PPAF
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nurturing hope

Pakistan Poverty Alleviation Fund
ANNUAL REPORT 2012

The three words in our emblem - *Ishq, Ilm* and *Amal* - denote passion, knowledge and action.

Core Values

- Poverty reduction and social development
- Environment- friendly development
- Equity and social inclusion
- Transparency
- Accountability
- Team work
- Creativity and responsiveness
- Honesty and integrity

Vision

Restoring hope,
Securing the future,
Ending poverty

Acronyms and Abbreviations

ADB	Asian Development Bank
AJK	Azad Jammu and Kashmir
AKRSP	Agha Khan Rural Support Programme
BISP	Benazir Income Support Programme
BoD	Board of Directors
BOP	Build, Operate, Participate
BRDS	Badin Rural Development Society
C&M	Communication and Media
CCBC	College for Community-Based Change Makers
CECP	Committee Encouraging Corporate Philanthropy
CED	Credit and Enterprise Development
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CIB	Credit Information Bureau
CIG	Common Interest Group
CLF	Community Livelihood Fund
CLTS	Community-Led Total Sanitation
CNIC	Computerised National Identity Card
CO	Community Organization
CPI	Community Physical Infrastructure
CRM	Corporate Relations Management
CSR	Corporate Social Responsibility
CWD	Children with Disabilities
DAC	Development Assistance Committee
DECRG	Development Economics Research Group
DFID	Department for International Development
DMPP	Drought Mitigation and Preparedness Programme
DWSS	Drinking Water Supply Scheme
ECI	Empowerment through Creative Integration
EIDM	Energy, Infrastructure and Disaster Management
EIU	Economist Intelligence Unit
EPS	Environmental Protection Society
ERRA	Earthquake Reconstruction and Rehabilitation Authority
ESA	Environmental and Social Audit
ESM	Environment and Social Management
ESMG	Environmental and Social Management Group
ESMU	Environment and Social Management Unit
F&A	Finance and Accounts
FANA	Federally Administered Northern Areas
FATA	Federally Administered Tribal Area
FBR	Federal Board of Revenue
FDO	Farmers' Development Organisation
FFCL	Fauji Fertiliser Company Ltd.
FMR	Financial Monitoring Report
FR	Frontier Region

FSG	Financial Services Group
GB	Gilgit-Baltistan
GH	Group Head
GIK	Ghulam Ishaq Khan Institute of Technology
GoP	Government of Pakistan
HBL	Habib Bank Limited
H&E	Health and Education
HEC	Higher Education Commission
HMC	Health Management Committee
HR	Human Resource
IA	Internal Audit
ICT	Information Communication Technology
ID	Institutional Development
IFAD	International Fund for Agricultural Development
IIUP	Integrated Infrastructure Upgrading Project
ILO	International Labour Organisation
IRDP	Integrated Rural Development Programme
IWEI	Integrated Water-Efficient Irrigation
IWMI	International Water Management Institute
KP	Khyber Pakhtunkhwa
LACIP	Livelihood Support and Promotion of Small Community Infrastructure Project
LBOD	Left Bank Outfall Drainage
LBR	LBOD backwash region
LEP	Livelihood Enhancement and Protection (programme)
MER	Monitoring, Evaluation and Research
MFB	Microfinance Bank
MFI	Microfinance Institution
MIED	Mountain Institute of Educational Development
MIOP	Microfinance Innovation and Outreach Programme
MIS	Management Information Systems
MoU	Memorandum of Understanding
MPMU	Microfinance Portfolio Management Unit
NBP	National Bank of Pakistan
NDMA	National Disaster Management Authority
NDP	National Drainage Programme
NGO	Non-Government Organization
NRSP	National Rural Support Programme
ODF	Open Defecation Free
OECD	Organisation for Economic Cooperation and Development
PIM	Pakistan Institute of Management
PKR	Pakistan Rupee
PMN	Pakistan Microfinance Network
PO	Partner Organization
PPAF	Pakistan Poverty Alleviation Fund
PRISM	Programme for Increasing Sustainable Microfinance

PSC	Poverty Scorecard
PTA	Parent Teacher Association
PTV	Pakistan Television
PWD	Persons with Disabilities
PWR	Poverty Wealth Ranking
QPR	Quarterly Progress Report
R&R	Rehabilitation and Reconstruction
RCDS	Rural Community Development Society
RIMS	Results and Impact Monitoring System
SBP	State Bank of Pakistan
SCAD	Sindh Coastal Areas Development
SDPI	Sustainable Development Policy Institute
SDU	Sector Development Unit
SEC	Socio Engineering Consultants
SECP	Securities and Exchange Commission of Pakistan
SGH	Senior Group Head
SI	Special Initiatives
SIP	Summer Internship Programme
SMC	School Management Committee
SO	Social Organiser
SOP	Standard Operating Procedures
SOPM	Standard Operating Procedures Manual
SPDC	Social Policy and Development Centre
SRD	Sustainable Rural Development
SWWS	Support with Working Solutions
TIP	Technological Innovations Project
TUP	Targeting Ultra Poor
TUSDEC	Technology Upgradation and Skill Development Company
UBL	United Bank Ltd.
UC	Union Council
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USD	United States Dollar
VIP	Visually Impaired Person
VMA	Voucher Management Agency
VO	Village Organisation
WAPDA	Water and Power Development Authority
WECC	Water, Energy and Climate Change
WH	Waseela-e-Haq
WHO	World Health Organisation
WMC	Water Management Centre
WSP	Water and Sanitation Programme
WWF	World Wide Fund for Nature

Ahead

Year in Review

The year 2012 witnessed a fundamental paradigm shift at PPAF, making a graduated transition from a focus on scale to a focus on depth and intensity of presence. Implementation of the Comprehensive Results Framework, delineated in the year 2011, commenced during the year. This framework adopts a model neutral, non-prescriptive but value led approach, optimizing allocation of resources, maximizing outcomes at the grassroots through increased focus on quality and inclusion, through progressive integration of core lines of business.

International experience demonstrates that development is not merely about brick and mortar or service delivery, nor even about funding and resources, important as they are at one level. Development at a more fundamental level is about choice and change.

If such a transformation is to be catalyzed by PPAF, it must be grounded in identity and self-worth of the end users – the disadvantaged and marginalized – who are the ultimate client of PPAF. It is therefore critical that our strategy and operations are compatible with this imperative. In year 2012, a conscious effort was made to put the poor in the driving seat through realigning the work of institutions *for* the poor (our partner organizations) to catalyze institutions *of* the poor (our communities). We are already seeing initial evidence where the poor, through meaningful inclusion and empowerment, are more intrinsically engaged in setting their own development agenda.

In line with our emphasis on depth of outreach, there is explicit recognition of the spatial dimension of poverty and in year 2012, PPAF shifted gear to focus on the least developed areas and regions of the country so that they have the first claim on our resources. Prioritization of these areas was determined by using objectively determined parameters, which take into account human development, food security and national priorities.

Innovation and localization of measurement are critical to finding new and effective ways to deliver goods and services to the local health facility, the girl's classroom or the marginal farmer that needs them. We are measuring our outcomes through local tracking of the Millennium Development Goals. The idea, over the long term, is to hold our partners and ourselves accountable to results and impact.

At the highest level, PPAF has endeavored to remain fully aligned with the broader national macro-economic and development framework of the Government of Pakistan, and at the lowest level address development needs of the Union Council – the lowest tier of administration in the country - which is also PPAF's basic level of intervention.

In terms of addressing PPAF's poverty reduction mandate, inclusion also means convening relationships, which cut across traditional sectorial boundaries. It means proactive facilitation and joint venturing of partnerships with the private sector, academic and research institutions and availing of state of the art technology and communication platforms. In doing so, the objective is to capitalize on comparative advantage and specialized expertise. Our systemic approach to outcomes and impact focuses on entering into relationships between organizations that reinforce and add value to shared objectives.

In terms of programming, the momentum of operations was sustained in a challenging environment. Total disbursement grew from just under Rs. 16,000 million in 2011 to almost Rs. 20,000 million in 2012 (YoY: 26% growth). Lending for microcredit increased from Rs. 11,000 million to over Rs. 13,000 million (YoY: 20% growth), with 100% recovery rate and 62% women borrowers. Grant operations posted a year on year increase of 39% to stand at

Rs. 6,600 million. More significantly, funding for relief, rehabilitation, and reconstruction in disaster affected areas, doubled over the preceding year and crossed the Rs. 1,000 million mark.

PPAF has been particularly fortunate to benefit from the extraordinary facilitation, support and autonomy extended to it by the Government of Pakistan.

In the same vein we have enjoyed the trust and confidence of our financing partners – the World Bank (IDA), International Fund for Agricultural Development (IFAD), and Government of the Federal Republic of Germany (through KfW). We are grateful for their constructive engagement and proactive support.

The management team and staff of PPAF has been a major strength of the institution. Their sense of ownership and dedication to work has contributed, in no small measure, to performance achieved during the year.

Most importantly, it is the ordinary people and communities leaving in the face of hardship and adversity, that PPAF is particularly privileged to serve. Their courage and spirit inspires us and reinforces our belief in the future of Pakistan.

Hussain Dawood
Chairman

Qazi Azmat Isa
Chief Executive Officer

Financial Services

Lending and Sector Development

The challenge facing the Pakistan Poverty Alleviation Fund (PPAF) at its genesis in 2000 was developing Pakistan's microfinance sector - to introduce this facility to tens of hundreds rural households where people struggle to find a reasonable living. A handful of microfinance practitioners (MFPs) catering to only 60,000 clients posed a formidable challenge for PPAF right from the outset. Relentless capacity building, ample funding for on-lending, support for new products and a robust monitoring system put in by stakeholders saw the sector transform into an innovative and fast-growing industry in less than a decade. The Economist Intelligence Unit's (EIU) “Global Microscope on the Microfinance Business Environment 2011” report ranks Pakistan at number one in the world for regulatory frameworks and practices, and number three globally for overall microfinance business environment. In fact, Pakistan is one of the few countries in the world that has a separate legal and regulatory framework for microfinance banks (MFBs) and key stakeholders have been successful in ensuring a progressive environment for the sector. The PPAF created a market for microfinance and played the role of last resort-lender, standing by its partners, be it during the floods in 2010–11 or the earthquake in 2005.

The potential market for microfinance is estimated at 20–30 million clients. The critical investments made by PPAF and other stakeholders have led to a market today of 2.2 million loan clients, 3.9 million savers, and 2.6 million insurance policyholders with a dynamic institutional structure set for high growth. The PPAF's position, which is subject to multi-faceted growth in the market, has also seen a gradual shift. It has been successful in crowding-in financing for the sector through its credit enhancement facility under the Programme for Increasing Sustainable Microfinance (PRISM) which has opened new avenues of on-lending funds for the microfinance sector through structured transactions from the capital market and commercial banks. The PPAF has simultaneously diversified its risk by reducing portfolio concentration with 15 institutions accounting for 90% of the total portfolio, down from three a decade ago.

In keeping with the dynamism of the sector, microfinance institutions (MFIs) have successfully remodelled their approach to microfinance. Numerous MFIs have transitioned from microcredit to microfinance with value addition to services, modified business models, heightened customer awareness, individual assessments and the use of the microfinance-exclusive Credit Information Bureau (CIB) to assess borrower creditworthiness. Similarly, organisations are developing customised financial products that will allow their borrowers to deal effectively with economic, political, and external vulnerabilities and natural calamities. As a result, MFPs have started moving from group-based lending to individual lending as evidenced by the growth in individual active borrowers during 2006–2011.

In harmony with the market-wide transition from group-based to individual lending, PPAF's Partner Organisations (POs) are also gradually increasing average loan sizes, although inflation and clients' higher capital requirements are major contributors as well. Consequently, POs' average loan sizes rose from PKR 13,627 in FY 2007 to PKR 20,342 in FY 2012.

1. Annual Review

1.1 Disbursements

The PPAF accounted for 45% of the total microcredit gross loan portfolio in Pakistan as of 30 June, 2012. Since its inception, it has made cumulative disbursements to the tune of PKR 66.9 billion. A total of PKR 15.3 billion was disbursed for on-lending to 48 POs in the current fiscal year alone.

The PPAF started funding MFBs in FY 2010 through collaboration with Khushhali Bank Ltd. in order to make its services available to more people in terms of geographic spread and number. It forged similar partnerships with Tameer Microfinance Bank and the National Rural Support Programme (NRSP) Microfinance Bank in FY 2012.

Women empowerment lies at the heart of all PPAF's efforts. In order to ensure that its efforts are relevant and inclusive, PPAF puts special emphasis on providing consistent support to women borrowers and encourages its POs

to introduce specialised assistance programmes and services. Today, loans to women stand at 54% of PPAF's cumulative disbursements compared with 36% in FY 2005. This emphasis on providing income generating opportunities to women is apparent from the fact that 73% of all loans during the reporting year were extended to women clients.

The PPAF has made efforts to make its approach more inclusive in terms of gender, region and sector. This includes designing specialised products and services, expanding outreach and coverage while maintaining and improving the quality of assistance provided to beneficiaries in earning their livelihoods and improving the quality of their lives. It is noteworthy that while 73% of PPAF microfinance loans are extended to rural clients, its urban portfolio has witnessed a steady increase and stood at 27% of total loans in FY 2012 (up from 21% during FY 2011). Growth in PPAF's urban portfolio has simultaneously increased the share of its loans in small enterprises and commerce, accounting for 37% of cumulative loan disbursements. Agriculture accounts for 35%, livestock for 16% handicraft, light manufacturing and services for 11%.

1.2 Products

The PPAF introduced special incentives during the reporting year to improve its outreach and coverage in the least developed segments of society and districts. At the same time, it introduced collateral-free clean lending facilities in order to customise credit lines for MFBs.

The ever-growing demand for on-lending funds has made PPAF realise that its credit pool needs enhancement in order to cater to the needs of its current and intended beneficiaries. The PPAF has had a successful experience with the credit enhancement facility under PRISM, which was seen as a viable means of leveraging on-lending funds. Cognizant of this, the Board of Directors (BoD) has authorised the placement of guarantees to secure lines of credit for POs from commercial banks. The PPAF has also introduced a grace period of up to one year for its mature partners in order to provide liquidity to POs and improve outreach.

Loan products to finance clean alternative energy technologies—biogas, solar energy—were made available to clients for the first time in Pakistan; pilot projects have been initiated in Chakwal and Soon Valley. Support under the Microfinance Innovation and Outreach Programme (MIOP) was provided to five POs in order to leverage advancements in the telecommunication sector and the regulatory framework for branchless banking. These POs initiated pilot projects in collaboration with United Bank Ltd.'s “Omni' and Tameer-Telenor's “Easy Paisa” initiatives. The ventures proved successful and POs scaled them up; more than 100,000 clients make transactions and monthly transfers now exceed PKR 200 million.

The PPAF believes good governance is imperative for building credible and effective institutions. In this regard, a series of trainings on codes of corporate governance emphasizing MFPs were arranged for PO board members. They focused on strengthening governance structures, enhancing knowledge of roles and responsibilities and improving transparency at all levels. Investments to build strong, transparent, efficient and sustainable MFPs continued during the year. Funds were made available for developing business plans, standard operating procedures (SOPs), manuals, institutional assessment, risk management procedures, management information systems (MIS) and arranging international exposure visits for POs. The PPAF further strengthened the microfinance infrastructure by providing support for 55 new branches during the reporting year. These investments in institutional building and strengthening have ensured that partnerships with PPAF symbolise quality. The PPAF's support has resulted in improved financial stability enabling POs to draw commercial financing from sources other than PPAF as well. POs have raised PKR 3.8 billion from commercial banks.

1.3 Equity Funding

The PPAF has been providing support to institutions that showed potential for growth and, consequently, these institutions are now experiencing steady growth and are ready to achieve scale. The PPAF achieved this target by increasing funds for on-lending, grants for deployment of infrastructure and equity injections to strengthen capital structures. A total of PKR 305 million was provided to 16 institutions during FY 2012. The provision of equity allowed POs to increase the borrower base and ensure that equitable products are provided to poorer segments. An additional PKR 530 million has been earmarked for small and medium POs for FY 2013.

1.4 Strategic Partnerships

The PPAF strengthened its partnerships with the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Microfinance Network (PMN) in FY 2012. The PPAF has been instrumental in providing platforms through its POs to carry out prototypes in five districts as part of the steering committee for the National Financial Literacy Programme. These prototypes will promote financial literacy amongst low-income segments of society thereby building a cadre of informed clientele for the financial sector. These interventions are designed to build up MFP staff capacity and finalise materials on budgeting, business planning, savings, branchless banking and loan management. The programme will be carried out on a national scale during FY 2013. Collaboration with the SBP continued throughout the year to build a policy and regulatory environment that promotes

PPAF supported institutions that showed potential for growth and they are now ready to achieve scale.

Cumulative disbursements of PKR 3.8 billion have been made under the credit enhancement facility through 17 transactions.

growth, stability and transparency among practitioners. At the same time it adds value to the lives of the target communities through inclusive and holistic financial services.

Client protection, knowledge management and the launch of the MF-CIB, inter alia, have been the focus of collaboration between PPAF and PMN during the last twelve months. Both institutions—and other stakeholders—have represented Pakistan at various seminars, published reports and successfully built an internationally recognised business environment.

1.5 Programmes

The PPAF's services and efforts were channelled through four financing windows, PPAF-III (World Bank [WB]), PPAF-Reflows, the International Fund for Agricultural Development (IFAD)-supported PRISM and the MIOP.

The objective of funding under the third phase of the PPAF-WB partnership was to improve access of the poor to microfinance opportunities in 37 districts to enhance their capacities, productivity and returns from livelihood initiatives. The funds available for on-lending have been successfully utilised. As of 30 June, 2012, the entire allocated amount for on-lending has been committed for subsequent disbursement to POs. Grants under this component have been used to establish and support 139 branches thereby creating infrastructure to cater to 200,000 new clients in deprived districts.

The PPAF and IFAD launched PRISM in June 2008. It was designed to expand the role of microfinance in Pakistan, bridge the gap between MFPs and capital markets, build strong institutions through equity injections and provide technical support to POs. The PPAF has been successful in engaging six commercial banks since the beginning of the programme. Cumulative disbursements of PKR 3.8 billion have been made under the credit enhancement facility through 17 transactions. Equity amounting to PKR 265 million has been injected into five institutions with another PKR 530 million earmarked for the next financial year. Adequate funds were made available for the capacity building of individuals and institutions alike, in terms of institutional assessments, creation of stronger legal and corporate structures, knowledge management, product development and other activities.

The MIOP comprised three investment components which proved helpful in developing new financial products and delivery mechanisms in POs. The programme was completed successfully in September 2011. In the final analysis, IFAD found the achievements of the programme satisfactory and the programme completion review team also commended its successful implementation. The MIOP pioneered a structural change in the microfinance sector and provided MFPs an opportunity to move from traditional to more inclusive, customised need-based products. The Programme introduced 25 innovative products and delivery mechanisms including value chains, village banking, branchless banking and business revival loans in flood-affected areas. Sixteen products have been scaled-up and one introduced under the Programme, “Women's Cooperative Livestock Farming”, received international acclaim by winning IFAD's 2010 Innovation Marketplace award.

Twenty-one young POs and two linkage POs were supported under the Young Partner Programme. Twelve of these graduated to PPAF's regular programmes. Likewise, PPAF continued to provide support for its POs' institutional development through improved strategic planning, surveys and research for product development, partnerships with key stakeholders, and equity injections of PKR 40 million to 11 institutions.

1.6 Organisational Restructuring

Being ever vigilant and responsive to the evolving needs of microfinance practitioners and clients, PPAF acted proactively and restructured the former Credit and Enterprise Development (CED) Unit responsible for microfinance operations into the Financial Services Group (FSG) during the year. Two units have been set up under FSG: the Microfinance Portfolio Management Unit (MPMU) and the Sector Development Unit (SDU). The MPMU was established to supervise microfinance portfolios and build institutional capacity while the SDU's purpose was to foster holistic microfinance and develop value-added services. Tailor-made layered products for credit, savings and insurance are also being launched. The focus, invariably, remains on improving productivity and income at the client level.

The PPAF has always been sensitive to ever-changing trends in the market and the pressing needs and interests of the people, and has successfully defined the role of a microfinance apex institution.

Almost 12 years of service and vigorous interaction with people and communities has helped gain an understanding that a microfinance apex should contribute to wholesale financial intermediation, institutional building of service providers, product innovation, and ensuring that the core business is adequately managed and protected while keeping the best interests of its intended beneficiaries at heart to prevent sector crises. Accordingly, PPAF has decided to turn the FSG into a new independent specialised vehicle. This decision has been backed by major stakeholders including the World Bank and the State Bank of Pakistan. The decision has been welcomes by POs as well, who see it as a necessary effort in removing bottlenecks from the service mechanism. The process to establish the new entity has been initiated; work on designing corporate, financial and legal structures is scheduled to start next year.

1.7 New Initiatives

As a leader and innovator in the sector, PPAF intends to continue pioneering new products and services. The FSG has started working on key initiatives to improve the quality, outreach and outcomes of microfinance in Pakistan.

In a strategic collaboration with the SECP, PPAF and IFAD have designed index-based crop and livestock insurance products under PRISM to help marginalised and small-income farmers meet their needs. Steps are being taken to introduce weather-indexed crop (wheat and groundnut) insurance and live-weight livestock insurance in Soon Valley and Talagang. These products will be launched as commercially viable and sustainable business models. Sustainable commercial insurance will provide farmers with an effective risk mitigation tool and protection against weather and climate shocks.

After the successful piloting in FY 2012, PPAF is now working on numerous applications of branchless banking to improve transparency, returns, access and sustainability for practitioners and clients. The PPAF intends to leverage branchless banking to provide full banking solutions to the rural poor across the country through non-banking partners. A national seminar on branchless banking was organised by PPAF in Karachi in 2012 to explore possible opportunities and challenges in using technology platforms to accelerate growth and outreach in far-flung areas.

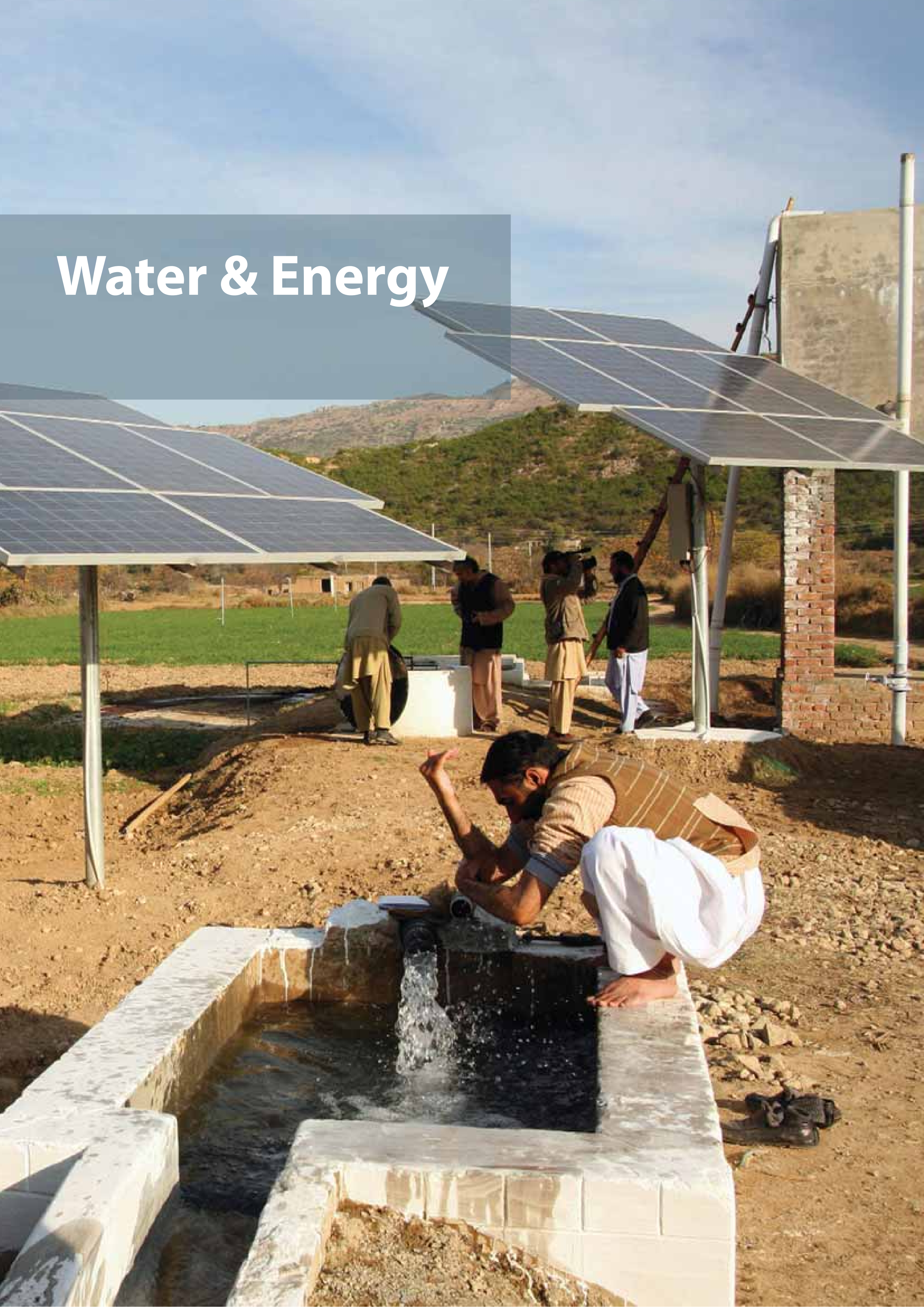
The PPAF has always been mindful of the needs of a diverse client base and their individual requirements in designing its products. Keeping in mind the national power shortage, PPAF is piloting solar and biogas energy products financed through microfinance in order to gauge opportunities, barriers, costs and impacts associated with MFP lending portfolios. These pilot projects will be scaled-up nationally in collaboration with the livelihood and enterprise protection unit, the water and energy unit and other PPAF units.

