from USAID/Pakistan**

18.3.1 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 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.



**18.4 Grants from Government of Pakistan - USDA**

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Opening balance | 206,227 | 552,703 |
| Amount transferred | (17,957) | (41,648) |
| Profit on project bank account | 11,106 | 51,171 |
| | 199,376 | 562,226 |
| Less: Disbursements to POs | | |
| Aga Khan Rural Support Programme | 42,085 | 90,595 |
| AKPBS-Water and Sanitation Extension Programme | - | 6,468 |
| Badin Rural Development Society | - | 7,500 |
| Balochistan Environmental and Educational Journey | - | 7,601 |
| Balochistan Rural Support Programme | - | 25,267 |
| Community Mobilisation and Development Organization | 7,342 | 19,999 |
| Direct expenses by PPAF on seminar | - | 51 |
| Ghazi Brotha Taraqiati Idara | - | 13,790 |
| Health and Nutrition Development Society | - | 2,717 |
| Human Resource Development Society | 428 | - |
| Indus Earth Trust | 13,728 | 22,695 |
| National Rural Support Programme | - | 14,012 |
| Participatory Integrated Development Society | - | 17,265 |
| Rural Community Development Society | 11,406 | - |
| Sarhad Rural Support Programme | - | 11,892 |
| Sindh Agricultural & Forestry Workers Coordinating Organization | - | 1,815 |
| Sindh Rural Support Program | - | 1,679 |
| Social Action Bureau for Assistance in Welfare and Organizational Networking | 11,834 | 3,896 |
| Society for Conservation and Protection of Environment | - | 2,148 |
| Soon Valley Development Programme | - | 22,313 |
| South Asia Partnership Pakistan | 10,221 | 892 |
| Strengthening Participatory Organization | - | 3,275 |
| Taraqee Foundation | 2,188 | 37,343 |
| Thardeep Rural Development Programme | - | 41,672 |
| Village Friends Organization | - | 1,114 |
| | 99,232 | 355,999 |
| | 100,144 | 206,227 |

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 20.

-19-

| 18.5 Grants from Government of Pakistan - IFAD (MIOP) | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Opening balance | | 61,294 | (14,986) |
| Amount received | | 555,588 | 313,227 |
| | | 616,882 | 298,241 |
| Less: Disbursements to POs | | | |
| AGAHEE | | 4,304 | 1,880 |
| AKPBS-Water and Sanitation Extension Programme | | - | 2,129 |
| AL Mehran Rural Development and Welfare Organization | | 13,348 | 6,051 |
| Asasah | | 2,000 | - |
| Badbaan Enterprise Development Forum | | 3,840 | 583 |
| Badin Rural Development Society | | 18,000 | 2,813 |
| Baidarie | | 4,309 | - |
| Balochistan Rural Development & Research Society | | 1,100 | 3,231 |
| BRAC - Pakistan | | 26,834 | 72,620 |
| Buksh Foundation | | 3,995 | 2,147 |
| Bunyad Literacy Community Council | | 1,090 | 200 |
| Centre for Women Cooperative Development | | 15,491 | 31,051 |
| Chenab Dev Foundation | | 2,248 | - |
| Community Support Concern | | 18,815 | 9,134 |
| Development Action for Mobilization and Emancipation | | 2,875 | - |
| Dia Welfare Organization | | 3,006 | - |
| Direct expenses by PPAF on seminars, workshops and trainings | | 6,560 | 1,018 |
| Farmers Friend Organization | | 10,231 | 4,278 |
| Indus Earth Trust | | 3,284 | (157) |
| Jinnah Welfare Society | | 24,554 | 6,531 |
| Karwan Community Development Organization | | 2,449 | 1,130 |
| Kashf Foundation | | 16,558 | - |
| Khajji Cooperative Society | | 4,870 | 2,113 |
| Khwendo Kor Women and Children Development Programme | | 990 | - |
| Marvi Rural Development Organization | | 2,038 | 794 |
| Mashal Development Organization | | 1,686 | 496 |
| Mojaz Foundation | | 10,075 | 3,876 |
| Narowal Rural Development Programme | | 2,160 | - |
| National Rural Support Programme | | 55,284 | 827 |
| Orangi Charitable Trust | | 76,125 | 40,111 |
| Organization for Participatory Development | | 840 | - |
| Orix Leasing Pakistan Limited | | 5,259 | - |
| Pakistan Microfinance Network | | 3,748 | - |
| Punjab Rural Support Programme | | 476 | - |
| Rural Community Development Society | | 39,595 | 7,240 |
| Rural Development Project | | 609 | - |
| Saath Development Society | | 8,399 | 2,957 |
| Sarhad Rural Support Programme | | 7,050 | 5,918 |
| Save The Poor | | 900 | 806 |
| Sayya Foundation | | 3,228 | - |
| Sindh Agricultural & Forestry Workers Coordinating Organization | | 12,594 | 24,216 |
| Sindh Rural Support Organization | | 38,324 | - |
| Soon Valley Development Programme | | 2,053 | - |
| Support with Working Solution | | 1,803 | - |
| Thardeep Rural Development Programme | | 24,217 | - |
| Villagers Development Organization | | 3,687 | 2,854 |
| Women Social Organisation | | 350 | 100 |
| | | 491,251 | 236,947 |
| | | 125,631 | 61,294 |