2. The Way Forward

The microfinance sector in Pakistan has changed drastically in the last few years and is ready for a take-off. Possibilities of collaboration with key sectors of the economy are worth exploring. Political instability, inflation and macroeconomic instability are a few of the challenges faced by financial services providers. However, these problems may also be taken as challenges and ways found to reduce risks. The FSG intends to focus on structured and bundled products, attract new sources of funding and develop new services for the sector by developing and strengthening strategic partnerships with the SBP, PMN, SECP and commercial banks. These partnerships speak volumes of PPAF's resolve to reducing poverty, restoring hope and endeavouring to build a robust microfinance sector and its commitment to catalyze sustainable growth and move the market to the next milestone.

Non Financial Services

Water & Energy



The Water, Energy and Climate Change (WECC) Unit was set up in the backdrop of a dismal water management situation and severe power crisis, particularly in rural and marginalised off-grid communities - a situation which seriously undermines PPAF's efforts in achieving its core agenda, poverty alleviation.

The objective of WECC is to alleviate poverty, reduce vulnerability and improve food security in target communities with a focus on sustainable agricultural development and efficient water management using effective alternative energy sources. The unit works to achieve this objective through integrated water-efficient irrigation systems and agricultural enhancement mechanisms, integrated water resource management—effective management of successive drought cycles and water-related disasters—natural resource conservation, efficient food processing and the effective and efficient use of alternative energy—hydropower, solar power and wind power.

The WECC unit has a policy to support low-income communities on a participatory basis. It provides grants on a cost-sharing basis for the construction or improvement of physical infrastructure assets and for carrying out allied interventions. This unit has successfully worked out a number of programmes to support low-income communities. These include the Integrated Water-Efficient Irrigation (IWEI) project, the Drought Mitigation and Preparedness Programme (DMPP), the Renewable Energy Programme (hydropower, solar power and wind power projects), Second Generation Sustainable Rural Development in DMPP areas and the Sindh Coastal Areas Development (SCAD) programme.

1. Programme Components

1.1 The Integrated Water-Efficient Irrigation (IWEI) programme

Integrated Water-Efficient Irrigation projects are designed for the efficient and optimal use of water and its associated resources through the construction of irrigation-related infrastructure and sound, integrative management. These projects are undertaken targeting poor communities with their active involvement. This programme includes the development of water sources, the conveyance of water from water sources to fields through PVC pipes or lined water courses, and efficient water application in fields, e.g. drip, bubbler and sprinkler irrigation systems.

During the reporting year, 121 IWEI projects have been implemented. These include drip irrigation, sprinkler irrigation systems, lift irrigation, solar pumps and biogas projects in an equal number of villages.

1.2 The Drought Mitigation and Preparedness Programme (DMPP)

Pakistan has experienced severe droughts between 1997 and 2002, which swept 58 districts of Pakistan. The drought adversely affected people living in dry-lands, especially in Baluchistan, Tharparkar (Sindh), Cholistan (southern Punjab) and the arid areas of northern Punjab and southern Khyber Pakhtunkhwa (KPK). The drought damaged the ecosystem in these areas by destroying forests, rangelands and resultantly, valuable livestock. It also adversely affected the agriculture of these areas forcing people to migrate, damaging both the social and natural environment.

A DMPP typically consists of a range of sub-projects, for example delay action/check dam, karez rehabilitation, water-efficient irrigation, flood protection and land reclamation, rangeland management, technological innovative projects and cropping pattern optimisation. The DMPP has increased groundwater recharge for sustained agriculture and livestock development through the construction of delay action/check dams and increases in the culturable command area of off-season crops and orchards. During the reporting period, 349 such sub-projects were implemented including delay action dams, drinking water supply schemes, flood protection works, irrigation and land reclamation projects.

1.3 The Micro hydropower development programme

Rural communities mostly depend upon fuel wood, crop residues and cattle dung to meet their basic energy needs. The significance of small hydropower projects has increased in Gilgit-Baltistan (GB) and Chitral, KPK in the wake of serious food and energy crises and increasing deforestation caused by communities' reliance on nearby forests for fuel wood. This is an on-going programme open to innovations and improvements. Initially conceived only to help households meet their lighting, heating and cooking needs, the Programme is now believed to be ready to include initiatives in water-efficient irrigation and food processing. One such project was implemented during the reporting period.

1.4 Sustainable Rural Development (SRD) in DMPP areas

The activities under second generation interventions implemented parallel to DMPP infrastructure projects entail intensive interventions and are envisioned to substantially improve livelihoods in the wake of droughts, causing significant reduction in poverty and vulnerability in target communities.

A typical second generation intervention project constitutes the following activities and sequentially follows the first generation interventions;

- Interaction with selected DMPP-POs, their task forces and the development of PO-specific implementation plans detailing all proposed activities, timeframes and budget
- The assessment of need and level of interventions for watershed and rangeland management vis-a-vis construction of check dams, reforestation and other protective works
- Capacity development of POs and the dissemination and implementation of water balance monitoring and early warning systems developed by the WECC team
- Motivating POs and the respective task forces to develop model farms with a view to transferring water-efficient technologies to communities
- The development of guidelines and arranging exchange visits between POs and task forces in developing market linkages for the gainful marketing of products prepared/manufactured by communities

- Developing DMPP quantitative and qualitative accounts of targeted achievements

PPAF has initiated a two-year multi-sector programme in the conflict-ridden area of South Waziristan Agency.

The first generation interventions under various DMPPs were on-going during the reporting year. Therefore, the implementation of second generation interventions could not be started.

1.5 Sindh Coastal Areas Development (SCAD) programme

The SCAD programme was initiated in 2006 under the Second Poverty Alleviation Fund (PPAF-II) project of the WB as a vehicle to improve the livelihoods of coastal communities affected by seawater intrusion and the left bank outfall drainage (LBOD) under the National Drainage Programme (NDP). The Programme was designed to address various environment and water management problems in the Sindh coastal areas, in particular, the LBOD Backwash Region (LBR) in the districts of Badin and Thatta. The Programme is an attempt to address and rehabilitate the livelihoods of coastal communities and develop their capacity and resilience.

The SCAD strategic framework comprises the following activities:

- Social mobilisation and formation of multi-tier community institutions
- Physical infrastructure upgrading/development
- Improvement in health and education services
- Livelihood rehabilitation
- Workfare
- Social safety nets and targeting the ultra-poor (TUP)

An unprecedented heavy rainfall caused floods in the area, thwarting the overall progress of the programme during the reporting period. However, the communities involved managed to implement 18 sub-projects during FY 2012, while PPAF's Disaster Preparedness and Management unit carried out intense and impressive relief operations that benefited over 61,000 families.

1.6 The Integrated Rural Development Programme (IRDP)

This programme component involves integrated infrastructure development for area upgrading. It comprises various functionally integrated sub-projects including water supply, sewerage collection and disposal systems, solid waste management and street surfacing. In addition, PPAF has initiated a two-year multi-sector programme in the conflict-ridden area of South Waziristan Agency for institutional development, livelihoods, infrastructure, health, education and disability interventions. The infrastructure component involves rehabilitation or construction of water supplies, flood protection and irrigation projects. As many as 23 such integrated infrastructure projects were implemented during the reporting period.

1.7 Committee Encouraging Corporate Philanthropy (CECP)-funded health and education (H&E) build, operate, and participate (BOP) project

Administered by the Committee Encouraging Corporate Philanthropy (CECP), on behalf of a group of several American corporate giants, this project involved the reconstruction, operation for one year and handing over to a permanent operator of over 16 H&E facilities in the earthquake-struck areas. With a view to ensuring the sustainability of the range and quality of services provided, the WECC—then the water management centre [WMC]—developed an innovative BOP concept to rationalise the continued role of PPAF and its POs in the operation of the facilities built, beyond the first year. The project was successfully completed in 2010. However, some remaining amount (as final settlement) was disbursed to some CECP participating POs during the reporting period.

Table 1: Current and cumulative physical progress

	Current (FY 2012)			Cumulative (2000–2012)		
Programme category	No. of projects	No. of sub-projects	Village coverage	No. of projects	No. of sub-projects	Village coverage
DMPP	8	388	388	41	2,739	2,504
IWEIP	121	325	121	273	783	273
MHDP	1	1	3	55	55	165
SCAD	18	18	18	2,832	2,832	2,746
SGI	-	-	-	73	73	195
IRDP	23	41	33	23	41	33
CECP	-	-	-	16	16	60
Total	**171**	**773**	**563**	**3,313**	**6,539**	**5,976**

DMPP = Drought Mitigation and Preparedness Programme; IWEI = Integrated Water-Efficient Irrigation; SCAD = Sindh Coastal Areas Development; IRDP = Integrated Rural Development Programme; CECP = Committee Encouraging Corporate Philanthropy.

Table 2: Current and cumulative financial progress (million PKR)

	Current (FY 2012)		Cumulative (2000–2012)	
Program Category	Funds allocated	Funds disbursed	Funds allocated	Funds disbursed
DMPP	172	172	1,225	1,225
IWEIP	111	111	405	405
MHDP	74	66	402	394
SCAD	472	36	1,889	1,442
SGI	-	-	52	52
IRDP	41	11	41	11
CECP	9	9	636	636
Total	**879**	**405**	**4,650**	**4,165**

DMPP = Drought Mitigation and Preparedness Programme; IWEI = Integrated Water-Efficient Irrigation; SCAD = Sindh Coastal Areas Development; IRDP = Integrated Rural Development Programme; CECP = Committee Encouraging Corporate Philanthropy.

2. Progress Update as of June 2012

During the reporting year, 773 sub-projects were implemented in 563 new villages and PKR 405 million was disbursed to various POs under different programme components. Table 1 shows programme-wise physical progress and Table 2 shows financial progress for the reporting year and the cumulative progress of the WECC.

3. Other Activities

3.1 World Water Day, 22 March, 2012

Concerned about rapidly depleting natural resources and consequent disasters, PPAF held a panel colloquium coordinated by the Disaster Preparedness & Management Unit and the WECC titled “Management of Water and Water-Related Disasters: The role of PPAF”. It was held on World Water Day, 22 March, 2012. The objectives of the colloquium were to:

1. Disseminate information on water-related disasters;
2. Share PPAF's achievements in addressing these issues;
3. Evolve a mechanism to tackle water-related challenges.

The colloquium provided an opportunity to explore divergent and competing points of view on water resource management. It included panel discussions and presentations by a group of experts who shared informed opinions about the sustainable management of Pakistan's water resources. The following speakers participated;

- Mr. Shams-ul- Mulk, President, Ghulam Ishaq Khan Institute (GIKI) of Engineering Science and Technology (chairman)
- Lt. General (R) Nadeem Ahmed, ex-Chairman National Disaster Management Authority (NDMA) and ex-Deputy Chairman, Earthquake Reconstruction and Rehabilitation Authority (ERRA) (co-chair)
- Mr. Ali Hassan Habib, Director General, World Wide Fund for Nature (WWF)–Pakistan (discussant)
- Mr. Izhar Hunzai, ex-Chief Executive, Agha Khan Rural Support Programme (AKRSP) (presenter/discussant)
- Mr. Amer Zafar Durrani, Senior Infrastructure Specialist, The WB, Islamabad (presenter/discussant)
- Mr. Farhan Sami, Team Leader - Water and Sanitation Programme (WSP), The WB, Islamabad (presenter/discussant)
- Ms. Simi Kamal, Water Sector and Gender Specialist (discussant)
- Mr. Zaffar Pervez Sabri, Group Head, Energy, Infrastructure and Disaster Management (EIDM), PPAF (presenter/moderator)

3.2 Strategy FATA Vision 2020

The strategy FATA: Vision 2020 is a direct response to the instability and poverty of the Federally Administered Tribal Area (FATA). It proposes to build FATA by drawing on the power of local associations, i.e., the jirgas, local assets and endowments, local legal livelihood opportunities and a wide range of actors, by forging effective partnerships. Behind this vision of peaceful, economically vibrant and liveable FATA, the strategy puts institutional development and linkages, inclusion, integration, innovation, investment and intactness of the environment and society at the centre to guide all of PPAF's interventions.

The PPAF's strategy for FATA considers the breakdown of political and administrative systems in FATA, recognises the importance of civic engagement and community camaraderie, values local assets for building the local economy, identifies difficulties in accessing physical infrastructure services and is sensitive to the global concern for peace in the area.

PPAF began its interventions in FATA in July 2011 in South Waziristan. The investment programme covers activities in seven agencies and six frontier regions (FRs) over a period of nine years (including July 2011) from July 2011 to June 2020 - three phases of three years each.

4. Case Studies

4.1 Voices of People in Lawa

Mehr Khan, President, Community Organisation, "Dhoke Ezta Khel-Changa"

A Community Organisation (CO) was formed by National Rural Support Programme (NRSP) in Dhoke Ezta Khel village Changa, Chakwal, Punjab province. The objective of CO formation was to resolve local problems at the community level and help develop the habit of saving. The CO meets on a monthly basis before and after the DMPP project. We have now developed linkages with the line departments to resolve individual and community-level problems. In the same way, we installed a turbine pump to irrigate our fields using katcha water courses. But there was a lot of wastage of water. We irrigated less area at high (diesel) costs which resulted in low crop production. When we consulted with NRSP field staff, we were informed that the DMPP project allowed for pipe irrigation schemes for communities. Our community happily agreed to contribute a 20% share in the total cost of the project. The proposed project was surveyed by a field engineer. The project was approved and a TOP was conducted with the CO and the NRSP. Our community openly declared that the CO would be responsible for the operation and maintenance costs of the project. The project commenced in January 2011 and was completed in May the same year, as per design specifications, benefiting 17 households. We are now irrigating 25 acres of land whereas previously, we could barely irrigate ten acres at the same cost. We contributed about PKR 80,000 to the project. We are very thankful to NRSP and PPAF for their support. We hardly grew wheat prior to this scheme because its per acre yield was not cost effective. With this system, we are able to harvest much more. We are also growing vegetables. The production of vegetables is very good And we are able to produce enough for ourselves and the market. Our children are going to better schools and we have been renovating our houses.

Master M. Khalid, President, Village Organisation (VO), Goohal

Village Goohal in Chakwal in province of Punjab, is situated at the border of district Khushab. Groundwater water is unavailable even at depths of 400 ft; rainwater is the only source of water and it often goes to waste during heavy rains due to the unavailability of mini dams, ponds and land reclamation works.

The PPAF DMPP project was launched here as the Goohal site was considered ideal for the collection of rainwater flowing from nallahs. Rainwater harvesting ponds, mini dams and land reclamation works were constructed under the project to store rainwater. A single crop harvest was possible before the project was implemented. Three crops a year are now possible. Vegetables are also being grown, now—potatoes, tomatoes and onion. Livestock numbers have also increased after the project as animal feed is now available in the months of April, May and June as well.

The impact of DMPP-completed sub-projects on crop production is summarised in Table 3.

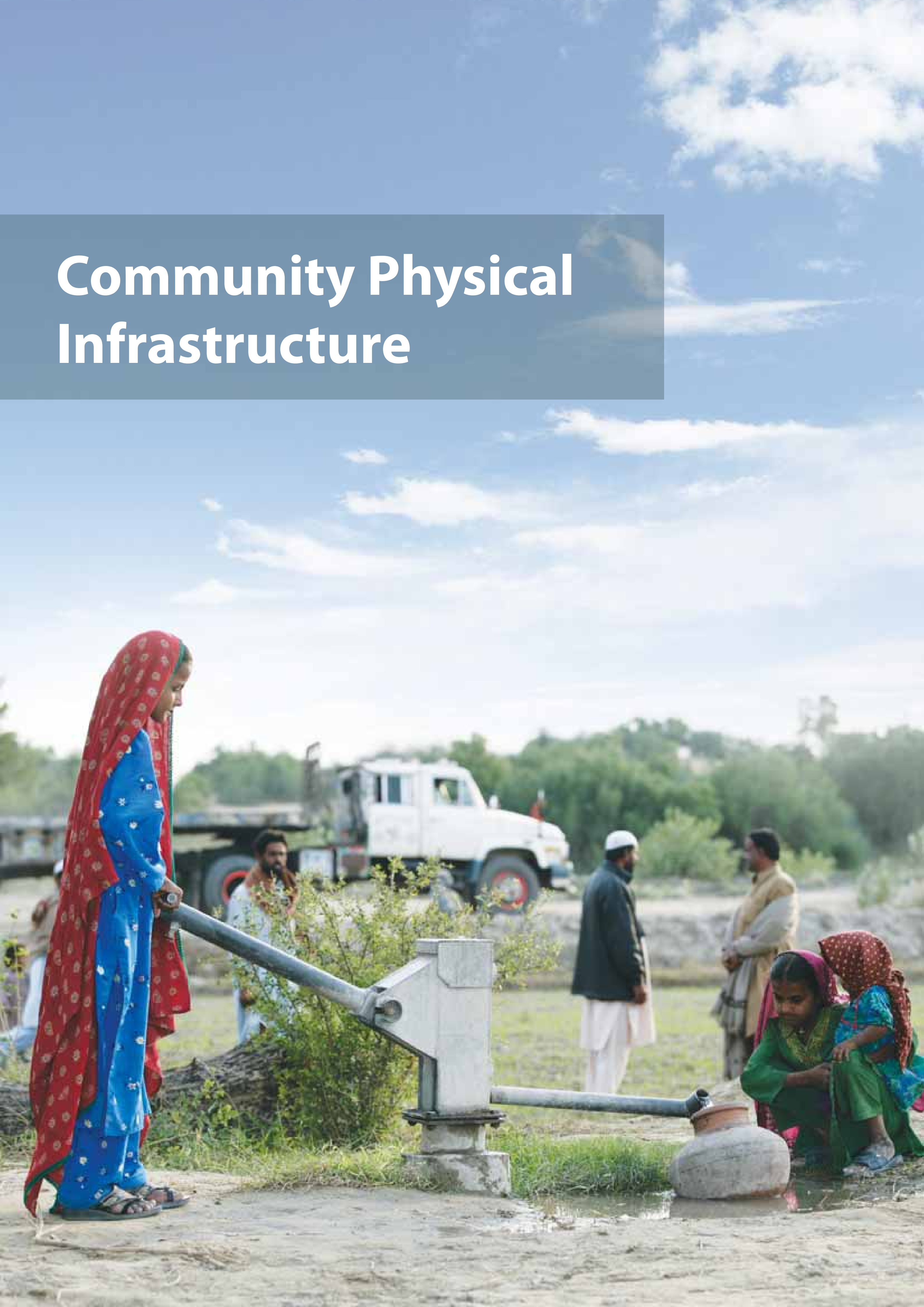
Table 3: Project impact

Before the project		After the project (additional crops)	
Tera Mera	20 kg	Onion	1,000 kg
Wheat	40 kg	Garlic	120 kg
Peanut	45 kg	Green Chili	1200 kg
Annual income	PKR 15,000/-	Annual Income	PKR 15,000/-

This remarkable increase in annual income is due to the DMPP project.

A major recommendation emerging from this project is that such interventions should not be limited to Union Council Lawa, but should be extended to the adjoining UCs like Thoa Mehram Khan and Bhilomar.

Community Physical Infrastructure



The Community Physical Infrastructure Unit is the pivot in PPAF's multi-sectoral approach to defeating poverty. While making development grants for small-scale community infrastructure assets, the unit focuses on schemes that can have an impact on community welfare, productivity and sustainability. Simultaneously, all of the unit's interventions are participatory in design and nature and target grassroots-level problems on merit.

A key factor that makes infrastructure-related schemes more challenging to develop and implement compared to income transfer programmes is their non-excludable nature. However, PPAF's participatory development framework helps overcome this hurdle by mobilizing the poor at the grassroots level and motivating them to own the whole process. Such CPI schemes promote inclusive community development. Community Physical Infrastructure-supported infrastructure interventions are preceded by months of intensive social mobilisation and the subsequent organisation of target groups into COs that have the capacity to work as vibrant development institutions at the grassroots level. Partner organisations facilitate each stage of the development process from project identification to implementation to maintenance.

In addition to the transfer of skills and resources for better implementation and management of infrastructure schemes, the unit places a high premium on project sustainability. This is ensured by building community ownership through a cost-sharing mechanism that includes compulsory community contributions in the shape of finances and/or labour and material inputs towards construction. Project sustainability is further ensured through the compulsory collection of maintenance resources sufficient for bearing one year of such costs, by a project maintenance committee.
In 12 years of efficacious operations, the CPI unit has supported community demands for over 20,599 infrastructure projects through 54 POs in 121 districts, including Azad Jammu and Kashmir (AJK), four agencies in FATA, parts of the Federally Administered Northern Areas (FANA) and Islamabad. Of these, 6,854 infrastructure interventions, including standalone conventional schemes and composite Integrated Infrastructure Upgrading Projects (IIUP), were operationalised under the CPI component of the first WB-financed project (PPAF-I, 2000–04), while another 9,097 schemes have been completed under the WB's PPAF-II project (2004–10). Similarly, 652 and 2,507 infrastructure schemes were completed under the Rehabilitation and Reconstruction (R&R) project (2006–09), and the Social Mobilisation Project (2007–11), respectively.

Another 1,572 schemes have been completed under the WB's PPAF-III project (2009–14). Details are shown in Table 4. The

Table 4: Distribution of infrastructure projects by category

	PPAF-I	PPAF-II	R&R	SM	PPAF-III	Total
Conventional						
Drainage and sanitation	993	2,128	43	539	460	4,163
DWSS	2,831	2,519	502	836	687	7,375
Flood protection works	97	140	0	72	123	432
Irrigation	2,099	2,814	3	634	620	6,170
Roads and bridges	805	1,171	104	353	447	2,880
IIUP						
	1	142	0		7	150
TIP						
	28	183	0	74	39	324
Total						21,494

DWSS = drinking water supply schemes; IIUP = Integrated Infrastructure Upgrading Project; TIP = technological innovations project aforementioned schemes have cumulatively benefitted a population of over 10.36 million poor people in over 24,532 COs throughout the country (Table 5). The average number of beneficiaries per project is higher in Punjab where the population is comparatively more concentrated. At the same time, PPAF target communities on the whole represent larger household sizes in comparison with national averages. This indicates an efficient targeting approach as household size has been shown to be positively correlated with the level of deprivation.