-20-

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **18.6 Grants from Government of Pakistan - IFAD (PRISM)** | | |
| Opening balance | 217,127 | 45,444 |
| Amount received | (215,826) | 173,933 |
| | 1,301 | 219,377 |
| Less: Disbursements to PO | | |
| Kashf Foundation | - | 2,250 |
| Sindh Agricultural & Forestry Workers Coordinating Organization | 600 | - |
| Pakistan Microfinance Network | 701 | - |
| Direct expenses by PPAF on seminars, workshops and trainings | 301 | - |
| | 1,602 | 2,250 |
| | (301) | 217,127 |
| **18.7 USAID - Flood Relief** | | |
| Amount received | 228,281 | - |
| | 228,281 | - |
| Less: Disbursements to PO | | |
| National Rural Support Programme | 228,281 | - |
| | - | - |

18.7.1 PPAF and USAID Pakistan executed Cooperative Agreement on August 12, 2010 to provide support for the program entitled Relief to Flood Affected Communities of Punjab and Sindh. The overall project involved grant funding of US$ 2,699,520.

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **18.8 Benazir Income Support Program** | | |
| Amount received | 127,130 | - |
| | 127,130 | - |
| Less: Disbursements to POs | | |
| Balochistan Rural Support Programme | 4,333 | - |
| Community Mobilisation and Development Organization | 9,814 | - |
| Direct expenses by PPAF on seminars, workshops and trainings | 39,940 | - |
| Farmers Development Organization | 8,283 | - |
| Sindh Agricultural & Forestry Workers Coordinating Organization | 5,284 | - |
| Sindh Rural Support Organization | 2,608 | - |
| | 70,262 | |
| | 56,868 | - |

18.8.1 Benazir Income Support Program (BISP) signed an agreement with PPAF on September 29, 2010. Under the agreement PPAF shall provide enterprise development training to 18,000 participants and skill training to 13,500 participants of BISP's Waseel-e-Haq program. The project has a total cost of Rs. 884,400,814 and is initially for a period of two years. The specific objective of the enterprise and skill development training is to enhance the capacity of BISP's Waseel-e-Haq beneficiaries or their nominees so that they can properly utilize the amount received by them for setting up business.

On June 7, 2011 under Amendment 1 to the contract, PPAF will receive a lump sum amount of Rs. 49,133 against each participant trained, as against previous terms involving reimbursement of expenses for training from BISP.

-21-

**18.9 Grants from Committee Encouraging Corporate Philanthropy**

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Opening balance | 74,831 | 109,617 |
| Amount transferred to deferred income | - | (3,736) |
| | 74,831 | 105,881 |
| Less: Disbursements to POs | | |
| Community Uplift Programme | 5,224 | 19,243 |
| Mountain and Glacier Protection Organization | 16,801 | 1,913 |
| National Rural Support Programme | 22,038 | 9,894 |
| | 44,063 | 31,050 |
| | 30,768 | 74,831 |

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 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.