The unit mainly approves resources for infrastructure interventions in the irrigation, sanitation, drinking water supply and communications sectors (Figure 1). Each sector further constitutes a number of sub-categories. For instance, irrigation sector interventions include a variety of schemes focused on the efficient management of water resources ranging from watercourse lining and pipe irrigation projects to irrigation channels and karez rehabilitation. All participating communities are empowered to select the appropriate set of interventions from the above range of options in accordance with their specific needs.

The unit has ensured that an equitable distribution of resources, particularly focused on the most deprived regions, is made while approving funds for demand-driven community infrastructure assets. The geographic distribution of CPI interventions based on priority areas is consistent with the magnitude of regional needs in specific sectors.
These well-targeted resource allocations have proven to bring positive change in the living standards of marginalised communities. About 6,171 irrigation schemes completed to date have helped increase agricultural growth through the efficient management of water resources while diversifying income and employment opportunities for the poor. Similarly, CPI-led interventions in drinking water supply and sanitation have significantly decreased the incidence of mortality and morbidity, thus enabling backward rural communities in far-flung areas to enjoy a much healthier and productive lifestyle.
The unit completed 1,572 new infrastructure schemes in FY 2012, which included DWSS, drainage and sanitation, irrigation, link roads and flood protection works. Similarly, four IIUP projects and 38 technological innovations projects (TIP) were also implemented.
While interventions in the sanitation and irrigation sectors constituted the two largest priority areas during the reporting period, the provision of safe drinking water to poor communities still represents the largest concentration of infrastructure interventions in cumulative terms: DWSS constitute 35% of all CPI

Table 5: Geographic distribution of schemes in provinces, 2000–12

Province	Projects	Beneficiary households	Beneficiary population
AJK	909	44,437	353,202
Balochistan	3,570	149,495	1,141,062
FATA	90	9,468	99,764
GB	601	55,427	433,281
ICT	159	13,392	81,048
KPK	4,374	364,464	2,742,456
Punjab	7,525	586,389	3,962,024
Sindh	4,266	224,557	1,550,389
Total	**21,494**	**1,447,629**	**10,363,227**

AJK = Azad Jammu and Kashmir; FATA Federally Administered Tribal Area; GB = Gilgit-Baltistan.

conventional schemes completed to date, followed by interventions in the irrigation (29%), sanitation (19%) and communications (13%) (Figure 2).

The CPI Unit's interventions are constantly increasing in volume and size, but its primary focus remains on finding cost-efficient and sustainable strategies to meet community needs.

Technological innovation projects have successfully been introduced in 437 communities at a cost of PKR 249.50 million. On average, the communities have borne 18% of total costs.

In addition to standalone conventional schemes, the unit has also introduced the IIUP to implement a larger number of infrastructure schemes at the village level for dealing with multiple deprivations, more effectively. A typical IIUP includes three to six schemes including interventions in drinking water supply and the sanitation, communications and irrigation sectors.
Community demands for PPAF-supported infrastructure schemes have increased over time, prompting the unit to search for additional financing partners. The unit successfully established linkages with the corporate sector during the reporting year to leverage the maximum possible resources for the benefit of under-resourced communities.

A Memorandum of Understanding (MoU) was signed with ENGRO Pakistan for the provision of social sector services, including sanitation facilities on a cost-sharing basis at mutually agreed locations. Subsequently, an agreement was signed to initiate schemes for providing better sanitation in two villages of Sindh. Similarly, MoUs were signed with Shell Pakistan and Unilever Foods for the provision of sanitation, street pavements, housing units and safe drinking water to poor communities at mutually agreed locations.

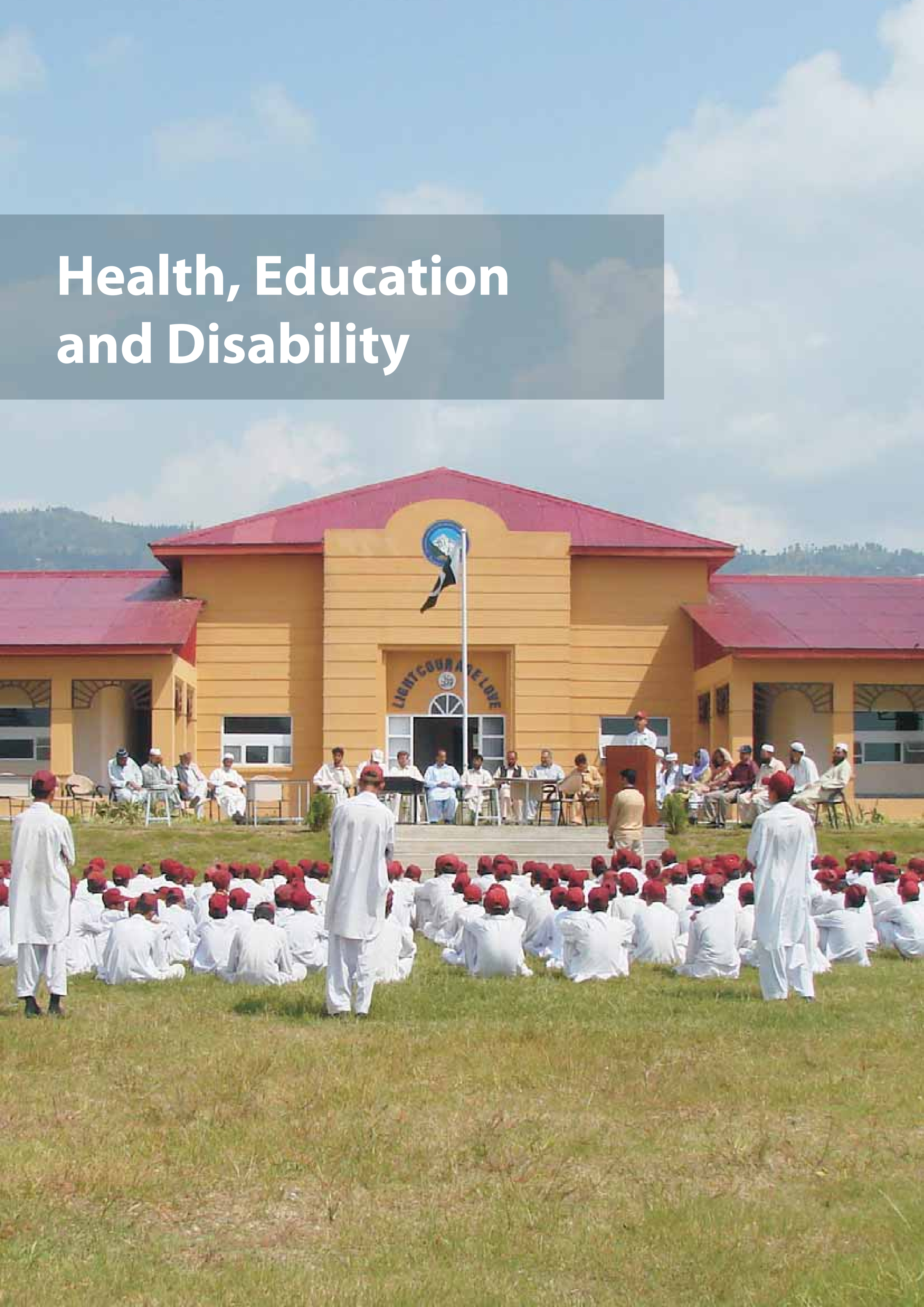
An MoU was signed with Plan Pakistan in the components of community-led total sanitation (CLTS) and open defecation free (ODF) in common interventions areas.

The CPI Unit launched the ODF campaign as a pilot project in collaboration with WSP-WB in six union councils from all of the provinces. The unit also organised a workshop on ODF facilitated by WSP-WB, in which representatives from different POs participated.

The CPI Unit's core objective is to provide quality infrastructure assets in marginalised communities. It continues to assist POs and participating communities in regular supervision of these assets.

The required capacities of POs were duly built up in order to ensure and maintain the quality of infrastructure projects. Wherever field observations indicated the need to further strengthen CPI implementation processes and record keeping practices, the unit has responded promptly and developed the required formats and record keeping guidelines for the POs and Cos. The unit has also conducted a series of workshops to train the POs in the proper implementation of these guidelines.

Health, Education and Disability



1. Education

The education component of the H&E programme is designed to "provide access to quality formal education (up to grade ten) to the children of poor and marginalised rural communities" with added emphasis on female education. PPAF has created benchmarks over time in terms of providing quality education to enable itself to review and further improve service and processes. These include (but are not limited to) hiring qualified and trained teachers/staff, the availability of proper buildings, standardised equipment, furniture and medicines, approved teacher-student ratios, conducive learning environments and bringing good practices from private sector schools of repute.

1.1 The models that PPAF supports

PPAF has chiefly been supporting two models: the establishment of community schools and strengthening government schools. However, a few other models have recently been initiated as prototypes.

a) Community schools

- School buildings (with enough rooms to support grades one through ten)
- One teacher per grade;
- Realistic salary packages for teachers
- School management committees (SMCs), parent teacher associations (PTAs)
- Government-approved syllabi
- Regular teacher training
- Scholarships/partial fee waivers and/or in-kind support for the children of the poor
- School fees based on community's ability to pay
- Maintenance of furniture, uniforms and teaching/learning materials

b) Supporting/strengthening government schools

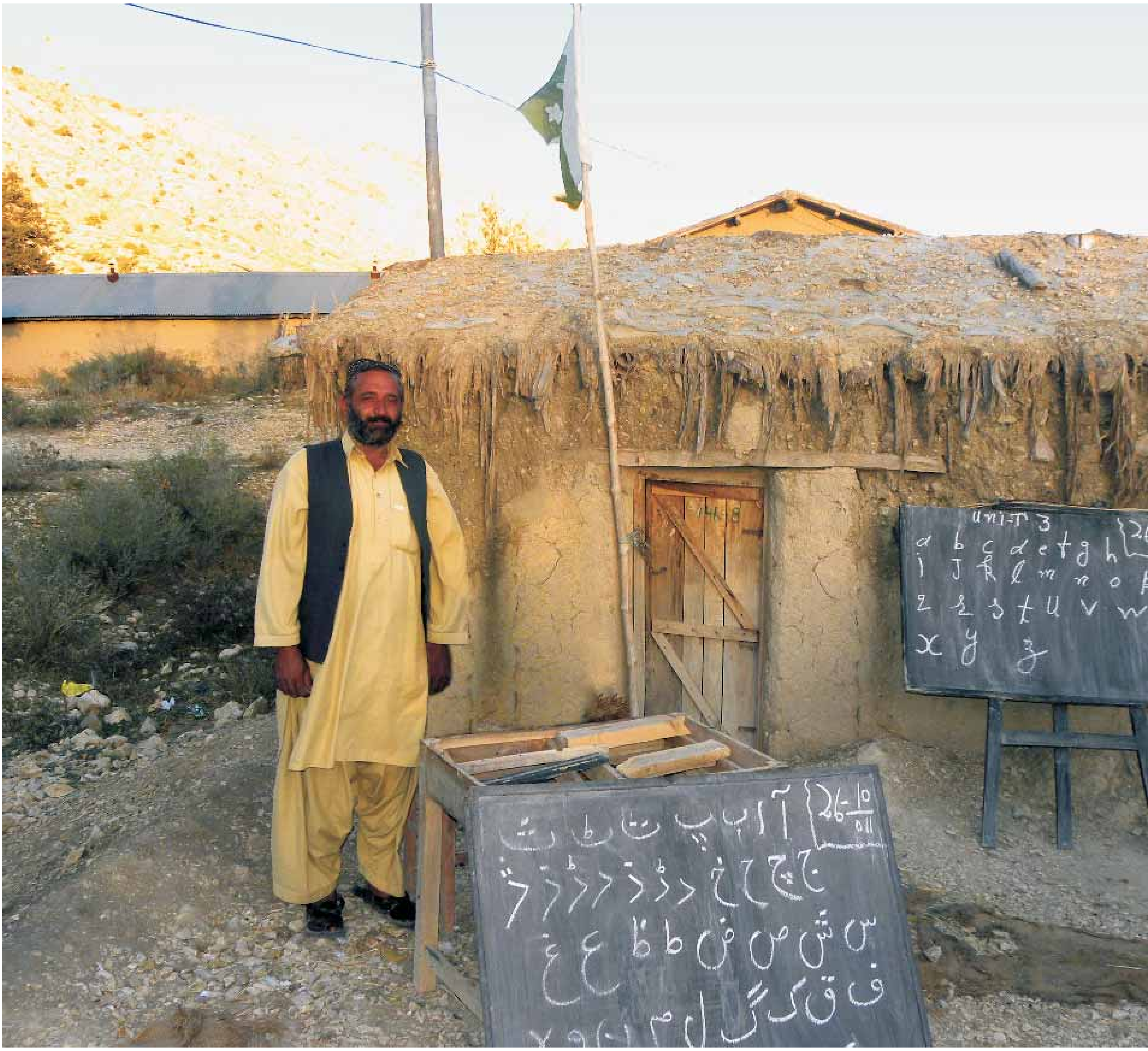
Under this arrangement, PPAF's support may take two forms for an existing government facility;

- Providing missing facilities in existing public sector institutions in terms of physical infrastructure and human resources, wherever required. Teachers on government payrolls are not eligible to receive PPAF funding as salary or remuneration. These teachers are supplemented by PPAF-funded recruitment of additional staff from the private, non-government sector
- Abandoned government schools that have become non-functional, can be adopted. Partner organisations identify such facilities in consultation with their communities. These facilities may be refurbished in terms of absent facilities and teaching staff recruitment

c) Achievements of the unit

- Of 865 schools that were supported, 254 were adopted in the reporting year and the remaining 611 were from previous years
- Some 118,598 students have directly benefitted from these schools, including 52,386 girls. Of these, 28,677 students were from the reporting year and the remaining 89,921 were from previous years
- A total of 3,281 teachers were trained in advanced teaching methodologies, subject teaching, curriculum enrichments, material development, and early childhood education
- Of 865 SMCs, 256 were revived during the reporting year. Overall membership of these SMCs stands at 6,542, including 2,105 female members involved in school management

PPAF has chiefly been supporting two models; establishment of community schools and strengthening government schools.



PPAF has supported establishment and/or strengthening of 399 health centres under this programme.

2. Health

The health component of the H&E programme aims to "provide access to quality basic health services with a special focus on maternal and child health, to poor and marginalised rural communities".

2.1 Achievements of the unit

- PPAF has supported the establishment and/or strengthening of 399 health centres under this programme. Of these, 162 were strengthened in the reporting year and the remaining 237 from previous years are being supported continuously. These health centres are aimed primarily at providing basic health services with a special focus on mother and child health
- Some 2.4 million patients were treated at these health centres in the reporting year alone, including 1.4 million female patients
- Some 1,150 health staff personnel were trained in management and health issues
- Of 399 health management committees (HMCs), 162 were revived during the reporting year. Overall membership of HMCs stands at 2,419, including 826 female members directly involved in health centre management

3. Other Initiatives

A few other models have also been initiated as prototypes by the H&E unit during the reporting period.

3.1 Healthcare financing

The PPAF joined hands during the reporting period with a non-government think tank, Heartfile. The project's intention is to provide health financing to people who cannot afford medical treatment and are in danger of incurring massive debt or foregoing it, altogether. Patients—with a poverty scorecard of less than 23—who run the risk of massive spending on medical treatment or who cannot afford to pay at all, are provided with financial help, thereby protecting them from the risk of medical impoverishment. This collaboration has benefitted 513 patients to date in the priority areas of KPK, FATA and GB. These patients received medical and surgical treatment in tertiary care hospitals in Islamabad.

3.2 Education for visually impaired persons (VIPs)

The PPAF began supporting activities aimed at mainstreaming VIPs into society in July 2011. The Audio World programme (initiated by one of its partners) is a doorstep facility providing recorded textbooks and pleasure listening books on audio cassettes and CDs free-of-cost to VIPs across Pakistan through free registered mail. A total of 124 students (21 boys and 103 girls) are benefitting from this project.

3.3 Maternity care vouchers

This project started in November 2011 and is a financing mechanism meant to subsidise the cost of health services to identified underserved, poor and marginalised pregnant women in their second and third trimesters. The goal is to improve access to, and utilisation of these services. Consumers receive nine vouchers that cover the cost of a full package of services including antenatal care, postnatal care, lab investigations, ultrasounds, delivery by skilled birth attendants and family planning services. Consumers have the choice of deciding where to purchase the services, usually in the public or private sector from programme-approved suppliers. To date, 1,454 health vouchers have been distributed after careful identification of target groups through poverty score card ratings and a voucher management agency (VMA). A total of 967 pregnant women received delivery services from skilled birth attendants.

3.4 Business-oriented solutions for education and health projects

In December 2011, PPAF initiated an innovative capacity building project in partnership with Empowerment through Creative Integration (ECI), to create "change makers" who can drive socio-economic change agendas from within the community and contribute to achieving H&E outcome indicators. Some 30 participants from Ziarat, including three women, have received structured capacity building at the Islamabad-based College for Community-Based Change makers (CCBC) where they learnt to "see" their own problems and create their own solutions. This is a

formal four-semester course spread over a year. The participants have gone through three semesters i.e., bol tujhay kia chahiay, Uth baandh qamar and Kuch karkey dikha. The change makers developed 20 business plans for H&E, had 20 girls admitted at the Allama Iqbal Open University, and developed linkages with the government.

3.5 Baluchistan H&E development forum

During the reporting period, PPAF established an H&E development forum to leverage strengths of various stakeholders working for the provision of healthcare services and education in Baluchistan. The forum is a platform for sharing and developing strategies to ensure that communities in Baluchistan have access to sustainable and improved healthcare and education services. The forum meets quarterly and is attended by health and education secretaries, officials from associated government departments, the PPAF and its POs and international organisations including the World Health Organisation (WHO), Save the Children, Mercy Corps, the commissioner for Afghan refugees and representatives of the print and electronic media.

Representative of different organisations share their work progress and future plans to avoid duplication and explore new avenues for collaborative efforts.

3.6 Telemedicine

PPAF started an innovative project called telemedicine in December 2011. The project model consists of a health clinic that is manned by trained paramedics and equipped with state-of-the-art telemedicine tools and equipment. It is staffed by doctors and health specialists on the hub side. A unique component in this model is the tele-health consulting service which supports the local clinical staff with IP-based videophone consultations with a medical specialist. The telemedicine project has increased the scope of health services to the community in collaboration with the Karachi Dow University of Health Sciences. To date, 4,872 beneficiaries—of which 2,421 are females—have been provided health services by highly qualified consultants through active community involvement.

3.7 Chamalang education programme

The PPAF has provided scholarships to over 3,000 children from district Kohlu through this on-going programme. Children from various districts were enrolled for scholarships under the programme. Financial support in terms of fee, books, uniforms and stationery was provided to children for the continuation of their education in Kohlu's schools.

4. Disability

PPAF initiated its disability project with financial assistance from the WB in light of the disastrous earthquake in 2005 and other natural calamities.

Encouraged by its success, PPAF made the project a component of PPAF-III and launched it nationwide in January 2010.

It began in the districts of Multan, Khairpur, Swabi, Swat, Rawalakot, Mansehra and Karachi. The PPAF designed this programme for the benefit of persons with disabilities (PWDs). A carpet survey to identify such persons and the nature of their disabilities, is in progress in all of the districts. The Disability unit intends to incorporate some new initiatives in this programme such as enterprise development trainings and business incubation.

These initiatives are designed to help enable target persons to establish and run/manage their own businesses successfully, thus giving them opportunities to become active and contributing members of the community.

The PPAF has also made it mandatory for itself and its POs—as per legal requirements—to ensure at least two percent of hired staff are PWDs. This unit intends to lobby for the widespread implementation of this law nationwide in collaboration with DSPs.

4.1 Project Execution

4.1.1Survey

A carpet survey was carried out in 24 union councils across the country to identify PWDs through a specially designed tool (Table 6):

Table. 6: Programme survey details - gender segregated

Sr. No	PO	District	Covered Households	Covered Population	# Persons With Disabilities Identified	Male	Female	Children	% of Persons With Disabilities
1	NRSP	Rawalakot	5,691	29,500	2,618	947	1,215	456	9%
2	FDO	Multan	29,166	154,812	11,209	3,642	5,640	1,927	7%
3	SRSP	Mansehra	12,012	63,012	3,95	1,745	1,256	954	6%
4	EPS	Swat	8,315	65,246	6,339	2,451	2,447	1,441	10%
5	SWWS	Swabi	9,016	56,443	5,379	1,922	2,276	1,181	9%
6	MRDO	Khairpur	74,57	47,419	4,387	2,049	1,628	710	9%
7	HANDS	Karachi	12,281	67,828	6,039	2,026	2,268	1,745	9%
	Grand Total		**83,938**	**484,260**	**39,926**	**14,728**	**16,730**	**8,414**	**8%**

NRSP = National Rural Support Programme; FDO = Farmers' Development Organisation; SRSP = Sarhad Rural Support Programme;
EPS = Environmental Protection Society; SWWS = Support with Working Solutions; MRDO = Marvi Rural Development Organisation.

PPAF has made the disability project a component of PPAF-III and launched it nationwide in January 2010.

Business incubation aims at encouraging entrepreneurial initiatives under taken by persons with disabilities.

4.2 Assessment Camps

Twenty-four assessment camps had been held in 24 union councils in Multan, Rawalakot, Khairpur, Karachi, Swat, Swabi and Mansehra as of April 2012. Technical experts assessed PWDs and designed customised individual rehabilitation plans that included prescriptions for devices and specific trainings. Details are shown in Table 7.

4.3 Distribution of Assistive Devices

Persons with disabilities identified in the assessment camps were given the following assistive devices as per their prescriptions (Table 8).

4.4 Training

4.4.1 Enterprise development training

Enterprise development trainings were given to PWDs who were either recommended for these trainings by technical experts in assessment camps, or were within the age limit of 18–40 years. They were selected following a strict set of criteria followed by enterprise experts (Table 9).

4.4.2 Business incubation

Business incubation aims at encouraging and supporting business initiatives taken by PWDs. This training is planned to provide assistance to small businesses according to the needs of the market (Table 10).

4.4.3 Teachers training

In keeping with the importance of the role of primary school teachers in child development, customised trainings were arranged for primary school teachers to train them in special needs and inclusive education. A total of 501 teachers were trained in six districts across Pakistan. The objective was to sensitise teachers and develop their capacities on two counts;

- Identifing and detecting forms of limitations at early stages
- Develop capacity on how to help and nurture children with mild or moderate disabilities to develop and become productive members of society (Table 11)

4.4.4 Attendantship trainings

The family members of PWDs were trained in attendantship. Attendants (family members) were selected for the concerned attendantship training. According to the nature of the person's disabilities, training modules allowed participants to learn different aspects and skills of attendantship using different methodologies.

The use of visuals proved useful in involving illiterate or semi-literate participants. Lectures, plenary discussions, group discussions, case studies, practical demonstrations, and exercises were the key methodologies adopted in the training (Table 12).

4.5 Social Inclusion

A CO is a group of people resident of an area with common interests and needs and are capable of organizing themselves, identifying and prioritizing their needs (income generation, developmental activities), and addressing those needs on self-help basis.

The CO can also serve to empower PWDs by making them aware of their rights. Inclusion of PWDs in these COs is another important component of the programme.

Children with disabilities (CWDs) were also enrolled in mainstream schools (Table 13).

4.6 Sports Day for Children

Discouraged by their limitations, CWDs rarely find opportunities to discover their talents. Regional-level sports days were organised in order to encourage them and help bring out their potential. Five such events were organised in Swat, Rawalakot, Swabi, Khairpur and Karachi in which 350 CWDs participated.