**18.10 Shell Pakistan Ltd - Model Village**

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Amount received | 8,000 | - |
| | 8,000 | - |
| Less: Disbursements to PO | | |
| Health and Nutrition Development Society | 1,554 | - |
| | 6,446 | - |

18.10.1 PPAF and Shell Pakistan Ltd. signed a memorandum of understanding on April 21, 2010 under which both counterparties have agreed to complement each other's activities and jointly fund infrastructure, education, health and social sector services in the village "Goth Noor Muhammad" to convert it to a model village. The project is planned to be completed in a period of three years.

**18.11 Engro Foundation - Flood Relief**

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Amount received | 16,417 | - |
| | 16,417 | - |
| Less: Disbursements to POs | | |
| Health and Nutrition Development Society | 2,528 | - |
| Sindh Rural Support Organization | 11,000 | - |
| | 13,528 | - |
| | 2,889 | - |

18.11.1 Engro Foundation signed a memorandum of understanding with PPAF on August 14, 2010 for provision of relief and rehabilitation services to flood affectees of Punjab and Sindh. Such services include food, shelter, drinking water, clothing etc.

**18.12 Grant for Flood relief from corporations and individuals**

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Amount received | 3,428 | - |
| | 3,428 | - |
| Less: Disbursements to POs | | |
| Direct expenses by PPAF on seminars, workshops and trainings | 1,746 | - |
| Rural Community Development Society | 832 | - |
| Support With Working Solutions | 850 | - |
| | 3,428 | - |
| | - | - |

-22-

**19. DEFERRED INCOME - GRANT FUND**

| | As at July 01, 2010 | Amount Received | Utilization against expenditure recognized as income | As at June 30, 2011 |
|---|---|---|---|---|
| | (Rupees in '000) | | | |
| Government of Pakistan (GoP) | | | | |
| Capacity Building - IDA | 13,081 | (4,724) | 4,406 | 3,951 |
| Capacity Building - IDA III | - | 144,093 | 144,093 | - |
| Capacity Building - IDA (RNR) | 12,811 | (9,267) | 2,176 | 1,368 |
| Capacity Building - IDA (Social mobilization) | 8,005 | 203,601 | 204,007 | 7,599 |
| Capacity Building - IDA (Disability) | 4,764 | - | 1,527 | 3,237 |
| Capacity Building - IFAD (MIOP) | 347 | 4,489 | 3,801 | 1,035 |
| Capacity Building - IFAD (PRISM) | 5,978 | 14,154 | 20,132 | - |
| Capacity Building - USDA | 6,551 | 7,164 | 7,641 | 6,074 |
| | 51,537 | 359,510 | 387,783 | 23,264 |
| Capacity building - USAID/Pakistan | 8,162 | - | - | 8,162 |
| Capacity building - CECP | 1 | - | - | 1 |
| Flood Relief - USAID | - | 1,799 | 1,799 | - |
| 2011 | 59,700 | 361,309 | 389,582 | 31,427 |
| 2010 | 60,916 | 308,000 | 309,216 | 59,700 |

**20. SERVICE AND COMMITMENT CHARGES PAYABLE**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Service charges payable | 20.1 | 36,710 | 36,300 |
| Commitment charges payable | 20.2 | 484 | 2,911 |
| | | 37,194 | 39,211 |

20.1 These represent service charges payable to GOP at the rate of 0.75% per annum (2010: 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 (2010: 0.50 per annum) on the principal amount of long term loan not withdrawn from time to time.

**21. ACCRUED AND OTHER LIABILITIES**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Consultancy fee payable | | 43,439 | - |
| Unamortised discount on purchase of Pakistan Investment Bonds | 21.1 | 42,929 | - |
| Accrued expenses | | 5,961 | 19,615 |
| Other liabilities | | 3,356 | 157 |
| | | 95,685 | 19,772 |

21.1 Amortisation of discount for the year amounts to Rs 638,250.

**22. DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY SCHEME**

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

| | 2011 | 2010 |
|---|---|---|
| Present value of defined benefit obligation | 28,597 | 37,697 |
| Fair value of plan assets | (23,212) | (28,049) |
| Net actuarial gains / (losses) not recognised | (5,385) | (9,648) |
| | - | - |

-23-

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **22.2 Movement in net liability/(asset) recognised** | | |
| Opening net (asset)/liability | - | - |
| Expense for the year | 8,901 | (11,737) |
| Contribution for the year | (8,901) | 11,737 |
| Closing net asset/liability | - | - |
| **22.3 Charge for the Defined Benefit Plan** | | |
| Current service cost | 4,862 | 9,720 |
| Interest cost | 4,321 | 3,857 |
| Expected return on plan assets | (1,121) | (2,472) |
| Actuarial (gain)/losses recognised | 839 | 632 |
| | 8,901 | 11,737 |

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

| | 2011 | 2010 |
|---|---|---|
| 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 |

| | 2011 | 2010 |
|---|---|---|
| **23. CONTINGENCIES AND COMMITMENTS** | (Rupees in '000) | |
| Contingencies | | |
| Guarantees to the banks against lending to Microfinance institutions as given in note 10 | 1,445,000 | 600,000 |
| Commitments | | |
| Aggregate commitments under Financing Agreements with | | |
| Partner Orgnisations for; | | |
| Loans | 4,426,701 | 9,701,857 |
| Grants | | |
| Community physical infrastructure | 1,157,356 | 762,207 |
| Capacity building | 289,462 | 552,144 |
| Social sector development | 1,511,875 | 901,761 |
| Social mobilization | 211,392 | 515,807 |
| Livelihood enhancement and protection | 293,411 | 667,457 |
| | 3,463,496 | 3,399,376 |
| | 7,890,197 | 13,101,233 |

**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 9.1.

-24-

| | | 2011 | 2010 |
|---|---|---|---|
| **25. INCOME ON INVESTMENTS AND SAVING ACCOUNTS** | | (Rupees in '000) | |
| Profit on long term investments (Pakistan Investment Bonds) | | 103,942 | 104,600 |
| Profit on term deposit receipts/saving accounts | | 918,360 | 722,016 |
| | | 1,022,302 | 826,616 |

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

| | | 2011 | 2010 |
|---|---|---|---|
| **26. OTHER INCOME** | | (Rupees in '000) | |
| Income from training | | 5,033 | 460 |
| Gain on sale of fixed assets | | 3,523 | 340 |
| Markup on loans to employees | | 64 | 27 |
| Others | | 9,740 | 2 |
| | | 18,360 | 829 |
| **27. GENERAL AND ADMINISTRATIVE EXPENSES** | | | |
| Salaries, wages and other benefits | 27.1 | 196,090 | 188,126 |
| Rent | | 29,162 | 27,545 |
| Repairs and maintenance | | 7,054 | 7,063 |
| Traveling, lodging and conveyance | | 40,413 | 58,256 |
| Communication | | 4,676 | 3,336 |
| Printing and stationery | | 3,720 | 6,336 |
| Insurance | | 2,328 | 1,995 |
| Vehicles running and maintenance | | 13,890 | 13,540 |
| Utilities | | 3,982 | 3,272 |
| Legal and professional charges | | 3,405 | 2,988 |
| Auditor's remuneration | 27.3 | 3,805 | 3,407 |
| Advertisement | | 1,317 | 2,877 |
| Media projection | | 1,452 | 2,626 |
| Newspapers, books and periodicals | | 482 | 485 |
| Depreciation | | 26,439 | 25,502 |
| Amortization | | 4,680 | 5,727 |
| Security services | | 2,165 | 1,997 |
| Others | | 3,986 | 3,300 |
| | 27.4 | 349,046 | 358,378 |

27.1 The aggregate amounts charged in respect of remuneration of Chief Executive Officer were as follows:

| | 2011 | 2010 |
|---|---|---|
| Managerial remuneration | 12,175 | 10,974 |
| Other allowances | 60 | 120 |
| | 12,235 | 11,094 |

In addition, the Chief Executive Officer is provided medical insurance, car, accommodation/house rent allowance. Gratuity is payable to the Chief Executive Officer in accordance with the terms of employment. Leave encashment of Rs 2,040 thousand (2010: Rs NIL) was paid to the Chief Executive Officer on separation during the year, in accordance with the Company's policy.