Table. 7: Details of assessment camps

Sr.No	PO	Distric t	Number of UCs covered	Number of identified PWDs that attended the camps	% of attendance	Number of days of the camps
1	NRSP	Rawalakot	2/2	1,645	66%	15
2	FDO	Multan	6/6	6,711	90%	57
3	SRSP	Mansehra	4/4	3,128	79%	12
4	EPS	Swat	3/3	4,669	73%	28
5	SWWS	Swabi	3/3	3,644	69%	24
6	MRDO	Khairpur	3/3	2,418	54%	20
7	HANDS	Karachi	3/3	3,028	50%	26
	Grand Total		**24/24**	**25,010**	**64%**	**181**

Table. 8: Distribution of assistive devices

S. No	Types of Assistive Devices	Number of Devices Delivered
1	Wheelchairs, CP chairs, and tricycles	1,075
2	Elbow and auxiliary crutches	294
3	Walking sticks, tripods, and frames	506
4	Toilet seats	1,146
5	White canes	121
6	Orthotics and prosthesis	1,267
7	Glasses	7,636
8	Hearing aids	5,737
	Grand Total	**17,782**

Table. 9: District-wise details of enterprise development trainings

Sr.No	PO	District	Number of enterprise development	Number of participants	Male	Female
1	NRSP	Rawalakot	5	143	90	53
2	FDO	Multan	14	187	123	64
3	SRSP	Mansehra	3	180	90	90
4	EPS	Swat	6	174	132	42
5	SWWS	Swabi	3	72	46	26
6	MRDO	Khairpur	3	57	30	27
7	HANDS	Karachi	124	124	54	70
	Grand Total		**158**	**937**	**569**	**368**

Table. 10: Business incubation details

S.No	PO	District	Business incubation	Male	Female
1	NRSP	Rawalakot	135	80	55
2	FDO	Multan	158	103	55
3	SRSP	Mansehra	180	90	90
4	EPS	Swat	99	69	30
5	SWWS	Swabi	52	27	25
6	MRDO	Khairpur	46	22	24
7	HANDS	Karachi	85	46	39
	Grand Total		**755**	**437**	**318**

Table. 11: Details of trainings

S. No	PO	District	Number of teachers trainings	Participants	Male	Female
1	NRSP	Rawalakot	2	70	39	31
2	FDO	Multan	Nil	-	-	-
3	SRSP	Mansehra	2	60	30	30
4	EPS	Swat	3	112	56	56
5	SWWS	Swabi	2	67	35	32
6	MRDO	Khairpur	1	36	32	4
7	HANDS	Karachi	3	156	70	86
	Grand Total		**13**	**501**	**262**	**239**

Table. 12: District-wise details of attendantship trainings

S.No	PO	District	Number of attendantship Trainings	Participants	Male	Female
1	NRSP	Rawalakot	3	117	82	35
2	FDO	Multan	8	248	105	143
3	SRSP	Mansehra	2	90	0	90
4	EPS	Swat	3	145	85	60
5	SWWS	Swabi	3	184	125	59
6	MRDO	Khairpur	3	110	64	46
7	HANDS	Karachi	3	117	37	80
	Grand Total		**25**	**1,011**	**498**	**513**

Table. 13: District-wise details of individuals included in COs and schools

S.No	PO	District	CO membership of PWDs	Male	Female	Enrolment of CWDs in school
1	NRSP	Rawalakot	521	235	286	355
2	FDO	Multan	149	74	75	118
3	SRSP	Mansehra	2441	1404	1037	327
4	EPS	Swat	123	78	45	287
5	SWWS	Swabi	252	139	113	533
6	MRDO	Khairpur	598	318	280	294
7	HANDS	Karachi	87	38	49	100
	Grand Total		**4171**	**2,286**	**1,885**	**2,014**

Institutional Development

The PPAF's experience in social mobilisation and capacity building spans over a decade of reaching out to marginalised and under-resourced communities in the country. This experience finds an expression in PPAF's Institutional Development (ID) unit. This Unit lies at the heart of all operational activities and provides the basis for quality-based, closely monitored, and concerted development efforts. The role of this Unit does not stop at helping people taking the crucial first step towards self-empowerment through self-help; it also supplements this initial effort with capacity building of institutions for, and of the poor. The unit's work relies on learning and linkages development, and promoting sectoral synergies through documented patterns of knowledge.

Recent studies and reports on Pakistan's development process identify lags and gaps attributed to political and social elements and severe economic instability. Poverty has increased and human development indicators have fallen. Not surprisingly, the progress in welfare indicators is both insufficient and asymmetric across different regions of the country. The unit's mandate is community empowerment through a flexible approach which promotes self-reliance according to situational variables. The Unit acts as a bridge between PPAF and its partners—including civil society—in the process towards a more equitable society. Its programmes include partner capacity building with a focus on rural youth.

1. Achievements and major activities

1.1 Checklist formation for community institutions

Social mobilisation and institutional development are the bedrock of all PPAF interventions. Under PPAF-III, this unit has formed 24,190 additional COs with their subsequent organisation into 1,423 higher-order institutions at the village level, and 38 at the UC level. These COs are adequately facilitated and capacitated to manage need-based development initiatives through a transparent, equitable, inclusive, and accountable process of community development. The ID unit has coverage in 51 priority districts and 1,020 UCs.

The unit designed a comprehensive checklist to gauge the quality of community institutions during the reporting year. This checklist covers all of PPAF's core values i.e., governance, transparency, inclusion, and accountability while taking into account the current status of these institutions. The following factors are given respective weightage;

- Household organised
- Bank accounts
- Women inclusion
- Poverty scorecard baseline/assessment
- Village development plan/member development plan

The detailed checklist is shown in Annexure I.

1.2 Analysis of districts

These checklists were used during FY 2012 for all monitoring visits conducted in order to draw the assessment of the POs. The same were used in the subsequent quarterly analysis as well.

1.3 FATA internship programme

The third PPAF-ID's FATA internship programme was held from 20 March, 2012 to 30 September, 2012. The Pakistan Army's help was sought in the identification process, and it helped complete the programme in a timely manner. The six month-long programme offered

The role of Institutional Development Unit is to help build capacity of institutions.

detailed insights into the sector. It focused on developing field-based knowledge and experience for Master's level students who had completed their matriculation from FATA and had a local domicile (Table 14).

1.4 Balochistan internship programme

The Balochistan Internship Programme (Batch I) began on 25 June, 2012. Eighteen interns from different districts of Balochistan participated in the programme.

Table 14: Internship programme details

S. No	Batch	Total interns
1	I	15
2	II	18
3	III	18
	Total	**51**

After successfully completing their one-month classroom training in July 2012, all the interns were attached with different PPAF POs all over the country, for a further five months. The next batch was scheduled to begin in September 2012.

1.5 Summer internship programme

The PPAF summer internship programme (SIP) is a four-week learning-based programme. The basic objective is to identify and assist undergraduate students who exhibit potential and help

them become true development professionals, over time. A batch of 24 interns (eight boys and 16 girls) from various prestigious Pakistani and foreign universities successfully completed their four weeks between July and August 2011.

This learning-based internship programme was focused on community exposure with relation to PPAF's interventions. The first week included an orientation session in Islamabad. It also included a number of other interesting events such as a photography field visit to Saidpur village and an exposure visit to Pakistan Television (PTV) centre, Islamabad. The second and third weeks included visits to diverse field locations in Punjab, Sindh, and Kashmir in order to observe the opportunities, challenges, and possibilities of working for poor communities in Pakistan. The core focus in the field was on credit and enterprise development, institutional development, education, post-earthquake reconstruction and rehabilitation, livelihood enhancement and PPAF's protection interventions.

1.6 Handholding trainings with POs

This unit has initiated a handholding practice to address the capacity issues of small and new partners through orientation trainings. The first handholding training of the series was conducted at Baanhn Beli, Nagarparkar. The primary focus of the event was to facilitate partners towards comprehensive institutional building. The foremost activities included meetings with PO staff and management, a review of relevant documents, strengths, weaknesses, opportunities, threats (SWOT) analysis, meetings with community members, a review of community institution records, an orientation on training guidelines and checklists pertaining to staff and community trainings, and a training needs assessment of the Baanhn Beli team.

1.7 Priority UCs coverage data

The ID unit also collected and formulated data on UC- and district-wise coverage under PPAF-III and shared it with other PPAF units. This data includes the number of districts, UCs, percentage of existing coverage and districts/UCs not covered under PPAF-III until now (Table 15).

Table 15: Summary sheet - PPAF presence in priority districts of Pakistan

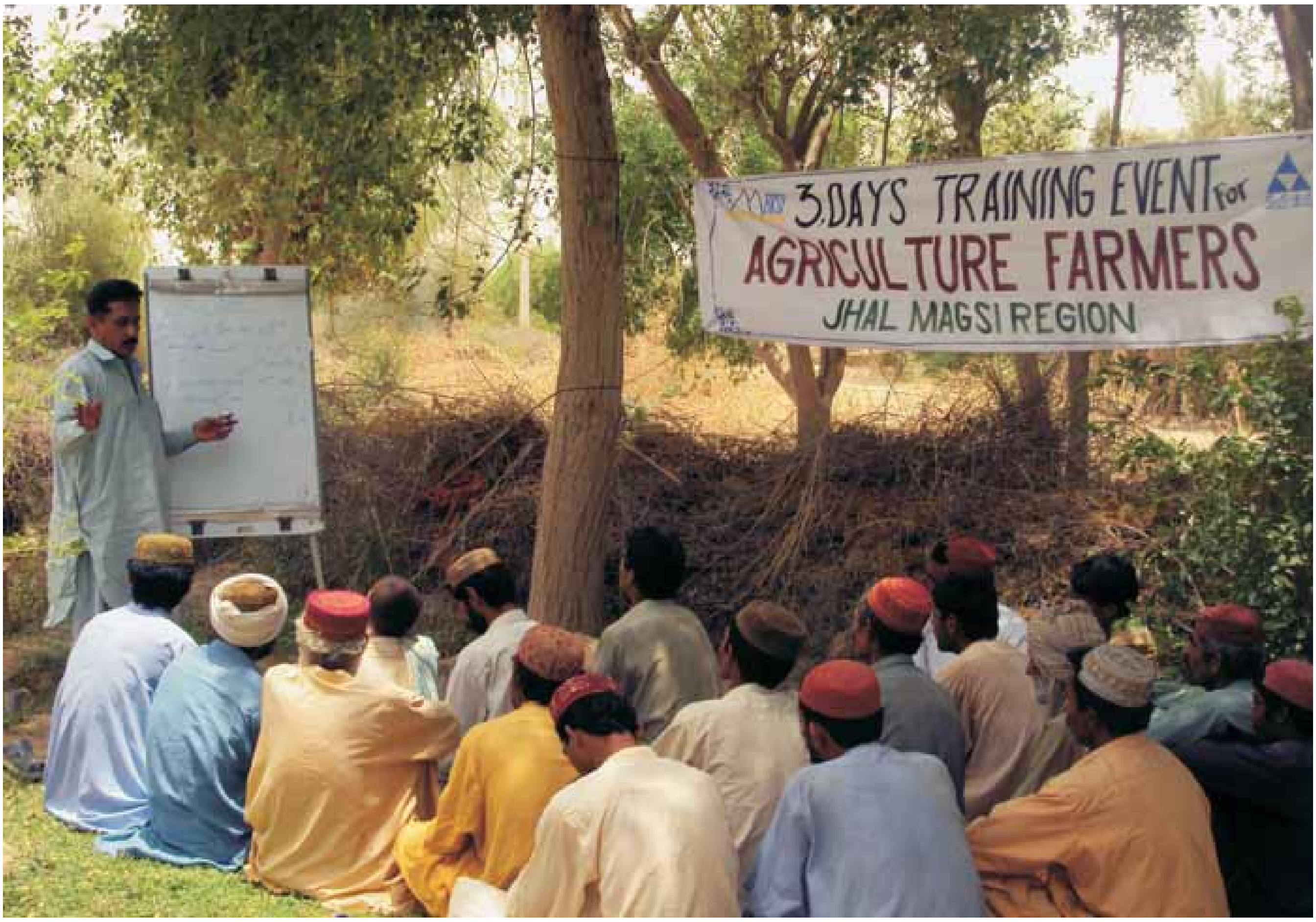
Province	Units	No. of priority	Existing coverage	% coverage	Not covered	ID presence (priority districts)	ID not present (priority districts)
Balochistan	Districts	29	17	59%	12	Awaran, Gwadar, Harnai, Jhal Magsi, Kharan, Kech, Khuzdar Killa Abdullah, Killa Saifullah, Kohlu, Lasbela, Loralai, Musakhel, Panjgur, Pishin, Sibi, Zhob, Ziarat	Barkhan, Bolan, Chagai, Dera Bugti, Jaffarabad, Kalat, Mastung, Nasirabad, Naushki, Sherani, Washuk
	UCs	513	163	32%	350		
*KPK	Districts	16	12	75%	4	Batagram, Bannu, Buner, Chitral, Dera Ismail Khan, Kohistan, Lakki Marwat, Mansehra, Shangla, Swabi, Swat, Upper Dir	Hangu, Lower Dir, Tank, Tor Ghar
	UCs	534	175	33%	359		
Punjab	Districts	12	10	83%	2	Bahawal Nagar, Bahawal Pur, Bhakkar, Dera Ghazi Khan, Khushab, Layyah, Multan, Muzaffargarh, Rajanpur	Rahim Yar Khan, Lodhran
	UCs	978	455	47%	523		
Sindh	Districts	10	6	60%	4	Tharparkar, Badin, Ghotki, Sanghar, Thatta	Dadu, Jacobabad, Kashmore, Umerkot
	UCs	407	154	38%	253		
AJK	Districts	5	0	0%	5		Hattian, Haveli, Kotli, Muzaffarabad, Neelum
	UCs	91	0	0%	91		
*GB	Districts	5	4	80%	1	Astore, Ghizer, Ghanche, Sakardu	Diamir
	UCs	69	41	59%	28		
***FATA**	Districts	13	2	15%	11	Khyber Agency, S. Waziristan Agency	Bajaur Agency, Mohamand Agency, North Waziristan Agency, Kurram Agency, Orakzai Agency, T.A Kohat, T.A Peshawar, T.A Bannu, T.A Dera Ismail Khan, T.A Lakki Marwat, T.A Tank
	Ucs/Villages		32				
Grand Total	**Districts**	**77**	**51**	**66%**	**28**		
	UCs	**2,592**	**1,020**	**39%**	**1,604**		

* Number/names of total UCs are not found in District Torghar (KPK), Diamir (GB). The administration unit for FATA is "village".

1.8 Collaboration for knowledge sharing

Over the years, this unit has developed meaningful collaborations with a number of prestigious institutions in the area of knowledge sharing. Having established PPAF's Knowledge Centre, the unit is working to make it a centre for both paper and electronic-based knowledge dissemination.

PPAF's Knowledge Centre is in constant contact with various regional, national and international institutions. These include institutions from the public sector, the private sector, civil society organisations and academia e.g., the Higher Education Commission (HEC), the Asian Development Bank (ADB), the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP), the International Labour Organisation (ILO), the International Water Management Institute (IWMI), the Social Policy and Development Centre (SPDC), the Sustainable Development Policy Institute (SDPI), the Urban Resource Centre, the Pakistan Institute of Management (PIM), and WWF. Knowledge resource sharing is focused mainly on bibliographic material including books, publications, research studies, content reports, case studies, journals and audio-video material for development specialists and practitioners. The majority of the material is on the development sector covering poverty alleviation, rural development, participatory development, economics, microfinance, livelihoods and employment, education, human resource development and management, infrastructure development, law and legislation, natural resource management and environment, water and sanitation and gender and development. In addition, PPAF's employees' physical and online access to the HEC's library is also ensured.



Responding to Emergencies

The PPAF has invariably been engaged in various segments of the disaster management cycle since its inception. A Disaster Preparedness and Management unit was established in July 2011 in order to put PPAF in a position from where it could respond to multiple types of disasters in a smooth, effective and coherent manner.

The unit's objective is to put necessary community-managed infrastructure, equipment and institutional mechanisms in place so as to: a) mitigate/minimise the impact of a disaster, b) help people better prepared to cope with various disasters in a pre-planned manner and c) in case a disaster occurs, become actively involved in relief, reconstruction, and rehabilitation efforts, in coordination with the government and other stakeholders.

1. The PPAF's Response to 2011 Floods

The floods of 2011 were a testament to the fury of the monsoon rains that lashed much of southern Sindh from August to September. They left 300 people dead, affected six million people, damaging 0.6 million houses and eight million acres of standing crops and left 200,000 people homeless.

The torrential monsoon rainfall which started on 10 August and continued intermittently until the middle of September 2011 in Sindh—particularly Badin district—created havoc. Badin is among the four coastal districts of Sindh which lies in the lowest altitude belt and was declared as the worst-hit district of the province. The flood also caused a number of canals and surface drains to overflow. Various breaches in canals and drains along with the LBOD left hundreds of villages inundated. A large number of people—old people, disabled people, women and children—were displaced and forced to take shelter on roadsides, canal embankments, and nearby government buildings.

PPAF's response to this catastrophe was both instantaneous and adequate through its POs—HANDS, Badin Rural Development Society (BRDS) and NRSP). Sufficient relief activities were supported for flood-affected communities in 14 of the worst-hit UCs of Badin district.

PPAF carried out these relief operations in close coordination with its POs, the speaker of the National Assembly and local district administration. Relief activities commenced in the second half of August 2011 with an overall internal financing of PKR 257.8 million (USD three million), which continued until the end of October 2011.

Immediate dry food provision prevented affected families from starvation. Some 61,000 families were provided with basic food items i.e., flour, rice, pulses, ghee, sugar, tea and chillies. The ration supply was adequate in terms of daily caloric requirements.

The PPAF ensured the provision of hygiene kits which included jerry cans, buckets, water mugs, and soaps. About one million litres of fresh drinking water was supplied to 24,000 families to help prevent waterborne diseases. In addition, PPAF dispensed 625 shelters.

The PPAF ensured the adequate provision of basic health facilities through mobile medical camp services at the doorsteps of people facing cholera, diarrhoea, gastroenteritis, scabies, skin and eye infections, snake bites and gastric ulcers.

It successfully helped people in fighting communicable diseases and reduced their incidence. Special care was taken of pregnant women who were forced to find shelter in camps or open areas, and ensured a constant supply of balanced-diet foods to them.

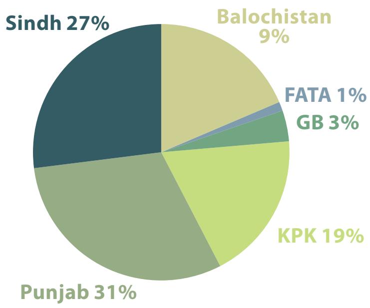
Sufficient relief activities were supported for flood-affected communities in 14 of the worst-hit UCs of Badin district.

Livelihood Enhancement and Protection

The PPAF started the Livelihood Enhancement and Protection (LEP) programme in 2010. It was designed to help develop capacities, opportunities, assets, and individual and community productivity. It was also designed to reduce vulnerability to shocks, improve livelihood initiatives and strengthen people's business operations. This objective is achieved through a community- and market-driven approach where community institutions provide basic infrastructure for the programme.

Major interventions under the livelihood project include graduation of TUP by establishing micro-enterprises, improving bargaining power, and strengthening value chains through the formation of common interest groups (CIGs), enhancing employability through skill development and better linkages, and providing communities with the Community Livelihood Fund (CLF).

Figure 3: Province-wise allocation of the amount committed to POs for the implementation of livelihood projects



Major interventions under the livelihood project include graduation of TUP by establishing micro-enterprises, improving bargaining power and strengthening value chains.

The programme is being implemented in 39 POs in 243 UCs in 44 districts across Pakistan. An amount of PKR 5.10 billion has been earmarked for POs of which PKR 1.2 billion was disbursed in FY 2012 alone.

1. Progress during FY 2012

1.1 Graduation of TUP households through establishment of micro enterprises

A total of 20,687 micro-enterprises were established during the reporting year. They were aimed at graduating TUP to above the poverty line. These enterprises are established on the basis of an extensive needs analysis of target communities and a rapid assessment of livelihood issues and opportunities in relevant Ucs.

Intended beneficiaries are identified using the poverty scorecard survey (PSC) and poverty wealth ranking (PWR). Active community participation in the establishment of these micro-enterprises is ensured by making beneficiaries, particularly women, part of the procurement process, thus empowering them. Women are also encouraged to become owners of enterprises. Resultantly, almost 52% of the asset recipients are women.

The PPAF ensures provision of continuous implementation support and livelihood counselling to beneficiary households for at least a year after the transfer of productive assets for the establishment of enterprises. It conducts graduation surveys at the completion of the programme to realise the impact of the programme on beneficiary households. Success, however, is manifest in the struggle of the beneficiaries to take these initiatives to a higher level.

1.2 Enhancing employability through skill development

The PPAF trained 47,000 persons during the reporting period under LEP.

Livelihood trainings include (but are not limited to) skill and enterprise development training provided to communities in order to enhance their employability. Technical and vocational skill trainings in particular focus on youths from remote areas—both

The LEP works in tandem with its POs and is instrumental in developing PO staff capacities, thus enabling them to ensure the effective implementation of livelihood projects.

illiterate and school dropouts—by equipping them with skills required in the local, national and international market. People are trained in various trades that are carefully chosen after a thorough analysis of market demand, subject to the availability of required training facilities in the vicinity. Participants for such trainings are identified through community institutions. The partners also liaise with the corporate sector to identify skill requirements in the market.

1.3 Enhancing bargaining power of the poor through CIGs

The PPAF has also undertaken an initiative to encourage people to form CIGs around common economic activities. It oversaw the formation of about 1,100 CIGs during the reporting year. These are designed to help increase the bargaining power of the poor, create economies of scale through collective purchases and coordinated marketing, develop linkages with markets and public sector service providers, and reduce vulnerability of the poor through livelihoods diversification. These groups consist of members participating in similar activities from different segments of society. The UC level livelihood plans initiated by LEP provide a basis for decisions about the type of CIGs to be formed around certain economic activities. Specific training manuals are being prepared to build the capacity of CIG members. They include basic CIG concepts—including savings and recordkeeping—marketing, saving, financial management basics and sector-specific trainings like enterprise development, poultry, agriculture and livestock.

Other activities under the CIGs include trainings and savings and productive linkages with markets and institutions.

Basic CIG concepts include savings & recordkeeping, marketing, financial management basics and enterprise development trainings.

2. Enhancing the Capacity of POs Involved in the Implementation of Livelihood Projects

2.1 Orientation workshops for partners

The LEP works in tandem with its POs and is instrumental in developing PO staff capacities, thus enabling them to ensure the effective implementation of livelihood projects in their respective areas. These orientation workshops include sessions on concepts of sustainable livelihood. Various techniques, methods, and formats for data collection and reporting are explained and discussed. The workshops provide partners with a platform where staff can share their field-related concerns and experiences.

2.2 Harnessing a community of practice

The unit organised a three-day experience sharing and networking workshop with the objective of bringing all POs to a single platform where they could share their experiences and learn from one another. The knowledge accumulated and shared provides new implementers with relevant information enabling them to prepare a clear roadmap for themselves.

The workshop was envisaged to help develop linkages between partners and other service providers and derive strategy to work for the mutual cause of poverty alleviation. Another objective was to develop online experience-sharing and a networking platform to enhance project productivity.

Benefitting from technology, the LEP unit also created a Facebook® page for sharing information and activities in the field, especially in difficult areas. The page became an active and participatory tool after the workshop and currently has 67 members and more than 200 posts related to ongoing activities. This initiative proved helpful in developing interaction between partners.

3. The Way Forward

In harmony with PPAF's regional strategies, the LEP unit intends to focus chiefly on the effective implementation of projects signed with POs, deepening support in areas where support has already been provided and increasing outreach in the least developed regions of the country.

Documenting and consolidating learning from the field will be another area of focus. This includes developing case studies and stories from the field. Guidelines will be developed for strengthening and enabling CIGs to play their role in enhancing the bargaining power and productivity of all segments of communities along with TUP.

Grants from the CLF will be provided to cluster groups in communities according to the eligibility criteria for financial support provision to strengthen micro-enterprises and linkages with the market.

The LEP Unit intends to focus chiefly on effective implementation of projects and increasing outreach in the least developed regions of the country.

Special Initiatives

The PPAF's Special Initiatives (SI) Unit is responsible for two main interventions, income support and youth development.