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

-25-

| | 2011 | 2010 |
|---|---|---|
| **27.3 Auditor's remuneration** | (Rupees in '000) | |
| Statutory and projects' audit | 1,265 | 1,150 |
| Audit of POs | 2,195 | 1,996 |
| Tax services | 345 | 261 |
| | 3,805 | 3,407 |

27.4 General and administration expenses include Rs 110,265 thousand (2010: Rs 155,838 thousand) incurred on different programme activities as disclosed in note 19.

| | 2011 | 2010 |
|---|---|---|
| **28. SEMINARS, WORKSHOPS AND TRAININGS** | (Rupees in '000) | |
| Training | 3,401 | 14,667 |
| Seminar and workshops | 21,358 | 16,485 |
| PPAF ten years events | - | 15,840 |
| | 24,759 | 46,992 |

Seminars, workshops and training expenses include Rs 2,734 thousand (2010: Rs 12,069 thousand) incurred on different programme activities as disclosed in note 19.

| | 2011 | 2010 |
|---|---|---|
| **29. CONSULTANCY CHARGES** | (Rupees in '000) | |
| Poverty score card | 285,038 | 118,451 |
| Reconstruction & rehabilitation | - | 9,647 |
| General | 65,902 | 47,860 |
| | 350,940 | 175,958 |

Consultancy charges include Rs 276,583 thousand (2010: Rs 141,308 thousand) incurred on different programme activities as disclosed in note 19.

| | 2011 | 2010 |
|---|---|---|
| **30. PROJECT AND RELIEF ACTIVITIES** | (Rupees in '000) | |
| Flood relief | 193,951 | - |
| National Rural Support Program - School Milk Project | 12,158 | 7,251 |
| Relief for Internally Displaced Persons - USAID grant | 1,799 | 2,000 |
| | 207,908 | 9,251 |
| **31. FINANCIAL CHARGES** | | |
| On long term loans | 107,675 | 73,968 |
| Bank charges | 1,358 | 1,058 |
| | 109,033 | 75,026 |
| **32. TRANSFER FROM ACCUMULATED SURPLUS TO RESERVE FOR GRANT BASED ACTIVITIES** | | |
| Income earned during the period on grant fund investments | 267,237 | 170,303 |
| Less: Expenditure on project and relief activities | | |
| Flood relief | 193,951 | - |
| National Rural Support Program - School Milk Project | 12,158 | 7,251 |
| Relief for Internally Displaced Persons | - | 2,000 |
| | 206,109 | 9,251 |
| | 61,128 | 161,052 |

-26-

## 33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 33.1 Financial assets and liabilities

| | June 30, 2011 | | | June 30, 2010 | | |
|---|---|---|---|---|---|---|
| | Interest Bearing | Non-interest Bearing | Total | Interest Bearing | Non-interest Bearing | Total |
| | | | (Rupees in '000) | | | |
| **Financial Assets:** | | | | | | |
| Maturity upto one year | | | | | | |
| Current maturity of long term investments | 200,000 | | 200,000 | 400,000 | | 400,000 |
| Current maturity of term investments-specific to projects | 1,445,000 | | 1,445,000 | 600,000 | | 600,000 |
| Short term investments-specific to grant fund | 2,221,252 | | 2,221,252 | 1,763,431 | | 1,763,431 |
| Short term investments-others | 4,867,535 | | 4,867,535 | 4,058,342 | | 4,058,342 |
| Current maturity of loans to Partner Organisations | 9,630,919 | | 9,630,919 | 9,807,923 | | 9,807,923 |
| Advances, deposits and other receivables | 6,816 | 4,739 | 11,555 | 3,390 | 4,450 | 7,840 |
| Profit/service charges receivable | | 682,095 | 682,095 | | 410,937 | 410,937 |
| Bank balances - specific to projects | 103,062 | 2,631,826 | 2,734,888 | 210,353 | 4,803,289 | 5,013,642 |
| Cash and bank balances | 21,812 | 9,520 | 31,332 | 21,939 | 26,781 | 48,720 |
| Maturity after one year | | | | | | |
| Long term investments | 800,000 | | 800,000 | 600,000 | | 600,000 |
| Term investments-specific to grant fund | 350,896 | | 350,896 | | | - |
| Long term loans to Partner Organisations | 1,466,675 | | 1,466,675 | 764,158 | | 764,158 |
| | 21,113,967 | 3,328,180 | 24,442,147 | 18,229,536 | 5,245,457 | 23,474,993 |
| **Financial Liabilities:** | | | | | | |
| Maturity upto one year | | | | | | |
| Deferred liabilities - grant fund | | 2,826,743 | 2,826,743 | | 5,040,206 | 5,040,206 |
| Current portion of long term loans | 282,795 | | 282,795 | 109,617 | | 109,617 |
| Service and commitment charges payable | | 37,194 | 37,194 | | 39,211 | 39,211 |
| Accrued and other liabilities | | 95,685 | 95,685 | | 19,772 | 19,772 |
| Maturity after one year but before five years | | | | | | |
| Long term loans | 2,152,906 | | 2,152,906 | 1,952,556 | | 1,952,556 |
| Maturity after five years | | | | | | |
| Long term loans | 11,608,017 | | 11,608,017 | 10,293,716 | | 10,293,716 |
| | 14,043,718 | 2,959,622 | 17,003,340 | 12,355,889 | 5,099,188 | 17,455,077 |
| Off balance sheet items: | | | | | | |
| Commitments | - | 7,890,197 | 7,890,197 | - | 13,101,233 | 13,101,233 |