1. Income support

This unit has been involved in implementing the Waseela-e-Haq (WH) component of the Benazir Income Support Programme (BISP) targeted at 18,000 ultra-poor women/households across Pakistan. The BISP is a social safety net mechanism established by the government of Pakistan (GoP) and is aimed at poverty alleviation. It was initiated to hand out cash benefits of PKR 1,000 to underprivileged families worst hit by high inflation (especially of food items) resulting in a reduction of their purchasing power. However, it was observed later that doling out cash benefits can potentially create a dependency syndrome. It was also noted that the system should be such that it helps and encourages women to join mainstream economic activities. Consequently, the WH programme was launched in order to provide women with opportunities to earn on their own and escape the poverty cycle.

The WH programme offers a soft loan of PKR 300,000 to female beneficiaries or a nominee from the same household to establish their own enterprises, thus helping in sustainable poverty reduction and women empowerment.

PPAF partnered with BISP in September 2010 to impart enterprise and skill development trainings to beneficiaries to facilitate and guide them in establishing their businesses. All of these trainings are residential and PPAF is responsible for planning and executing trainings, and training logistics. This partnership was further strengthened with the additional responsibilities of monitoring and facilitation in disbursement assigned to PPAF.

So far, PPAF has successfully trained almost 11,000 WH beneficiaries in seven phases and monitored around 2,000 beneficiaries who started their businesses with the first loan instalment. These trainings have been held all over Pakistan targeting micro-enterprises in demand in each district. Enterprises preferred by beneficiaries include general stores, dairy farming, livestock, cloth shops, tailoring, welding, flour mills and rickshaws. The PPAF has facilitated disbursements of more than 10,000 WH beneficiaries.

2. Youth Development

Young women and men are Pakistan's greatest assets. They bring energy, talent, and creativity, and constitute the foundations for future development. Youth in Pakistan, however, also faces severe challenges and disadvantages in national and international labour markets. Pakistan has become a disaster-prone country in the last decade; natural disasters have been adversely impacting both the economy and public morale.

Approximately 63% of the population (180 million) is below the age of 25 compared to the international average of 48%. This makes the Pakistani population one of the youngest potential workforces in the world. The population's youthfulness presents a significant challenge in creating jobs for approximately two million people entering the workforce each year. This situation presents both opportunities and threats; a young and enthusiastic workforce is a definite edge for any country, but to adjust to create two million jobs is an enormous task.

Young people in much of the developing world are growing up without the opportunities, information and services they

PPAF partnered with BISP in September 2010 to impart enterprise and skill development trainings to beneficiaries to facilitate and guide them in establishing their businesses.

need to reach their full potential. There is mounting evidence to prove that a lack of investment and an indifference to the needs of youth incur a high cost in terms of lost development opportunities, ill health, social, physical and mental disruption, and unrest in the country. Pakistan's rapidly increasing working-age population is largely unskilled and incapable of catering to the needs of national and international markets. This is compounding the decelerating economic growth rate and creating frustration among youth.

Based on the progress and response of the WH/BISP programme, PPAF was assigned another project in March 2012, targeted at 30,000 literate youth in Sindh. This programme has the same pattern as the regular WH programme, except that the audience is aged 18–30 and at least matric qualified. PPAF has so far managed to provide trainings to over 6,700 youth across Sindh. Major enterprises established include groceries stores, dairy farming, livestock, rickshaws, general stores, tailoring shops, mobile phone shops, electric spares, beauty parlours and auto spares.

Based on the importance of engaging youth in a meaningful manner and developing their capacities in an effective way, PPAF has shortlisted the following areas for immediate attention;

- Restoring hope and making youth proud of Pakistan
- Behavioural change
  - to ensure a tolerant society
  - interprovincial/cultural harmony
- Income support
  - life/employability and enterprise development skills
  - technical trainings and developing forward and backward linkages, career counselling, brother-sister mentoring, scholarships
- Raising awareness of health, hygiene, social accountability, and environment
- Liaising with provincial governments in the design and effective implementation of youth policies

Quality Assurance

Monitoring, Evaluation and Research

PPAF is now focused on assessing and identifying its progress at outcome and impact through grant-based and credit interventions.

The Monitoring, Evaluation, and Research (MER) Unit at PPAF is mandated with critically evaluating the impact and progress of PPAF interventions in addition to a regular collection and dissemination of information to all stakeholders. The responsibilities this Unit shoulders include several interactive and mutually supportive management functions.

These functions help PPAF ensure accountability in the use of resources, provide a clear basis for decision-making, and offer practical lessons learnt from experiences in the development of further interventions.

This unit also supports PPAF in formulating focused regional strategies and other useful policies through collating and disseminating results from various researches, assessments, evaluations and reports. In addition, the efforts of MER are focused on improving the relevant capacities of POs in continuous MER programme outputs and outcomes.

The MER Unit collects, consolidates and analyses a reserve of technical, financial and socio-economic data received from POs, third-party evaluators and in-house assessment exercises, regularly and serves as PPAF's main databank. The Unit is also responsible for regular dissemination of information through a series of ongoing and periodic reporting formats including;

- Quarterly progress reports (QPRs)
- Annual report
- Case studies
- Guidance notes
- Knowledge management portal
- Thematic reports
- Baseline reports
- Impact assessment studies

PPAF's approach over the years has seen a steady evolution and is now more focused upon assessing and identifying its progress at the outcome and impact level, through grant-based and credit interventions. The MER Unit has been closely involved in conceptualizing the new Results Framework which allows improved monitoring and evaluation for learning purposes within PPAF and at the PO level.

1. Activities

The Unit conducted a series of three regional workshops during the reporting period for all active POs; one each in Islamabad, Lahore and Karachi. Participating POs were oriented with outcome-based monitoring and data collection as envisaged in the PPAF Results Framework. This unit sees to it that the work it produces is in complete harmony with PPAF's core values - social inclusion, democratic participation, accountability and transparency.

The unit prepared four QPRs and facilitated the preparation of the annual report during the reporting period. It also customised periodic progress reports prepared for specific PPAF programmes, including the third Pakistan Poverty Alleviation Fund (PPAF-III), the MIOP, PRISM and the Livelihood Support and Promotion of Small Community Infrastructure Project (LACI-P).

Smooth functioning and ready availability of an integrated MIS along-with multilayered customised functions to PPAF's requirements, has remained the MER's foremost priority during the reporting year. To achieve this target, the unit developed its scope of work and terms of reference, and engaged a leading consulting firm for the development of an integrated MIS.

The MIS will be a web-based solution that will automate business processes for PPAF's grants and credit components. It contains built-in components for proposal management and project progress reporting, and administers and monitors payments, deliverables, and goal management. It also includes a web portal, a built-in component

The methodology is aligned with criteria for evaluating development assistance that focuses on outcomes instead of impact.

for GIS mapping, workflow management, security and reporting.

The MER Unit has adopted a two-pronged approach in pursuance of internationally accepted evaluation studies aimed at evaluating its partnerships and performance. Its impact evaluation surveys ensure the availability of core baseline quantitative data on important socio-economic indicators, and helps gauge the impact of programme interventions against these indicators. On the other hand, qualitative evaluations use a methodology developed by the Organisation for Economic Cooperation and Development's (OCED) development assistance committee (DAC). The methodology is aligned with criteria for evaluating development assistance that focuses on outcomes instead of impact, particularly when project duration is short and impacts are not expected to emerge during project implementation as is the case in many PPAF programmes.

Corresponding with its mandate, the MER unit prepared four guidance notes for PPAF during the reporting period. These guidance notes covered themes such as participatory monitoring, inclusion of women in disaster planning, management tools for writing quality case studies and responses to issues of child marriage in PPAF-supported communities. The Unit also engaged and supervised various teams of consultants for conducting results and impact monitoring system (RIMS) impact assessment surveys, user/beneficiary assessment surveys, an evaluation of an SRSP partnership and a baseline for social mobilisation impact (A WB research study). The unit also facilitated a research study undertaken in collaboration with the Development Economics Research Group (DECRG), WB. The MER Unit has also provided a follow-up and post-survey support to the BISP by redressing complaints from local and provincial BISP offices.

The MER Unit works to ensure quality control in all of PPAF's designed, envisaged, or assisted interventions. The Unit remains proactively engaged in guiding PPAF towards finding the correct solutions through relevant and verifiable research while providing management with a continuous feed-back loop for informed decision making.

The MER Unit remains proactively engaged in guiding PPAF towards finding the correct solutions through relevant and verifiable research.

Environment and Social Management

Established in July 2011, the Environment and Social Management Unit (ESMU), has a mandate to provide oversight in the implementation of PPAF's environmental and social management framework at all levels including PPAF, its partners, and community institutions. The ESMU is central to the design and implementation of all PPAF interventions and draws upon a coherent policy framework constituting the Environmental Protection Act 1997, WB operational policies on environmental and social safeguards and PPAF's Strategic Focus 2011–2015.

Amongst various other responsibilities, ESMU functions to assess the environmental and social consequences of PPAF's interventions. These operations had previously been taken care of by the Environmental and Social Management Group (ESMG) housed in what used to be PPAF's Water Management Centre.

Now, ESMU is an independent unit offering its best to oversee and ensure compliance with environmental and social management within PPAF and at the PO level, with additional focus on compliance with PPAF's core values of social transformation.

The creation of ESMU as an independent unit speaks volumes of the importance PPAF attaches to environmental and social responsibility as a cross-cutting theme in all interventions it provides support for. The unit has three major functions, namely capacity building of PPAF staff, POs and communities, compliance management, research and assessment.

1. Capacity Building

This unit has designed a comprehensive three-tiered capacity building programme to institutionalise environmental and social management within PPAF, its POs and communities. In this respect, ESMU has conducted three workshops with PPAF staff on the use of the Environment and Social Management Framework (ESMF). Similarly, quarterly planning sessions with PPAF's panel on environmental and social management—constituting representation from all PPAF units—are held to address any issues with the adequacy of the ESMF against PPAF's programme coverage, as well as to explore ways to improve further compliance.

The ESMU has also conducted 14 training and orientation sessions for its POs across Pakistan which are designed to build their capacity to manage their impact on social and natural infrastructure. These workshops successfully trained over 350 participants from 67 POs in the use of the ESMF and reporting requirements.

In addition, the environment and social management (ESM) module has been incorporated by all units in their capacity building workshops and 12 such events arranged by various units have already been conducted over the reporting period. The Unit plans to conduct more detailed thematic workshops in the coming year to go beyond ESM compliance and address issues of environmental significance.

To ensure the efficacy of ESMF compliance, the Unit has set up a network of ESM focal persons to represent all trained POs. These focal persons are responsible for the mainstreaming of environment and social safeguards within their organisations and at the community level through monitoring and regular trainings.

Based on this initiative, over 30 POs have already conducted sessions on environmental and social safeguards with community institutions. In addition, the unit is incorporating ESM capacity building programmes into the regular training schedules of institutional development, and has formulated a comprehensive strategy to develop linkages with renowned regional, national and international institutions as well as indigenous people's organisations for technical and policy support.

2. Mainstreaming and Compliance Management

The ESMU has developed a standard ESM QPR in which sections showing ESM compliance have been proposed to be incorporated into the standard back-to-office-report format. Similarly, specific clauses have been added to PPAF's consolidated financing agreement to ensure ESM compliance and an efficient reporting regime. The Unit has further established an ESM

This unit's internal monitoring strategy includes regular environmental and social audits of its interventions in order to carry out regular compliance probes of POs.

helpdesk to facilitate operational units in environmental and social safeguard reviews of project proposals.

This unit's internal monitoring strategy includes regular environmental and social audits (ESA) of its interventions in order to carry out regular compliance probes of POs who are made to guarantee sound environmental and social safeguards through legally binding commitments. Environmental and social audit exercises of 11 POs in six ESM priority districts have been conducted so far by the team. Reporting on the new safeguards QPR format started in January 2012.

The number of POs reporting on this format has increased from ten in the quarter January–March 2012 to 63 in the quarter April–June 2012. Sixty-three POs reporting on the last quarter comprise 87% of the PPAF-III portfolio.

In order to ensure the objectivity of its compliance role, the ESMU has recently commissioned an assessment study “Environmental and Social Monitoring and Evaluation of PPAF Interventions” to be carried out by a third party. The Unit has incrementally mainstreamed ESM as one of PPAF's core values by putting in place a strong legal and procedural framework to protect the implementation of a coherent set of environmental and social principles.

As a result of ESM mainstreaming efforts and to create an enabling policy environment, PPAF has initiated a multi-stakeholder policy dialogue at the macro level, headed by a former chairman of the Water and Power Development Authority (WAPDA). This initiative has facilitated a national-level qualitative engagement with leading experts from the WB, NDMA, specialised environment agencies, and civil society at large. Under this initiative, a colloquium named “Water and Water-Related Disasters” was held at PPAF in March 2012. Another workshop, “Disaster Preparedness and Management” was conducted at PPAF in May 2012.

3. Research and Assessment

In order to enhance environmental awareness amongst PPAF staff, POs and communities at large, the ESMU has undertaken a number of steps towards the compliance 'plus' approach. This includes constituency building for environmental and social management that move from the 'do no harm' principle to the 'do good' principle.

The unit has been involved in the preparation of knowledge products for environmentally and socially significant districts to assess interlinked environment and development issues as well as to identify environmental and social challenges faced by these districts.

These knowledge products provide ESMU with opportunities to collaborate with POs and other operational units within PPAF, and assist in developing holistic development models incorporating environment as an integral component of their work. Two such knowledge products titled “people, environment and development – a vision for district D. G. Khan, Punjab” and “Muzaffarabad – factors of sustainability: lessons from mountain areas” have been published.

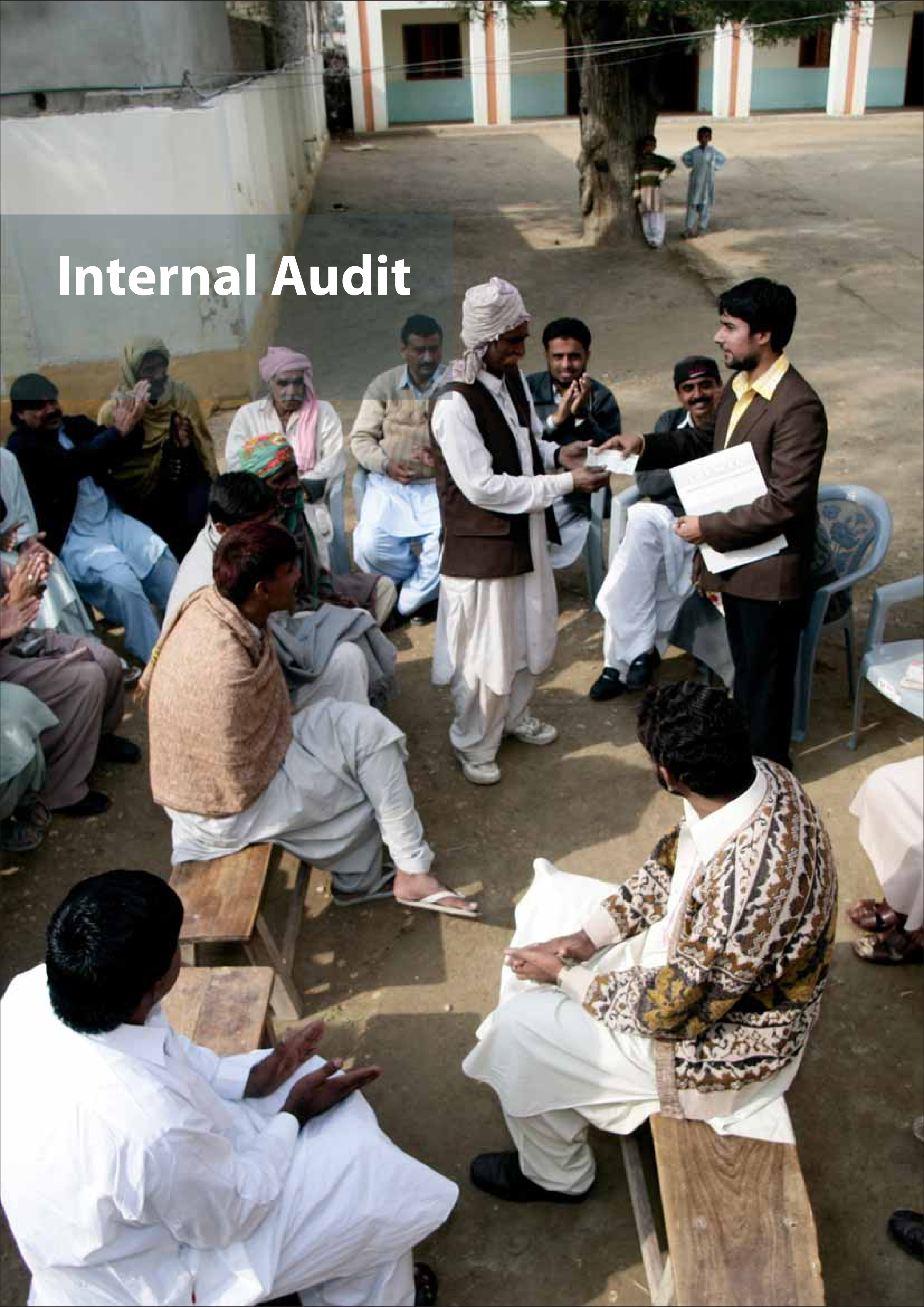
The Unit has also developed an environment module in Urdu with pictorials for communities, aimed at inclusion in the training programmes designed for recipients of the WH grants given by the GoP. The ESMU is working towards developing further such materials for wide dissemination to communities across the country.

The Unit also arranges exposure visits for PPAF staff to introduce them to environmental management initiatives so as to sensitise them towards environmental responsibility and sustainability. The first such visit planned was to Nathiagali, district Abottabad, for a cohort of environment champions in PPAF in June 2012.

In addition to compliance and mainstreaming, PPAF has successfully engaged specialised agencies like WWF-Pakistan to undertake joint venture to combat environmental degradation as a whole, and generate livelihoods from improved environmental management.

These initiatives are currently underway in district Ziarat, Soon Valley and Swat. A number of similar initiatives are being planned for other areas as well.

Internal Audit



The significance of effective corporate governance, risk management and internal control systems in the life and development of institutions can never be overstated. Similarly, the value of assurance regarding integrity, accountability, transparency and reliability of organisational systems cannot be understated either, particularly in building and strengthening confidence between stakeholders. The creation of a credible institution which enjoys the support of all stakeholders and acts as a role model for effective delivery mechanisms at the grassroots level was the PPAF's raison d'être. The PPAF's BoD, in its proactive approach to taking care of its responsibility towards all stakeholders, has entrusted the audit committee of the board with the oversight of mechanisms in place to ensure transparency and accountability at all levels.

1. Responsibilities

Internal audit (IA) at PPAF fulfils its responsibilities to the Board and audit committee by delivering the following at PPAF and the PO level;

- An objective evaluation of existing risk and internal control systems
- A systematic analysis of business processes and associated controls
- A review of indicators of fraud and irregularities
- Reviews of the compliance framework and specific compliance issues
- A review of operational, project, and financial performance
- Recommendations for more effective and efficient operations

The IA Unit regularly reports to the audit committee of the BoD. The audit committee held three meetings during the reporting year in which it reviewed the performance of the IA Unit, the scope and extent of IA and the annual audit plan.

This unit reviews the performance of all operational units against PPAF's SOPs as well as the guidelines and directions provided by international donors (as required). Recognizing that excellence is a process rather than a state, the IA unit continuously reviews the adequacy and efficiency of the mechanisms developed by the units in achieving their goals and adherence to PPAF core values. Any areas for improvement in the systems are immediately discussed with concerned units and the best possible options/alternatives are reached through rigorous consultation and consensus.

2. Activities

The IA unit successfully carried out annual reviews of all operational and support units of PPAF during the reporting year. This included a review of performance against agreed objectives, and particularly the effectiveness of the appraisal and monitoring activities of all operational units, including the FSG, the Public Good and Services Group and the ID Unit. Similarly, support units were also subject to quarterly reviews to ensure their compliance with management directives and the elimination of non-compliances on a proactive basis. Comprehensive procedures were performed to obtain assurance regarding compliance with guidelines for procurement and exercise of control over fixed assets. Investment portfolios and financial management systems were reviewed to ensure transparency and seamless application of internal controls at various stages. The MER Unit, Human Resource Unit and Administration and Procurement unit were reviewed in terms of their effectiveness to provide critical and timely support to operational units in project delivery.

Since the success of the PPAF model depends upon the performance of its POs and the effectiveness of the PPAF-PO relationship, the IA Unit also carries out audits of POs on a yearly basis. During the year, the IA Unit carried out review of POs which encompasses more than 90% of the total PPAF portfolio. The focus of PO audits in each case was reviewing the adequacy of organisational governance, financial management, and risk management systems which are in place to ensure the efficiency and effectiveness of development operations, compliance with financing agreements with PPAF and other regulations, and the reliability of financial reporting.

Since most of PPAF's partners come from the grassroots level and require support for their growth and development, the IA

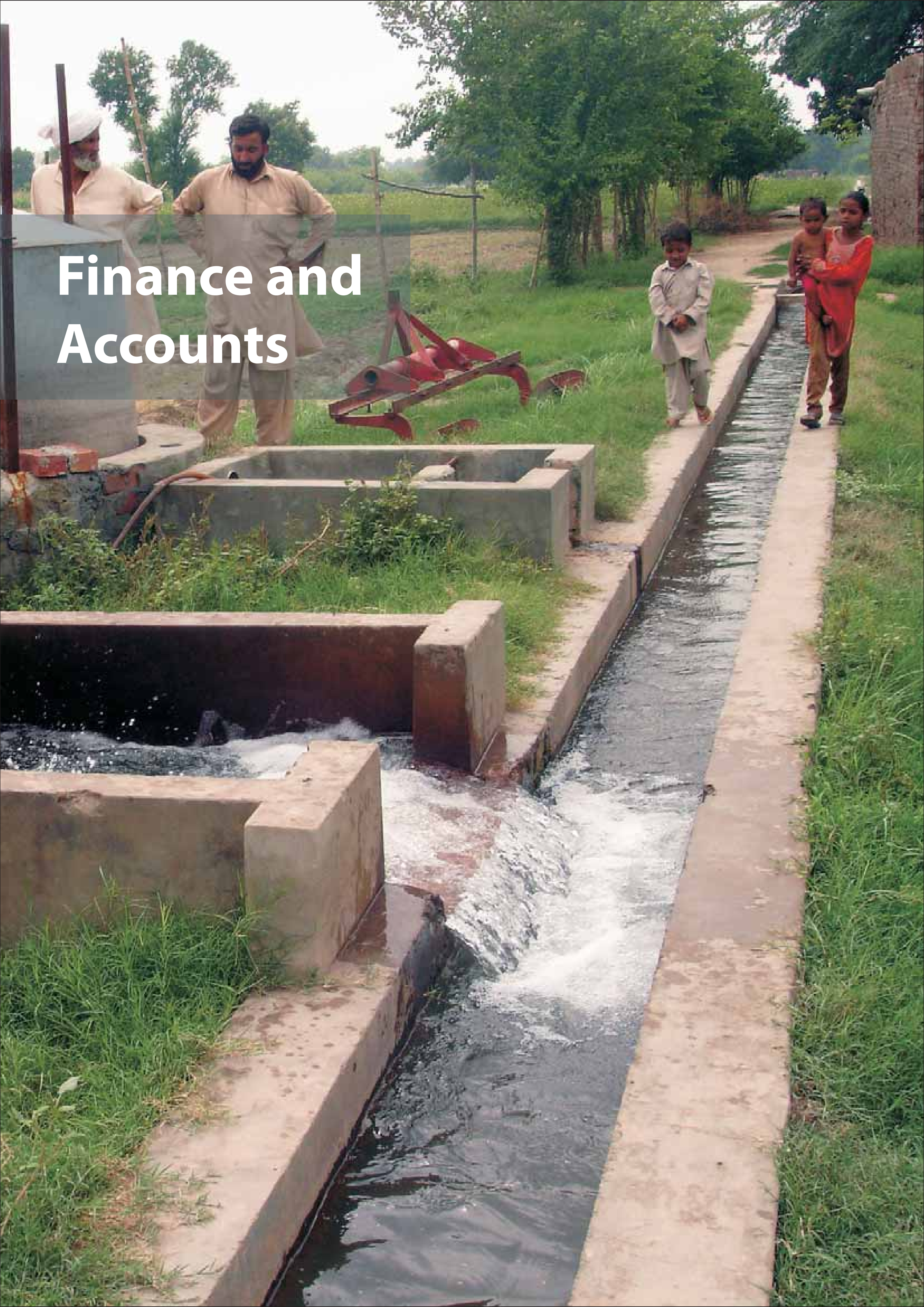
The IA Unit has developed an effective mechanism to ensure implementation of all agreed upon procedures with all PPAF units and POs.