-27-

**33.2 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 | 2011 Balance Rs in '000 | 2010 Balance Rs in '000 |
|---|---|---|---|---|
| Investments | | | | |
| Counterparties with external credit rating | | | | |
| | JCR-VIS | AAA | 350,896 | - |
| | PACRA | A1+ | 2,227,555 | 2,876,869 |
| | JCR-VIS | A-1+ | 3,249,083 | 1,475,464 |
| | Moody's | P-1 | 826,491 | 869,137 |
| | PACRA | A1 | 18,493 | - |
| | PACRA | A2 | 250,000 | 250,000 |
| | JCR-VIS | A-2 | 1,077,866 | - |
| | JCR-VIS | A-3 | - | 950,303 |
| Securities issued/supported by Government of Pakistan | | - | 1,884,299 | 1,000,000 |
| | | | 9,884,683 | 7,421,773 |
| Bank balances | | | | |
| Counterparties with external credit rating | | | | |
| | PACRA | A1+ | 37,312 | 20,720 |
| | JCR-VIS | A-1+ | 2,696,917 | 4,959,684 |
| | Moody's | P-1 | 181 | 80,646 |
| | PACRA | A1 | - | 44 |
| | Standard & Poors | A-1 | 30,724 | - |
| | PACRA | A2 | - | 10 |
| | JCR-VIS | A-2 | 1,031 | 1,158 |
| | | | - | - |
| Balance with National Saving Centre | | - | 11 | 11 |
| | | | 2,766,176 | 5,062,273 |
| Loans to Partner Organizations | | | | |
| Counterparties without external credit rating | | * | 11,097,594 | 10,572,081 |
| Profit/service charges receivable | | | | |
| Counterparties with external credit rating | | | | |
| | PACRA | A 1+ | 156,583 | 60,833 |
| | JCR-VIS | A-1+ | 132,514 | 29,400 |
| | Moody's | P-1 | 63,411 | 36,708 |
| | PACRA | A2 | 24,890 | 24,812 |
| | JCR-VIS | A-2 | 40,176 | - |
| | JCR-VIS | A-3 | 43,431 | 16,182 |
| Counterparties without external credit rating | | * | 221,090 | 243,002 |
| | | | 682,095 | 410,937 |

* Counterparties with no defaults in the past.

-28-

**33.3 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 12.02 billion (2010: Rs 11.42 billion) (including loans to two major POs of Rs 6.24 billion, 2010: Rs 6.65 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 (2010: US$ 3,878).

**c) Interest rate rist**

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.

**34. NUMBER OF EMPLOYEES**

The Company had 195 employees as at June 30, 2011 (June 30, 2010: 204).

**35. DATE OF AUTHORISATION**

These financial statements have been authorised for issue by the Board of Directors of the Company on 04 AUG 2011.

Chairman

Cheif Executive Officer


ANNUAL REPORTS
2001 - 2010
2001
2002
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