Unit gradually introduces the requirements of internationally recognised risk management systems and provides them with the support they require in building proficiencies and developing their systems.

In addition, this Unit has developed an effective and timely follow-up mechanism to ensure the implementation of all agreed upon procedures with all PPAF units and POs, realizing the fact that the slightest procrastination may seriously jeopardise the very purpose of the exercise. The IA Unit thus constitutes a critical component of PPAF's governance mechanisms and is one of the key players in the achievement of PPAF's shared objectives and its partners, both local and international.

Core Support Services

Finance and Accounts



As a custodian of public funds, PPAF is conscious of the need for prudent and appropriate financial controls and management. This mandated a Finance and Accounts (F&A) Unit to execute, record, classify, and present all financial transactions in a systematic and transparent manner. The F&A unit ensures compliance with statutory laws and regulations with respect to agreements signed with the GoP and multilateral and bilateral agencies.

In the conduct of its business, the F&A unit maintains the highest standards of financial management while strictly following SOPs laid out in PPAF's operational manual. The work processes and procedures related to F&A are attuned to an SOP and procedures manual dedicated to the unit's requirements. The unit's activities are carried out in an automated computerised environment through customised software. Similarly, books of accounts are kept in accordance with statutory requirements and agreements with the GoP and donors.

1. Practices

The F&A unit uses an SQL-based financial MIS. It comprises integrated modules for general ledgers, fixed assets, and payrolls. The system is regularly updated and has been functioning effectively for the maintenance of comprehensive books of account; the 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 standalone modules are in use to monitor loan- and grant-based operations. These modules produce a number of reports allowing analysis and monitoring of the microcredit portfolio and grant interventions. Mark-up schedules of POs are system generated, ensuring accuracy and completeness. The unit has introduced a web-based tracking system in order to facilitate its POs in tracking the status of statements of expenses. This online facility provides prompt feedback to POs on the status of their expenses and disbursements.

The unit has implemented an accounting and internal control system which is sound in design and has effectively been implemented and monitored, with an ongoing effort for further improvement. Accounting controls consist of plans, procedures and records safeguarding assets and checking the accuracy and reliability of financial data, promoting operational efficiency and encouraging adherence to prescribed managerial policies. The system provides assurance that transactions are executed in accordance with management authorisation and recordkeeping is done in a manner that permits the preparation of financial statements in conformity with generally accepted accounting principles.

The F&A Unit's standard operating procedures manual (SoPM) documents the internal control framework and accounting policies and procedures, in detail. 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 MIS is equipped to handle a multitude of donor-specific reporting requirements. Transparency of financial information for different stakeholders is a prime consideration of the Unit. In order to ensure this, 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 unit constantly strives to encourage and facilitate all processes and procedures aimed at strengthening the highest level of accountability within the organisation. 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 prioritised true presentation of facts and the timely issuing of all periodic financial statements for

The F&A Unit strives to facilitate all processes and procedures for the highest level of accountability.

management, donors and stakeholders. Simultaneously, the unit is particularly conscious of maintaining transparency and prompt handling of reporting requirements at all times and at all levels. These principles are applied to 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 director's report. To improve the usefulness of internal financial reporting, the F&A unit developed a dashboard and made it available on the computers of senior management with effect from 1 January, 2012. It readily makes available key financial information in graphical form and allows users to display the level of detail desired.

2. Activities

The PPAF's operations for the reporting year ended 30 June, 2012 were audited by its external auditors M/s A. F. Ferguson and Company, chartered accountants (a member firm of PricewaterhouseCoopers) who gave a clean/unqualified opinion. In addition to preparing financial statements as per statutory requirements, the unit also prepared separate financial statements for the following donors' projects as per the requirements stipulated in their respective financing agreements;

- Financial statements of the IFAD MIOP for the period 1 July 2011–31 March 2012
- Financial statements of the IFAD PRISM project for the year ended 30 June 2012
- Financial statements of the KfW Livelihood and Infrastructure project for the half year ended 30 June 2012

In conformity with best practices, quarterly, half-yearly and nine-monthly condensed interim un-audited financial statements and management reviews are also prepared. The annual audited financial statements along with the director's report, 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 BoD and general body approved these financial statements along with the director's report and management reviews. The general body approved the audited financial statements of the company for the financial year ended 30 June, 2012 together with the auditors' and director's reports within four months of the financial year. Annual audited financial statements along with the director's report, quarterly and half-yearly un-audited financial statements, and management reviews are published and circulated to stakeholders. These statements are also made available on PPAF's website.

Disbursements to PPAF under the WB project 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. In case of IFAD and KfW projects, the disbursement was based on statements of expenses. All FMRs and withdrawal applications related to WB and IFAD projects were submitted within the period allowed by donors. All information and data submitted were in compliance with disclosure requirements and formats. These were reviewed by donors and found to be eligible for reimbursement or replenishment.

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

The F&A unit participated in the appraisals and monitoring of POs and reviewed their financial management systems to ascertain their effectiveness in carrying out PPAF programmes. This Unit ensured swift receipt of audited financial statements from all POs within six months of the close of the financial year in addition to the submission of management letters issued by their respective external auditors. These were subsequently reviewed and necessary actions were taken accordingly. Not only have 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 the financial management systems of POs and suggest improvements wherever needed. The unit, in realisation of its role in the development of POs, plans to continue efforts in strengthening the latter's systems and procedures with a particular focus on small and medium size organisations.

On the guidelines of risk oversight committee of the Board, the F&A unit developed a treasury management strategy which was approved by the Board in October 2011. The said strategy provides a detailed framework for the investment of;

- Liquidity and reserves maintained by PPAF as per Board policy
- Reflows generated from repayments of the microcredit portfolio which are not required for immediate on-lending

In accordance with this policy, the (dis)investment of funds was approved by the treasury

Khubaib, a former masonry helper from a remote village of Kot Addu, would never earn what could be called sufficient, no matter how hard he labored.

management committee comprising the chief executive officer (CEO), group head (GH), financial services and GH, financial management and corporate affairs. The treasury manager acts as secretary of the committee. The treasury reports were prepared on a quarterly basis and shared with the risk oversight committee of the Board. Furthermore, an MS Access® database was created to ensure that the guidelines and eligibility criteria defined in the strategy were adhered to. This included interest calculations, credit ratings, and all other information required for reporting, planning, and monitoring.

In order to inculcate values of transparency, accountability, and good governance in PPAF partners and COs, the F&A Unit was actively involved in the provision of trainings to its POs and COs. These focused primarily on financial management and governance. In this regard, the unit has started a series of workshops and developed a two-pronged strategy;

- Training of POs staff, i.e. SOs and engineers in financial management
- Training of UC-level development organisations (Tier III)/COs

A brief description of these workshops is given below.

2.1 Workshops on financial management procedures and internal control systems

The workshop's target audience was all of PPAF's POs. The content of the trainings focused on financial management and internal control systems at both the PO and CO level.

Three executives representing the finance, social mobilisation, and infrastructure units were invited to attend the workshop. Being directly involved with COs, engineers and SOs were specially oriented with best practices for financial management at the CO level. A total of 189 participants from 67 POs were trained during the first phase of the workshop.

Basic financial manuals were also provided to facilitate smaller Pos.

2.2 Workshops on the preparation of financial statements and SOEs

This workshop was designed for PPAF's small- and medium-sized Pos. As a first step, the POs were requested to provide details of their finance and accounts unit staff, i.e. qualifications, experience, and job descriptions. Moreover, the selection of POs was made on the basis of a review of SOEs and a review of audited financial statements. Thirty-three participants from 17 partners were trained during the first phase of this specialised training workshop.

2.3 Community trainings

The F&A Unit has started focusing on the effectiveness of sound financial management and internal control systems at CO level record. The Unit organised a workshop, “good governance and best practices at the CO level” for UC-level development organisations formed by the Sindh Agriculture and Forestry Workers Coordinating Organisation in Hyderabad.

Thirty-three participants representing 11 tier III-level organisations, 60 VOs, and 470 COs participated in the workshop. Women's participation was 50% and also includes minority participation.

2.4 Recordkeeping at the CO level

To help grow a sense of ownership and social responsibility, it was felt that COs should do their own recordkeeping and funds management.

This task was nearly impossible for most COs due to widespread illiteracy and a lack of proper recordkeeping. In order to address these issues, COs were divided into three categories (i) literate;

(ii) mixed/semi-literate, and (iii) illiterate.

To encourage self-reliance within the COs, two new methods of recordkeeping were developed over a period of time. For literate COs, a comprehensive register for documentation of records was developed.

The register contained detailed requirements for the recording of transactions, materials movement, labour records, community resolutions, and community proceedings records. Secondly, for COs where the majority of members are illiterate, pictorial recordkeeping formats were developed.

A brainchild of PPAF, this modus operandi was based on the adage 'a picture paints a thousand words' - the notion that a complex idea can be effectively conveyed with a single image.

Charts for each individual project were specially designed which showed the aim of the project using a picture. For example, a chart for a water-pump installation project would show a pump. The raw materials and equipment needed for the project were also visually represented.

One hurdle faced while developing this system was the pictorial representation of numerical figures. After much thought, the system of tally lines was included in the system.

Based on the assumption that each individual, no matter how isolated, has at some point carried out a financial transaction and was able to recognise the currency used and its monetary value, all notes and coins currently in circulation were printed on the charts, and tally lines corresponding to each expected expense in the project were included.

The idea was simply that records of expenditures can be kept by marking off the number of each kind of note/coin used against the resource purchased. Workshops were held in various cities of the country in order to introduce and propagate these project registers to the POs. One hundred and sixty participants from 52 POs and COs attended these workshops.

The pictorial form of recordkeeping for illiterate COs was shared in two workshops held in Islamabad and Karachi. Twenty PO and 53 CO representatives attended the workshop.

2.5 Corporate governance responsibilities

Following best practices, PPAF has adopted a code of corporate governance and became fully compliant with it.

The GH, financial management and corporate affairs, who also acts as the company secretary, was responsible for ensuring compliance with the requirements of the code. In addition, all statutory reporting to the SECP was done well in time.

The F&A Unit remains fully committed to international best practices in the management of its affairs and responsibilities as is reflected in all of its activities, systems, and procedures, while being committed to continually building on its strengths.

The unit strives for further innovations to strengthen its financial management and procedural efficiency in the next financial year.

Thus 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 F&A Unit remains fully committed to international best practices in the management of its affairs and responsibilities.

Communications and Media

The information technology revolution has assigned unparalleled importance to communication and media in today's world. Never before has communication and media had such a significant impact on the lives and behaviours of people.

1. Responsibilities

The Communication and Media (C&M) Unit at PPAF strives to bring change in the mindsets of all stakeholders, particularly grassroots communities through people-centred approaches in development. Likewise, it builds PPAF's corporate image by developing linkages with the mainstream national and international media, besides capacity building of communications and media units of PPAF partners for effectively engaging local communities in the development process. It has an imbedded responsibility of using transmission channels and tools to store and deliver information/data about PPAF's activities and interventions aimed at helping marginalised and poor communities across the country and transforming their lives. The C&M Unit has made a key paradigm shift by focusing on communication with communities, helping POs improve their communications operations, and influencing/promoting pro-poor policies and legislation.

2. Activities

During 2012, the C&M unit developed a communications strategy through a consultative process signifying the shift in priorities. Resultantly, the unit now has the grassroots communities in the spotlight and is producing more material in local languages, thus empowering them through information dissemination.

The C&M Unit has also produced a media manual to build the capacity of POs to harness media power for wider dissemination and acceptance of their work. In collaboration with the ID unit, the C&M Unit is sharing its communications strategy and media manual with POs through workshops so that they can align their work and strategies, accordingly. So far, two workshops have been held in this regard which also provided a platform to POs to share their best practices and lessons learnt while working with communities.

This Unit, in order to educate and inform people of the vast potential of PPAF's poverty alleviation interventions, is working hard to build critical linkages across the print and electronic media. The unit's emphasis on using mass media for leveraging continued support is complementary to its transformative role in eliminating conventional barriers and introducing fresher perspectives for meaningful change. This role is particularly relevant to PPAF's efforts towards influencing decision making for pragmatic, need-based, and affirmative policy formulation. The Unit is committed to engaging the mainstream electronic national and international media for the effective branding and positioning of PPAF by sharing the organisation's successes in transforming the lives of millions of people in Pakistan. The C&M Unit has provided journalists direct access to PPAF communities. This has proved extremely helpful in shaping views through subsequent appearances of comprehensive feature articles and news packages in the print and electronic media, respectively.

During the reporting period, four exposure visits for journalists were arranged and these media teams produced 12 comprehensive feature articles in leading newspapers and six news packages on television channels. Immersion visits have thus played a key role in generating support for viable public-private partnerships as a prerequisite for comprehensive change at the grassroots level. These measures and their achievements need to be viewed in the context of a highly politicised public arena where political and security issues continue to dominate the debate in mainstream media. Exposure visits also serve as an opportunity to test PPAF's performance by allowing journalists open access to report from the field. Their reflection in their respective media also serves as a third-party evaluation.

In pursuit of its objectives, the Unit's wide-ranging use of media access also includes radio programmes on PPAF-supported community interventions. The C&M unit has produced two series of the popular radio programme Roshan Raahein, which were broadcast through a national hook-up of Radio Pakistan. The show is a dramatised version of PPAF's success stories and flood preparedness. These radio programmes generated a lot of interest and awareness among target communities and stakeholders – a fact substantiated by the receipt of a large number of letters from across the country. This programme regularly broadcasts PPAF's experiences in participatory development by transmitting stories on the organisation's multi-sectoral interventions from across Pakistan. Additionally, this programme has routinely relayed useful information on ways in which the general public and aspiring organisations can access PPAF and its network of POs. It has also played an important role in educating people on how best to organise themselves for the common good of their communities and begin to participate in the process of development.

As a tool of information dissemination, this unit arranged interactive theatre performances on issues such as environment, health, education, the importance of computerised national identity cards (CNICs) and flood preparedness in Ghotki and Badin districts in Sindh. Besides providing entertainment, these theatrical performances created awareness amongst more than 10,000 community members on civil rights and disaster management in the aforementioned districts. A quarterly newsletter previously titled Povertyline has been revamped and renamed Restoring Hope. It keeps stakeholders informed of PPAF's growth, programmes, and future direction. Besides production and dissemination of other important informative material, the unit launched e-sharing during the reporting period—an internal electronic newsletter—on a fortnightly basis. This has helped in keeping Team PPAF well aware of important happenings taking place within the organisation.

The C&M Unit has been quite successful in mainstreaming poor communities by spreading PPAF experience to a large audience.

In addition, the C&M Unit launched the Amtul Raqeeb Award on the occasion of International Women's Day during the same period, to pay tribute to extraordinary women proving themselves as role models in their respective communities. The Unit also produced photo stories featuring PPAF's initiatives aimed at building institutions of the poor and an animated video, Badalni Hai Duniya on the process of CO formation. The Unit also produced a booklet, “Women of Substance” depicting stories of resilience, adversity, unwavering self-belief, and faith in destiny of seven exceptional women entrepreneurs belonging to PPAF-supported communities from seven different regions representing the cultural and geographic diversity of the country.

The C&M Unit produced three video documentaries on flood relief and recovery (Turning the Tide), PPAF's work philosophy (Inspiration), and PPAF's efforts for the rehabilitation of flood-affected people (Restoring Hope). Besides this, the Unit routinely conducts case studies and produces video documentaries in close collaboration with all PPAF units to document and critically analyse the impact of PPAF interventions on participating communities.

The Unit further facilitates PPAF's agenda for prescriptive research through the regular publication and dissemination of reports, brochures, manuals, flyers, and factsheets. The Unit also plays its part in providing technical support and expertise to both POs and participating communities in relevant fields, particularly providing assistance in building effective communication channels for raising awareness and behavioural change, rather than solely focusing on public relations exercises. Simultaneously, the Unit seeks to effectively compliment the work of other units within PPAF by providing media coverage and preparing support materials for all workshops, seminars, and ceremonies.

Through its varied set of activities, the unit has been quite successful in mainstreaming poor communities by spreading the PPAF experience to a large audience. At the same time, it has established itself as a critical support component crucial to the growth of the organisation.

3. Liaison with international media

With a view to expanding outreach to the mainstream international media, the C&M Unit successfully engaged leading international print and electronic media houses to cover PPAF's efforts aimed at transforming lives. It engaged US-headquartered CNN International, which provides 24-hour coverage to its viewers in over 212 countries and territories. The CNN International team was taken to Ehsanpur where PPAF and Engro joined hands as a model public-private partnership to provide housing and livelihood facilities to the flood-affected people of tehsil Kot Addu in district Muzaffargarh. CNN International produced and aired a comprehensive documentary on PPAF endeavours for the rehabilitation of flood-affected people, free of cost on its international hook-up with a repeat telecast.

Likewise, the C&M Unit developed synergies with Khaleej Times International who conducted an exclusive interview of the chief executive. Published from Dubai, Khaleej Times International is one of the most popular English language newspapers in the UAE with a worldwide circulation of over 500,000.

The C&M Unit's efforts to attract and engage the mainstream international print and electronic media to showcase PPAF's efforts for the marginalised segments of society has begun to bear fruit and is bound to make PPAF a household name, internationally.

Corporate Relations Management

The Corporate Relations Management (CRM) Unit functions to mobilise the national and international corporate sector in implementing Corporate Social Responsibility (CSR) and corporate philanthropy initiatives. The vision of this unit is "to comprehensively co-opt the private and corporate sector (local and international) in the process of poverty reduction and grassroots development". In this respect, the CRM Unit has partnered with several corporate sector organisations in Pakistan and built contacts with international corporations, as well. Unit objective include;

- Building linkages with the local and multinational corporate sector of Pakistan by attracting financial participation from corporations to jointly support PPAF programmes in priority areas
- Fundraising and resource mobilisation from international trusts and foundations to help diversify PPAF funding resources
- Linking PPAF communities with livelihood opportunities through inclusion in the value chains of the corporate sector for trainings, enterprise development, and job placement

The CRM Unit plays a pivotal role in achieving PPAF's strategic objectives by engaging local, multinational, and international corporate organisations and the media, academia, non-profit organisations, and institutions of the poor. The unit also played a role in rationalizing CSR initiatives as per requirements at the grassroots level; the unit provided support to the SECP in formulating CSR guidelines for the corporate sector.

During the reporting year, this unit undertook various projects designed to benefit the poor in different areas. The unit is also exploring new partners for scaling-up and replicating successes all over the country (Table 16).

Table 16: PPAF interventions with the corporate sector

Corporate partner	Intervention type	Areas of interventions	Value (million PKR)
Engro	SM, CPI, H&E	Ghotki, Sukkur, Tharparkar, Sahiwal and Sheikhupura	350.00
	Flood relief and rehabilitation	Ghotki, Sukkur, Rajanpur, Thatta, Muzaffargarh	200.00
	Disaster preparedness (R&R)	Pakistan	500.00
Shell-Pakistan	CPI, H&E, LEP	Goth Noor Mohammad (SCAD)	50.40
Tetra Pak	Dairy hub, school milk programme	Muzaffargarh, Rahim Yar Khan	34 mil
Pakistan Petroleum	CPI	Kashmore	71.43
CitiBank	CMA	Pakistan	11.70
Fauji Fertiliser	Education	Ghotki	60.00
Socio Engineering	Interactive boards	Mianwali	3.27
Agritech Industries	Education	Mianwali	100.00
Unilever	CPI	Qasur	4.89
Tetra Pak	School Milk Programme	Rahim Yar Khan	22.00
Total			***1,385.70***

PPAF and Pakistan Petroleum Ltd. signed an MoU worth PKR 71.43 million for the provision of basic physical infrastructure in districts Kashmore and Kandhkot.

1. Projects Completion

The fiscal year 2012 saw the successful completion of PPAF-corporate joint initiatives. The details are as follows;

1.1 Safe drinking water supply with Unilever Pakistan

The PPAF and Unilever signed an MoU of PKR 4.89 million on 12 October 2010, for a small CPI project aimed at providing a safe drinking water supply to under-resourced communities in district Qasur. The project was conducted through the Rural Community Development Society (RCDS), a PPAF implementing PO.

1.2 School improvement programme with Agritech Industries

The PPAF and the Nightingale Foundation (Agritech Industries part of the AZGARD-9 Group) signed an MoU of PKR 100 million on 29 January 2010, for a school improvement Programme at Iskandarabad, district Mianwali. This project aimed to strengthen education services in order to improve the quality of education in schools. The Mountain Institute of Educational Development (MIED) was taken as implementing PO. The project was highly appreciated by PPAF's corporate partners and Agritech Industries ensured project component sustainability with computer laboratories and e-libraries. Another organisation, Socio Engineering Group, has taken up these schools to further strengthen ICT in classroom education; PPAF is responsible for providing coordination and support.

The objectives of this project were to enhance teachers' knowledge and skills in pedagogy, develop principals' and middle managers' skills and knowledge of effective school leadership and management, and enrich curriculums to promote holistic primary-school student development. More specific objectives include;

1. The completion of a baseline study.
2. Capacity building of principals and vice principals;
3. Capacity building of teachers through trainings.
4. The formation of parent support groups.
5. The formation of student representative councils;
6. The appointment of 12 teachers and eight support staff.
7. A new type of school culture where parents are involved and students and teachers, alike have renewed confidence.
8. The establishment of laboratories and procurement of books and equipment.
9. The development of digital library software for schoolchildren and teachers.
10. The provision of furniture to schools and school renovations.

A proper sustainability plan was developed by all of the partners for this project and is now in place. The PPAF supported staff in selected schools including 16 MIED-support teachers, two gardeners, and two part-time attendants now employed by Agritech Industries. This step has further built up the morale of the teachers.

1.3 Ittehad model village with Engro Foundation

In response to the floods of 2010, PPAF and Engro Foundation signed an MoU worth PKR 200 million for relief and rehabilitation on 14 August 2010. The target area included the districts of Ghotki, Sukkur, Rajanpur, Thatta and Muzaffargarh. Ehsanpur in district Muzaffargarh was adopted as a model village under rehabilitation initiatives.

Others that joined the project included Tetra Pak Pakistan, the government of Punjab, Technology Upgradation and Skill Development Company (TUSDEC)—a local technology company—Ansar Management Company (a local low-cost housing company), and Roshni, a local non-government organization (NGO) for an integrated project implementation through the Farmers' Development Organisation (FDO), a PPAF PO. An innovative approach was adopted for rehabilitation and reconstruction with a focus on housing, alternative energy, girls' education, women empowerment, livelihoods, sanitation, and local area development. The following targets were achieved at the end of the project;

- One hundred and sixty-six houses constructed with two rooms, a veranda, a washroom, and a hand-pump
- Solar electrification of residential (three solar panels, 100 watts, each) and common facilities, i.e. six parks and livestock sheds along with play-pumps that help provide easy access to water
- Underground sewerage connected to a grey-water harvesting unit for purification and reuse of water; a mosque, a community centre and dairy hub financed by Tetra Pak Pakistan for milk collection purposes
- Two skills training programmes in construction and welding, as well as three women-focused livelihood trainings in mat-making, beekeeping, and kitchen gardening

The PPAF has also launched a separate programme for livelihood enhancement and protection which included skills development training programmes and asset transfers to TUP. This programme is the best example of public-private partnerships. Houses are owned by women and the whole project is being looked after by the local community very well through their representation in COs. This project was highly appreciated in the local and international media, including CNN.

2. Projects Inception

2.1 CPI with Pakistan Petroleum Ltd.

Under the flood relief and rehabilitation initiatives, PPAF also partnered with Pakistan Petroleum Ltd. and signed an MoU worth PKR 71.43 million on 22 March 2012, for the provision of basic physical infrastructure in districts Kashmore and Kandhkot.

Currently, the project scope is limited to providing and improving basic infrastructure for the communities of 41 villages badly hit by the floods of 2010 and 2011 in various UCs including Malir, Habit, and Gubloo of district Kashmore. However, the scope of the partnership may be extended to health, education, livestock, agriculture and credit and livelihood interventions in other areas of the country subject to mutual agreement.

2.2 Provision of ICT in schools with Socio Engineering Group

To further strengthen the PPAF School Improvement Programme in collaboration with Agritech Industries in district Mianwali, PPAF and Socio Engineering Consultants (SEC)—part of Socio Engineering Group—signed an MoU worth PKR 3.27 million on 19 July 2012. The SEC is providing capital and technical support to identified schools under the Ilm Ideas project funded by the Department for International Development (DFID). The scope of the programme includes the installation of ICT-related education equipment (active classroom technology) in three PPAF-adopted government schools, teachers' trainings, baselines and impact assessments over a one-year period.

2.3 School improvement programme with Fauji Fertiliser Company Ltd. (FFCL)

The PPAF and FFCL partnered and signed an MoU worth PKR 60 million on 19 June 2012, for the School Improvement Programme in district Ghotki. The PPAF and FFCL shall work together in 11 government schools at district Ghotki for the next three years. The current scope of the programme is limited to providing and improving education in communities through hard and soft components. However, the scope may be expanded to include health, physical infrastructure, livestock, agriculture, and credit and livelihood interventions, subject to mutual agreement.

2.4 Disaster preparedness (relief and rehabilitation) with Engro Foundation

The PPAF and Engro Foundation, after the successful completion of PPAF-EngroFlood Relief and

Rehabilitation signed another MoU worth PKR 500 million on 24 July 2012, to work together in selected areas of Pakistan for next three years. The scope of the partnership has been expanded to the whole country with an emphasis on disaster preparedness. The funds would be divided as per requirement for preparedness (20%), relief and recovery, (40%) and rehabilitation and reconstruction activities (40%).

3. Projects in Progress

3.1 Goth Noor Mohammad adopt a village with Shell-Pakistan

The PPAF and Shell-Pakistan signed an MoU on 21 April 2010, aiming at transforming a scavenger's town (Goth Noor Muhammad – suburbs of Karachi, near Hub) into a model village. The project kicked-off with need-based interventions ranging from housing, streets, and sanitation to health and education. So far, almost 40 of 133 housing units have been constructed and handed over to the community along with the completion of whole physical infrastructure work including street pavements and sanitation. A basic health unit and a school have been operational since inception. However, separate buildings for a school, a health facility, and a community centre are under construction and will be operational by early 2013. In this respect, Shell will bear the cost of housing only while PPAF is providing support for the physical infrastructure, health, education and livelihood components. The project is being implemented through a PO called HANDS.

A comprehensive programme for livelihood improvement has also been launched in which PPAF would be providing skill development trainings, transferring assets to TUP and creating linkages with potential markets. More and more partners are being engaged to address the needs of target communities for uninterrupted safe drinking water supplies and electricity for security and household usage. In this respect, the options of solar energy and reverse osmosis water treatment are under consideration.

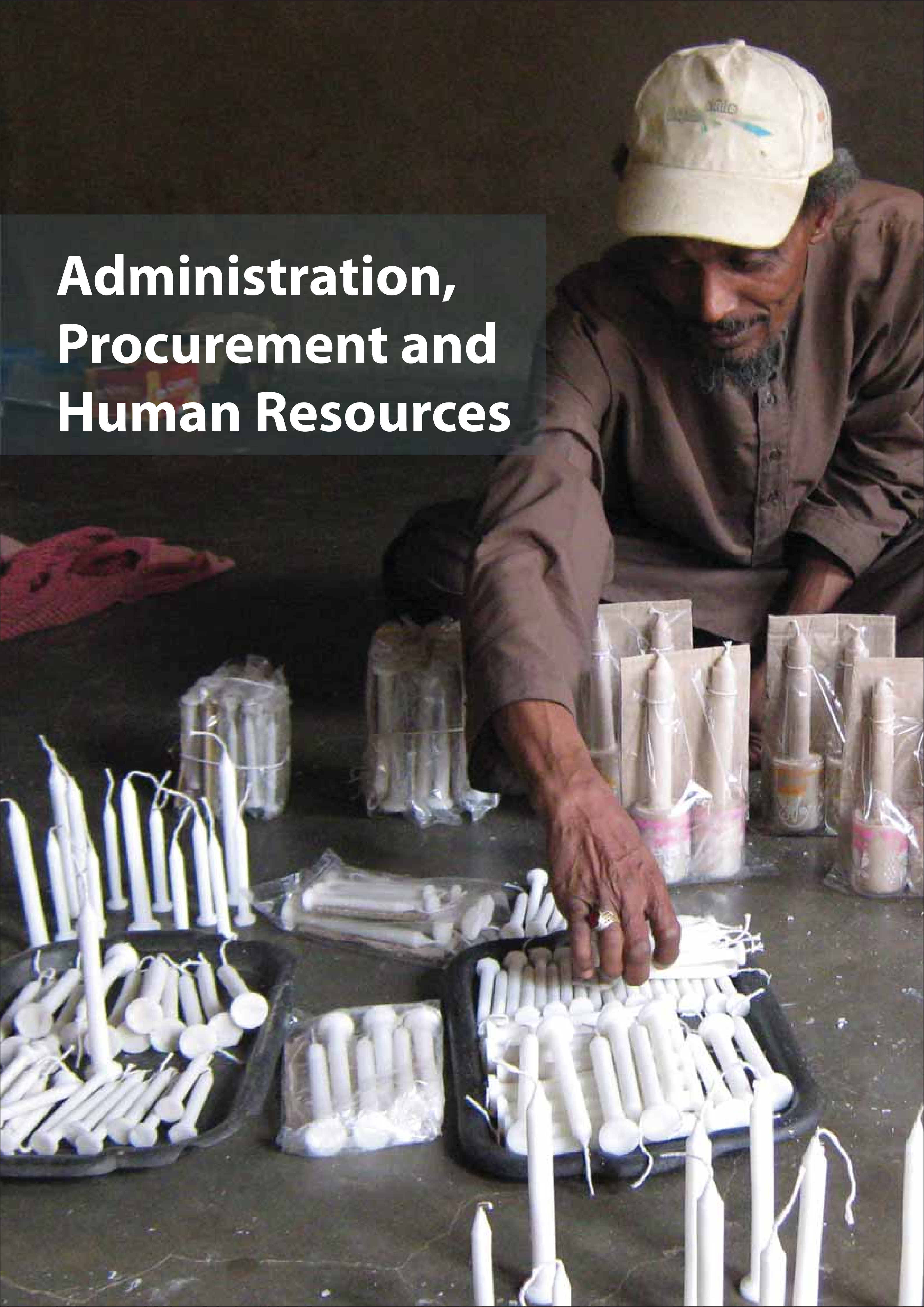
3.2 Village development programme with Engro Foundation

The Engro Foundation and PPAF signed an MoU worth PKR 205 million on 11 December 2009 for a village development programme. The programme was aimed at the provision of basic infrastructure, education, health, and social sector services in districts Ghotki and Sukkur. However, upon successful completion of this joint venture, PPAF and Engro signed an addendum to the MoU worth PKR 350 million. Resultantly, the scope of the programme expanded to livelihood, environment and research and feasibility studies while adding Sahiwal, Sheikhupura, Tharparkar and other areas of mutual interest to the project.

The project is progressing in district Ghotki as per plan while in the process of expanding to the other agreed areas. A comprehensive school improvement programme is also in the planning phase for district Ghotki.

A programme for livelihood improvement has also been launched in which PPAF would be imparting skill development trainings, transferring assets and creating linkages.

Administration, Procurement and Human Resources



1. Administration

Support departments are vital to all organisations. Their cost-effective and time-sensitive actions ensure smooth and hassle-free conduct of business. All other departments are considered internal clients and this is exactly how Administration Unit takes care of its responsibilities.

The Administration Unit contributes in furthering the cause PPAF has committed itself to. It takes care of staff and client logistical needs in a timely fashion by attending to a multitude of services which include maintaining PPAF office and physical resources, ensuring a smooth workflow through well-coordinated secretarial services, arranging and coordinating meetings and other events both inside and outside PPAF premises, and regular maintenance of office cars and their logbooks to ensure transparency.

This Unit operates to bring ease and comfort to Team PPAF during their stay and work at PPAF. During the reporting year, the Administration Unit arranged 892 countrywide air travels, 806 countrywide road travels, 51 international travels and 70 meetings/lunches/trainings/work shops.

1.1 Major Achievements during FY 2012

- Smooth shifting of seven office premises to a newly acquired office building in Bani Gala, Islamabad, without any interruptions to daily business at PPAF
- Commencement of its first ever mega annual family gala for PPAF staff and their families
- Started cafeteria operations for PPAF staff on self-reliant basis (the cost of food is borne by the staff)
- Special initiatives for security clearance were initiated for sensitive areas of Pakistan, making it mandatory for the staff to obtain security clearances from the Administration unit prior to any field visit
- A day care centre was started for staff members' children

2. Procurement Unit

The Procurement Unit is PPAF's operative delivery arm for the acquisition of services and goods in timely, efficacious, and cost-effective fulfilment of project objectives vis-à-vis WB guidelines. As a service centre for its internal and external clients, it engages in securing individuals and consultant firms to help deliver outputs contributing to the project's five components i.e., livelihood enhancement and protection, social mobilisation and institutional building, microcredit access, basic services and infrastructure, and project implementation and support. During the reporting year, this unit secured the consultancy services of 61 individuals and nine firms for baseline and impact assessment surveys to post review audits of POs' procurements to environment and social monitoring studies to an internationally tendered study of the local microfinance market. The annual post review audit of PO procurements was key to both validating PPAF's implementing modality through POs, and in identifying capacity building areas. In order to ensure transparency and draw on a rechargeable multi-disciplinary human resource database for individual consultancies, the unit has introduced the services of a job portal resulting in enhanced efficiency and reduced paperwork, hence going green.

This unit has also introduced a schedule of timelines for various procurement methods to assist operational units in planning project activities. For its external clients, principally 114 POs, this unit's assistance takes the form of dedicated trainings in procurement policies and procedures and documentation, and approves actions to implement their respective procurement plans. In addition, the Procurement unit actively undertakes POs visits to monitor compliance with prescribed rules and processes. The unit also assists the organisations and donor agencies partnering with PPAF in procuring a range of items including vehicles, information technology, office equipment, and furniture. The unit has successfully established a large database of vendors in multiple categories to leverage competition among vendors, resulting in substantial savings. Periodic status updates of the entire gamut of the procurement portfolio ensure that the unit remains accountable to its clients and takes pride in its consistent satisfactory audit rating.

The staff are encouraged to come up with ideas and suggestions for improvement with proper follow-up actions, where required.

3. Human Resource

The fiscal year 2012 witnessed a steady progress towards robust organisational systems and processes focused upon promoting and strengthening a culture of teamwork and mutual assistance amongst various units of PPAF in order to achieve the organisation's strategic objectives. Likewise, the HR Unit has designed a number of interventions and taken various steps to help PPAF staff internalise the organisation's core values, i.e inclusion and outcome and impact. Some of the initiatives undertaken are given below.

This Unit organised special interactive sessions for staff at all levels to take their feedback on policies, organisational culture, and work environment. The staff are encouraged to come up with ideas and suggestions for improvement with proper follow-up actions, where required. The efforts of HR have always been focused on creating a conducive work environment for the staff in the best possible manner. The introduction of flexi-hours is a clear manifestation of this; women are the chief beneficiaries.

Performance management and evaluation systems were linked with bonuses based on actual performance. The performance of an individual is measured on two key factors - key performance indicators and key competency indicators. Key performance indicators are derived from set objectives during the year between the individual and the supervisor, while key competency indicators are derived from the role of the employee and covers soft skills. The purpose of linking bonuses with performance was to recognise and reward employees at all levels for good performance. The training and development process was also one of the strategic areas where employees from all levels were given the opportunity to attend national and international trainings based on present and future business and individual needs. The aim of such trainings was to enhance work-related performance and employees attitudes and measure the impact in due time. The HR unit strongly believes in staff development through both formal and informal methods.

Talent acquisition has always been a challenge for PPAF. Being the apex organisation, the aim of recruitment policy is to attract the most qualified and competent professionals. To achieve this aim, sourcing strategy also included headhunting services to find talent for critical positions in the organisation. Besides this, there were a few vertical movements of employees based on internal vacancy notifications and open positions. That women constitute 30% of the workforce is a clear manifestation of diversity and equal opportunity. Management keeps striving to receive effective feedback from all staff, especially women in order to improve the system, processes, and procedures. There have been a series of meetings during the reporting year with women staff members to take their ideas and develop an understanding of the challenges they face. Women are encouraged to apply and the overall staff composition presents a beautiful mix of regional representation.

In harmony with its strategy, the PPAF's organisational structure has undergone some developments. Two new groups were introduced - the compliance and quality assurance group and the strategy and external relationship group. The former comprises the MER, MIS and ESM units, while the latter comprises the strategy and external relations group, the C&M Unit, the CRM Unit and new products and partnerships.

3.1 Key Interventions and Achievements in FY 2012

3.2 Training and development of PPAF staff members

In FY 2012, the statistics related to staff members who had undergone national and international trainings and exposure visits/seminars were;

- National trainings = 70
- International trainings = 15
- International exposure visits = 13
- International/national conferences and seminars = 15

Other measures include;

- The mandatory practice of undergoing one immersion visit in each calendar year for every staff member, was initiated. This has also been made a compulsory portion of the annual performance review activity of employees
- A comprehensive training policy for PPAF staff members was introduced
- An employee handbook for was introduced
- An employee code of conduct was introduced
- The practice of employees' orientation on the day of joining was revived. This entails providing new staff members a comprehensive welcome packet, physical orientation of office premises, and presentations from all units and meeting with the CEO

3.3 Recruitment and selection of PPAF staff members

- The number of employees taken on board during FY 2012 = 47 (22 women, 25 men)
- The number of consultants taken on board as regular employees = 12
- The number of promoted employees = 57 (17 women, 40 men)
- The HR unit started using online job portals such as Brightspyre, along with national newspapers

3.4 Compensation and benefits for PPAF staff members

- A contributory provident fund was added to the compensation and benefits package of employees
- Employees were given transportation allowances on account of PPAF's office shifting to Bani Gala. Management executives receive PKR 4,000, senior management executives receive PKR 2,000, and support staff receive PKR 3,000

Facts and Figures

Company Information

Board of Directors

Mr. Hussain Dawood
Chairman
Dr. Nuzhat Ahmad
Mr. Rafiud Deen Ahmad
Dr. Naved Hamid
Mr. Abdul Khaliq
Mr. Himayatallah Khan
Dr. Rajab Ali Memon
Dr. Aisha Ghaus Pasha
Mr. Asif Qadir
Mr. Zubyr Soomro
Mr. Qazi Azmat Isa
Chief Executive Officer

BOD Committees

Board Compensation Committee
Mr. Hussain Dawood
Chairman
Dr. Rajab Ali Memon
Dr. Aisha Ghaus Pasha
Mr. Zubyr Soomro

Audit Committee
Mr. Rafiud Deen Ahmad
Chairman
Dr. Nuzhat Ahmad
Dr. Naved Hamid
Mr. Abdul Khaliq
Mr. Asif Qadir

Risk Oversight Committee
Mr. Zubyr Soomro
Chairman
Dr. Aisha Ghaus Pasha
Mr. Asif Qadir

Company Secretary	Mr. Amir Naeem
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, Silk Bank Limited, Standard Chartered Bank Limited
Registered Office	1, Hill View Road, Bani Gala, Islamabad, Pakistan. UAN: (+92-51) 111-000-102, Ph: 2613935-50 Fax: (+92-51) 2613931, 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.
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.
Abdul Khaliq	Additional Secretary, Ministry of Finance, Government of Pakistan.
Himayatallah Khan	Joint Secretary, Economic Affairs Division, Government of Pakistan
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	Ex 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.
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

	2012	2011	2010	2009	2008	2007
Outreach - Numbers (Cumulative)						
Partner Organizations	116	100	87	77	74	70
Districts	129	128	127	124	117	111
Loans ('000)	5,167	5,000	3,600	3,000	2,300	1,513
Water & Infrastructure Projects	26,933	25,500	21,000	18,500	17,000	14,900
Disbursements - Rs. in million						
Total disbursements	19,792	15,733	13,846	13,066	16,697	15,806
Microcredit/enterprise development loans	13,149	10,952	9,048	6,949	9,075	6,228
Grants - Core Operations	5,162	4,215	4,350	2,134	1,951	1,654
Grants - Project, Relief & Reconstruction Operations	1,481	566	448	3,983	5,671	7,924
Balance Sheet - Rs. in million						
Total assets	27,091	24,565	23,629	18,509	18,923	18,702
Micro credit/enterprise development loans receivable	12,552	11,098	10,572	9,141	7,982	5,642
Long term investments	994	1,151	1,000	1,000	1,000	1,000
Investments -specific to projects	1,845	1,445	600	530	1,050	1,050
Investments - specific to grant fund	3,804	2,572	1,763	-	-	-
Investments - others	4,565	4,868	4,058	5,225	5,442	6,712
Equity and reserves	8,905	7,530	6,114	4,785	3,755	2,817
Long term loans	13,575	13,761	12,246	11,031	10,770	10,777
Deffered benefit of below market rate of interest on loans	1,780	-	-	-	-	-
Operational Results - Rs. in million						
Total income	2,794	2,485	2,070	1,669	1,314	1,255
General and admin expenses	435	349	358	274	218	161
Surplus before provisions for loan loss	1,598	1,444	1,404	1,266	947	965
Surplus after provisions for loan loss	1,375	1,416	1,329	1,030	802	914
Financial Ratios - Percentage						
Surplus after provision for loan loss / total income	49%	57%	64%	62%	61%	73%
Return on equity	15%	19%	22%	22%	21%	32%
Return on assets	5%	6%	6%	6%	4%	5%
Repayment rate (microcredit & enterprise development loans)	100%	100%	100%	100%	100%	100%
General and admin expenses / total disbursements	2.20%	2.22%	2.59%	2.10%	1.31%	1.02%
General and admin expenses / total income	16%	14%	17%	16%	17%	13%
Debt/equity	67 : 33	65 : 35	67 : 33	70 : 30	74 : 26	78 : 22
Current ratio	8 : 1	7 : 1	4 : 1	6 : 1	4 : 1	3 : 1

Directors' Report

PAKISTAN POVERTY ALLEVIATION FUND
DIRECTORS' REPORT

It gives me great pleasure to present on behalf of the Board of Directors the twelfth Annual Report along with audited financial statements of the Company for the year ended June 30, 2012.

Poverty reduction remained the greatest challenge for the country. Although substantial progress has been made in reducing poverty, a significant number of people still live under the poverty-line struggling to sustain their livelihood. Despite the incessant rise in poverty due to various socio-economic factors, the poor benefited in the form of self-sufficiency and community driven development in the sectors of PPAF sponsored interventions. PPAF through its integrated approach is striving to achieve lasting improvement in the lives of the deprived people.

The year in review marked as a significant year in underlying results for the Company. PPAF continued to uphold its image as the apex institution in the development sector and successfully achieved its operational and financial targets, addressing the needs of the poo of the por through multi-dimensional programmes. To make the process of economic impact more conducive in reducing poverty, PPAF focused on three prime strategies: inclusion, sustainable growth and regional integration. Special emphasis was given on achieving the Millennium Development Goals for all segments of the society, with a particular focus on marginalized communities, especially women.

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 remained on delivering customized solutions tailored to address specific constraints of house holds 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.

Capitalizing on PPAF's credible track record of managing disasters and emergency situations on a large scale, PPAF proactively responded to widespread destruction caused by August 2011 floods affecting more than 8 million people in the province of Sindh. The Company adopted a comprehensive strategy focused on immediate relief through provision of food, milk, water, medicines, shelter and related items for the affectees. PPAF disbursed Rs 206 million from its own reserves for early recovery programme to help overcome plight of affected communities. The relief operations were carried out in 14 union councils of district Badin of Sindh. PPAF successfully completed the relief activities to allow people in affected areas to rebuild their lives and livelihoods.

Disbursements and Outputs

PPAF continued to maintan a resilient financial position over the past year. PPAF's operations demonstrated impressive performance which was manifest from the strong asset base, improved equity and sustained returns.

The overall disbursements during the year enhanced to Rs 19,792 million as compared to Rs.15,738 million during FY 2011, an upsurge of 26% over the last year. Loan disbursements (microcredit and enterprise development facilities) climbed to Rs 13,149 million as compared to Rs 10,952 million in 2011 indicating a rise of 20% and disbursements for grants based interventions (water and infrastructure; health and education; capacity building/social mobilization; livelihood enhancement and protection) sprung up to Rs. 6,437 million from Rs.4,574 million in the last year. In addition, Rs 1,481 million was disbursed for project and relief activities as against Rs 566 million in the preceding year [fig. 2].

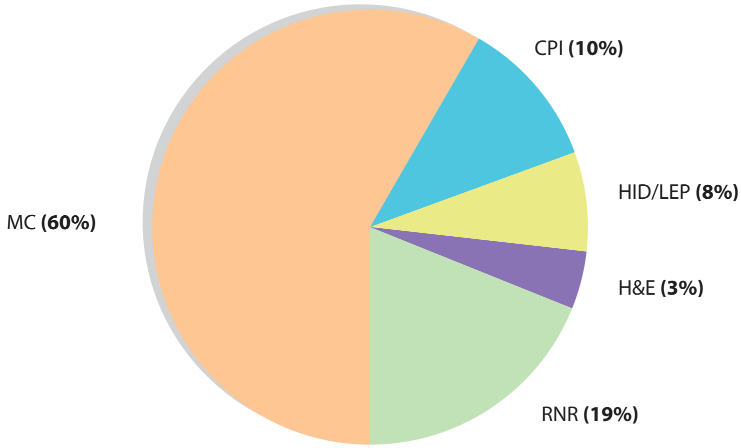
Fig 2: **Disbursements**

	Rs. Million		
Description	**Jul-Jun 2012**	**Jul-Jun 2011**	**Variance (%)**
Credit & enterprise development	13,149	10,952	+20
Water & infrastructure	1,271	1,449	-12
Health & education	830	866	-4
Capacity building/social mobilization	1,576	1,491	+6
Livelihood enhancement	1,485	414	+259
Project & relief activities	1,481	566	+162
Total	**19,792**	**15,738**	**+26**

During the period under review, PPAF financed over 880,000 microcredit loans; 1,975 water and infrastructure projects were completed; 1,178 health and education projects were supported; 25,150 community organizations were formed/revitalized, 57,000 staff and community members were trained; 20,000 assets were transferred to poor households and 2,050 persons with disabilities rehabilitated.

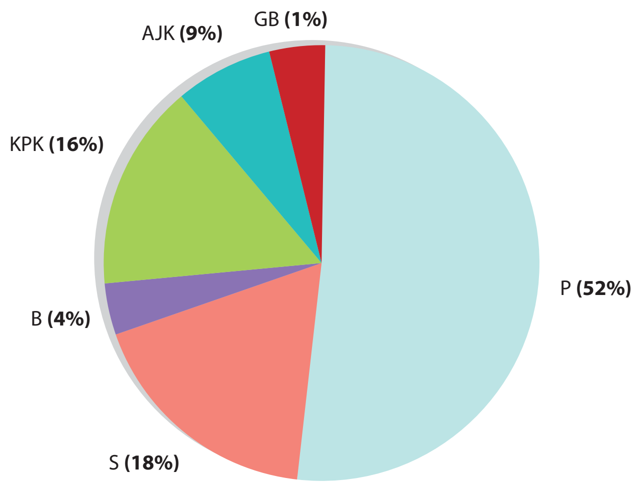
Cumulative disbursements by the end of June 2012, stood at Rs. 110,423 million out of which credit and enterprise development was 60% followed by relief, rehabilitation and reconstruction activities (19%); community physical infrastructure (10%); human and institutional development (including social mobilization)/livelihood enhancement and protection (8%); and health & education (3%) [fig. 3].

Fig 3: **Share of funds disbursed**



PPAF played a significant role with respect to providing provincial coverage to combat poverty. Among provinces interventions were carried out with the percentage of 51% in Punjab, 18% in Sindh, 16% in Khyber Pakhtunkhwa, 4% in Balochistan; 10% in Azad Jammu and Kashmir; 1% each in Gilgit Baltistan and Islamabad Capital Territory. To improve the availability of resources in most deprived provinces reforms will rely on the implementation of district prioritization strategy that focuses on regions that have historically lagged behind in socio-economic development and are particularly underserved.

Fig 4: **Provincial distribution of funds**

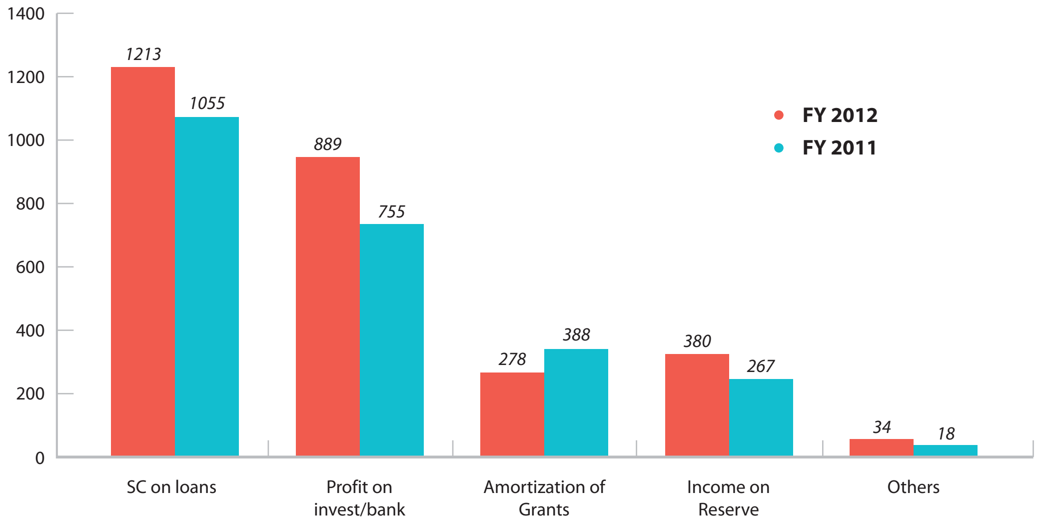


By the end of June 2012, PPAF had expanded its partnership with 116 partner organizations which deployed resources in both urban and rural areas of 129 districts of the country. Aggregately, PPAF enumerated a record spread of 5,167,152 microcredit loans, of which 2,728,000 were to women, completed 26,933 water and infrastructure projects, supported and financed 2,015 health and education facilities, transferred 20,073 assets to poor and trained 563,691 staff and community members nationwide. In provision of addressing the natural crisis within the country, PPAF provided record financing to 122,000 households during the previous years for construction of earthquake resistant homes and to build capacities of over 100,000 individuals in seismic construction and related skills.

Operational and Financial Overview

As a non-profit institution, PPAF seeks to maximize profits and earn enough income to ensure its financial strength and sustain its development activities. PPAF's income rose from Rs. 2,485 million in the fiscal year 2011 up to Rs. 2,794 million in 2012, increase of 12%. The service charges (profit) on loan to partner organizations increased by 15% due to high volume of amount of credit outstanding and introduction of market based rates for large partner organizations. Income on investments and saving accounts increased by 24% due to increase in level of investments and reserve. This includes income of Rs. 380 million that was generated on investments specific to grant based activities. During the year, grant of Rs. 278 million was made available by Government of Pakistan and donor agencies for PPAF operational support [fig. 5].

Fig 5: **Total income** [Rs. in million]



The general and administrative expenses relate to the operations of PPAF. During the year Rs 435 million were consumed on carrying out the general operations of the Company as against Rs 349 million during the preceding year, an increase of 25%. The main increases were in salaries/benefits, travel and vehicle running/maintenance expanses. The salaries, wages and other benefits increased due to annual increments to existing employees to provide relief against higher cost of living and recognition of their work performance; as well as hiring of additional staff for managing expansion in core operations and new activities under different projects. Travel expense increased due to extensive appraisal and monitoring visits in view of high cumulative disbursements and enhanced activities. The increase in running/maintenance expenses were on account of high POL charges. Seminar, workshops and training expenses of Rs 40.92 million included Rs 15.04 million spent on trainings and Rs 25.88 million incurred on seminar and workshops. Total expense of Rs 98.83 on technical and other studies included Rs 41.62 million in respect of poverty scorecard survey. Project and relief activities, financed from PPAF own resources, included Rs 202.83 million on relief activities in flood affected areas and Rs 269.28 million for PPAF II project.

	Rs. Million	
Description	**2012**	**2011**
Service charges (profit) on loans	1,213	1,055
Income on investments/saving accounts	1,268	1,022
Amortization of deferred income - grant fund	278	390
Benefit of below market rate of interest on loans	3 3	-
Other income	1	18
Total income	**2 ,793**	**2 ,485**
General and administrative expenses	435	349
Seminar, workshops and trainings	41	25
Technical and other studies	99	350
Project and relief activities	472	208
Loan loss provision	223	28
Financial charges	148	109
Total expenditure	1 ,418	1,069
Surplus for the year	**1,375**	**1,416**

The general loan loss provided 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.

Financing Agreements signed with the Government of Pakistan (GoP) required repayment of loan amounts alongwith service and commitments charges from PPAF on the stipulated rates each year. PPAF profoundly repaid its obligations to GoP. During the year, 288.613 million (FY 2011 : 109.62 million) was repaid on account of principal amount of loan and Rs 149.428 million (FY 2011 : Rs 111.050 million) as service/commitment charges to the GoP.

Over the years PPAF strived to attain operational and financial sustainability to provide support to activities vital in alleviating poverty. In this direction, PPAF strengthened its microcredit function through further engagement of its reflows coming in the form of repayments from its 8

partner organizations. During the year, out of total credit disbursements of Rs 13,149 million, an amount of Rs 11,919 million (91%) was disbursed from PPAF reflows/own resources. Considering the increasing need for sustainable grant based operations in the absence of external financing, the Board of Directors has approved the creation of a reserve for grant operations. 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, 2012 the reserve stood at Rs 3,804 million as against Rs 2,572 million as at June 30, 2011.

Total equity and reserves significantly increased to Rs 8,905 million as at June 30, 2012 as against Rs 7,530 million as at June 30, 2011. Total assets of the Company reached Rs. 27,091 million on June 30, 2012 against Rs 24,565 million as at June 30, 2011. Total receivables (loan/service charges) from partner organizations rose to Rs 13,434 million on June 30, 2012 as against Rs 11,755 million as at June 30, 2011. PPAF continued to maintain almost 100% recovery rate in respect of its lending operations. The debt equity ratio during the current financial year stood at 63:37 as against 65:35 (year 2011).

Sectoral and Programme Overview

PPAF has been driven by inspiration and dedication to improving people's lives in the country. It personifies the spirit of being capable of addressing the multi-dimensional issues of poverty with a view to achieving social and economic change. PPAF serves its target community by following an integrated approach through various interventions focused on strengthening social mobilization, micro-credit, infrastructure, health, education, livelihood enhancement and skills development.

The social mobilization framework of PPAF is based 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.

PPAF remains steadfast in promoting microcredit sector growth through facilitating capital access within a carefully strategized institutional framework at the grassroots. As the microfinance sector has evolved in Pakistan, and is facing a new array of opportunities and challenges, the vision of PPAF is commensurately evolving. It sees the opportunity to spur a revitalization of the microfinance sector where the technological innovation, the progressive operating environment, and the range of institutions operating in Pakistan is now matched with a resurgence in financial penetration and responsible growth of outreach, particularly in untapped markets. In order to achieve this vision, PPAF plans to create a transformative, modern, specialized, and innovative microfinance apex that would spur a resurgence of high quality growth of the microfinance sector and substantially increase financial sector penetration for poor households and microenterprises, particularly in underserved areas of Pakistan. PPAF has engaged experts to conduct extensive study and recommend options for new institutional design. PPAF recently institutionalized a new pricing and grant policy to incentivize the microfinance institutions and banks to extend their lending operations to deprived and remote areas.

The water and infrastructure interventions have proven to be one of the most productive investments providing high economic returns. These interventions are a central resource facility aimed at reducing poverty and safeguarding against vulnerability related to water scarcity and disasters, following a community led demand driven approach. 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. 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 standalone 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.

One of the critical roles of PPAF is the development and consolidation of human and institutional capacities for effective policy interventions at the grassroots. PPAF 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. PPAF 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. PPAF'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 poor and marginalized communities are provided access to quality education and health services within the overarching goal of poverty alleviation. In addition to establishing new schools and Community Health Centers in areas lacking such services, PPAF also invests substantial technical and financial resources in underperforming health and education facilities in the public sector. 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.

Through its livelihood enhancement and protection programme PPAF seeks to enhance productivity of poor individuals and communities through focused interventions aimed at developing skill sets and assets for greater income generating opportunities and better livelihoods. It encourages saving and internal lending within organized communities, while striving to introduce efficient mechanisms for identifying and supporting innovative microenterprises.

The objective of this component is to develop the capacity, opportunities, assets and productivity of community members to reduce their vulnerability to shocks, improve their livelihoods initiatives and strengthen their business operations. Community members are supported to build up their savings capacity and proficiency in funds management through internal lending while complementing these efforts with grants and technical support to increase assets, productivity and incomes. Mechanisms are also developed and implemented to identify and support innovative micro-enterprises and value chain development which results in improved livelihoods and facilitates and promotes linkages with private, public sector and civil society service providers.

PPAF's disability program subsumes several focused interventions in support of persons with disabilities including awareness raising campaigns, assessment camps, devices distribution camps, attendant ship training, enterprise development training, and business incubation. PPAF also 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.

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

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

Key Events/ Initiatives

Arranged under the aegis of PPAF, representatives of the National Disaster Management Authority, State Bank of Pakistan, Security and Exchange Commission of Pakistan, Pakistan Microfinance Network, leading insurance companies and partners organizations at "Strategizing for Resilience Against Disasters - A Microfinance Dialogue" evaluated the utility of microfinance as a coping mechanism with catastrophes and an instrument for the rehabilitation of the affectees in flood-hit areas. This included the use of microcredit, micro-insurance, savings and micro-assets for reducing/mitigating negative impacts on livelihoods.

An interactive session on "Branchless Banking and Savings" was organized in which 45 partner organizations and representatives of major stakeholders including State Bank of Pakistan, Pakistan Microfinance Network, Shore Bank International, a number of Insurance Companies, KfW (Development Bank of Germany) participated. The objectives of the workshop were to explore opportunities for scaling up Branchless Banking models as they holds tremendous promise for reducing microfinance transactions costs, thereby assisting with increasing outreach to far-fetched areas.

PPAF has introduced a new product for the microfinance sector, which permits grant of "Equity Fund" to the most dynamic partners and microfinance institutions enabling them to access commercial financing to realize their growth potential and expansion into rural areas. This initiative would provide a much needed boost to expand the outreach of microfinance sector in Pakistan.

The graduation ceremony of the third batch interns of the Federally Administered Tribal Areas (FATA) internship programme was organized. Sixteen interns enrolled from South Waziristan successfully completed an in-house course at PPAF head office. These graduates have now been attached with the selected PPAF POs to gain field experience.

On the occasion of International Women's Day (March 8, 2012) PPAF launched Amtul Raqeeb Award which pays tribute to the services of courageous women who braved adversity and chalked out their own and their communities' destiny. On this occasion women belonging to PPAF's communities from various geographical locations of the country were given awards. A simple ceremony was organized to launch this chronicle of success captioned 'Women of Substance.

On the occasion of World Water Day 2012, PPAF organized a half day Panel Colloquium on March 22, 2012. Leading water sector and disaster management practitioners/specialists were invited as panelists/discussants. PPAF offered its services as a secretariat for a potential Water Forum initiative.

A ceremony was arranged to mark the 40th World Environment Day on June 5, 2012 on the premises of Pakistan Poverty Alleviation Fund (PPAF), with the purpose of inculcating among the Team PPAF a true spirit needed not only to protect our environment but also to save and improve the same for our next generations.

Treasury Management

PPAF invest its resources which are not required immediately for financing its operations. The liquid assets are invested based on the guidelines stipulated in the investment policy devised and issued through Board approved treasury management strategy. The Company has a separate treasury management function with a mandate to maintain and monitor the liquidity and to minimize the cash flow risk whereby keeping an eye on cash inflows and outflows on a regular basis. The Company manages a portfolio of long term and short term investments, made after thorough financial evaluation. The credit risk in short term investments is minimized through diversification in investments among top ranking financial institutions.

Business Risks and Challenges

In carrying out its development mandate, PPAF seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks that are incidental but nevertheless critical to the execution of its mandate. The policies, processes and procedures by which PPAF manages its risk profile continually evolve in response to market, credit products and other developments. Broadly, we classify risks as follows:

Strategic Risks

Strategic risks are those risks associated with operating in a particular industry and are not in the company’s control.

Operational Risks

These are risks associated with operational and administrative procedures. These include the risks relating to workforce turnover, supply chain disruption, IT system shutdowns, or control failures.

Financial Risks

Financial Risks are divided in the following categories:

Credit risk

Credit risk is the potential financial loss due to default of one or more debtors. Credit risk is the largest source of risk for the Company arising from lending to partner organizations and treasury operations. PPAF manages the credit risk on loans by defining exposure limits to financing so as to maintain an adequately diversified portfolio with partner organizations. In this percept a performance based criteria has been adopted for selection of partner organizations. The risk is further controlled and managed by regularly monitoring the exposure limits of the partner organizations. The credit risk on investments and bank balances is managed through a framework of exposure limits based on the counterparty credit rating and size defined in the standards set by the Board of Directors.

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 describes as the risk borne by the financial instrument 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

Liquidity risk emerges resulting from insufficient funds to meet cash flow in a timely manner. PPAF's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for semiannual horizon without additional financing from the reserves. PPAF maintains a prudential minimum level of liquidity based on the projected net cash requirements. The Company strikes a balance between generating adequate investment returns and holding securities that can be easily liquidated for cash if required. Moreover, the Company's financial position strongly supports its balanced approach.

Risk Governance

The roles and responsibilities of the various participants in our risk management program are outlined in our risk governance structure.

Board of Directors

Oversees the risk management process primarily through its committees:

- The Risk Oversight Committee reviews the effectiveness of overall risk management framework including risk policies, strategies, risk tolerance and risk appetite limits.
- The Audit Committee monitors the Company's risk management process quarterly, or more

frequently if required, focusing primarily on financial and regulatory compliance risks.

- The Compensation Committee focuses on risks in its area of oversight, including assessmentof compensation programs to ensure they do not escalate corporate risk.

Internal Audit

Provides independent and objective evaluations and reports to Management and the Audit Committee on the effectiveness of governance, risk management and control processes.

Internal Control Compliance

Each department identifies and manages risks pertaining to their respective areas of responsibility in addition to ensuring compliance with established internal controls.

Best Corporate Practices

PPAF enforced a well-defined corporate governance structure that works for the benefit for all the stakeholders by ensuring that the Company adheres to accepted ethical standards and best practices as well as to formal law.

PPAF ensures best practices of corporate governance by adopting a set of processes, custom and policies, to direct and control management activities with good business sense, objectivity, accountability and integrity. PPAF believe in openness and transparent reporting to the stakeholders to empower them in exercising their lawful rights.

The Management believes in true and fair presentations and circulation of periodic financial and non-financial information to governing bodies, donors and other stakeholders of the Company. The Company produces separate financial statements for different donors' projects, duly audited by its external auditors in addition to preparing financial statements abreast with statutory requirements.

During the year all periodic financial statements, 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, were endorsed and circulated to stakeholders. These statements were also made available on the Company website. Other nonfinancial information to be circulated to governing bodies and other stakeholders were also delivered in an accurate and timely manner.

Corporate Governance

Smearing the maximum legal requirements for good corporate governance obligatory by applicable law and regulations, PPAF pursues perfection by encouraging adherence to international and local principles of best corporate practices.The Company seeks to protect the interest of the stakeholders by adopting sound corporate governance practice to help to improve its performance and attract investments while enabling to realize its corporate objectives, protect stakeholders' right and meet legal requirements. The Company is committed to ensure business integrity and upholding the confidence of all its stakeholders by observing high standards of corporate governance. PPAF has endorsed the code of corporate governance of listing regulations to comply with best practices. 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 prerequisites and configuration of the Board of Directors are defined by the legal and regulatory framework parameters for smooth running of operations and promotion of corporate culture. The Company has on its Board highly experienced competent and committed personnel with vast expertise, integrity and strong sense of responsibility necessary for shielding the interest of all stakeholders. The Board comprises of eleven Members including the Chairman and the Chief Executive Officer. Of these, three were nominated by the Government; seven elected by the General Body; and the Chief Executive Officer appointed by the Board. The Chairman of the Board is an independent non-executive director. Except for the CEO, all members of the Board are non-executive Directors and serve in an honorary capacity, without compensation.

Role and Responsibilities of the Board

Corporate Governance is a system of structures and processes for the direction and control of the Company. Through this process a balance of duties and responsibilities for the Board are defined and segregated, enabling the Company to maintain the right balance of power and accountability while striving to achieve its objective of enhancing stakeholder value. The Board is copiously aware of the colossal errands conferred on them for increasing efficiency of the Company and safeguarding its assets. 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 and other applicable regulations.

The Board participates actively in major decisions of the Company including appointment of the Chief Executive Officer; 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 six 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. 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.

Change of Directors

The Board placed on record its appreciation for the valuable contributions made by the outgoing Government nominated Directors, Mr. Rana Assad Amin, representative of Ministry of Finance, Mr. Ahmad Farooq and Mr. Zaffar Hasan, representatives of Economic Affairs Division.

Board Committees

Board Audit Committee

The Audit Committee comprises of five non-executive members of the Board. The Chairman is an independent non-executive Director. The head of Internal Audit Unit acts as Secretary of the Committee.

The Committee assists the Board in over sighting integrity of the Company's financial control, with particular emphasis on reliability 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, the Audit Committee met three times. As part of its core activities, Committee discussed assertions on 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; 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 donors requirements.
The Committee held separate meetings with the Chief Financial Officer and the External Auditors to discuss issues of concern.

Board Compensation Committee

The Compensation Committee comprises of four 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 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.

During the year under review, the Committee held four meetings. The Committee reviewed and recommended for Board's approval, annual increment for the employees; appointment of group heads; travel allowance for employees, establishment of PPAF contributory provident fund, and revised training and development policy.

The Chief Executive Officer and other management employees were invited to attend meetings for discussion and suggestions

Risk Oversight Committee

The Risk Oversight Committee comprises of three members including its Chairman who is appointed by the Board from the non-executive Directors. The head of Financial Services Group acts as Secretary of the Committee.

The Committee assists the Board to review the effectiveness of overall risk management framework including risk policies, strategies, risk tolerance and risk appetite limits.
During the year under review, the Committee held three meetings. The Committee reviewed and recommended for Board's approval, eligibility criterion for lending to for-profit organizations, terms of reference for microcredit spin-off study, unsecured lending particularly to microfinance banks, treasury management strategy, and new strategy and products for microfinance sector.

Role and Responsibilities of the Chairman and the CEO

The Chairman and the Chief Executive Officer are assigned segregated and distinct responsibilities by the Board of Directors vested under law and the Articles of Association of the Company, as well as duties assigned 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 Chief Executive Officer is responsible for the operations of the Company and conduct of its business. The Chief Executive Officer recommends policy and strategic 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.

Management

The Company 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.

Human Resource

PPAF's human resource strategy focuses on investing continuously in its Human Capital. We strongly believe in bringing on board the most talented and imaginative people through a highly transparent and competitive recruitment process and then encouraging them to attain new levels of excellence through job enrichment and focused trainings.

Future Outlook

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, multi-sector approach.

The Company executed Financing Agreements for EUR 31.50 million KfW (Development Bank of Germany) “Livelihood Support and Promotion of Small Community Infrastructure” Project. The project will be implemented in five districts of Khyber-Pakhtunkhwa Province and its objectives are; (a) increased access and sustainable utilization of social and economic infrastructure; (b) increased employment and income opportunities, especially for the poor; and (c) strengthening local civil society and enhanced participation of the population in the decision making at local level.

The Company finalized modalities for effectiveness of Italian Government’s Programme for “Poverty Reduction through Rural Development”. The project size is EUR 40 million with an overall objective of establishing a social and productive infrastructure system and an effective/sustainable social safety net. The project will be implemented in Balochistan, Khyber-Pakhtunkhwa and Federally Administered Tribal Areas.

During the period under review, PPAF negotiated with KfW “Renewable Project” for EUR 22.5 million. The overall objective of the project is to contribute to the improvement of the general living conditions and quality of life of the poor population living in the selected districts by increased access to energy for communities; reduction in the use of fuel wood; increased employment and income opportunities, especially for the poor through promotion of productive usage of the energy; and strengthening of the local civil society and enhanced participation of the population in the decision making at the local level. The project will be implemented in Khyber Pakhtunkhwa.

Auditors

The present auditors of the Company, Messer’s A. F. Ferguson and Company, Chartered Accountants, have completed their five year term on conclusion of their assignment for the financial year ended June 30, 2012 and shall retire at the conclusion of 16th Annual General Meeting. The code of corporate governance requires the companies to change their external auditors or rotate the engagement partner after every five years.

In accordance with the provisions of code of corporate governance, the Audit Committee considered and recommended their re-appointment for the financial year ending June 30, 2013 with change of partner. The Board also endorsed the recommendations of the Audit Committee.

Conclusion

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. PPAF demonstrated solid competences and continued to post good results and has shown strong capacities in helping the poor. PPAF expanded its outreach to all the district of the country to support to the emerging needs of the deprived segment. Multi-sector operations of PPAF foster improvements in lives of the poor thereby enhancing their social status. While the interventions continued to target the core strategic priorities the emphasis remained 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 performance in terms of its institutional development remained impressive. The previous track record showed PPAF as an institution striving to facilitate poor through cost effective and efficient delivery and 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 communities.

Acknowledgement

I would like to thank the Board members for their continued effort to improve the policies and governance framework by providing their valuable guidance. The insightfulness fortitude, intensive participation and enduring commitment helped PPAF in reaching heights. I always appreciate their corporation, wisdom, support, able guidance and as well as the assistance and co-operation in benefit of the Company at all levels. I am confident that this relationship will go a long way to reap fruitful prosperity of the Company.

In addition, the Board also likes to appreciate incompatible guidance of the Members of the General Body for the betterment of the Company and also look forward to their continuous support. The Board would also like to praise the partner organizations and their communities for their commitment towards the success of the programme.

The success and the glory achieved by the Company is attributable to the resolute support of the company's stakeholders - Government of Pakistan, World Bank, International Fund for Agricultural Development; KfW Development Bank (Germany); and U.S. Agency for International Development. We thank them for their support, understanding and co-operation. The Board looks forward to the persistent support of all the stakeholders in order to align the Company activities with its strategic vision. The Company continues to add to the stakeholders' value while being a socially responsible entity, dispensing its corporate roles and responsibilities. We are proud of all the employees of the Company for their dedication and determination. With unmatched performance, devotion and participative leadership style, they made significant contribution towards the result achieved by the Company during the year.

We realize that the scale we have reached make us a significant factor not only on the development sector of Pakistan, but in the country's economy as well. The broad range of our impact brings a big responsibility as well. 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.

Karachi
September 19, 2012

Hussain Dawood
Chairman

PAKISTAN POVERTY ALLEVIATION FUND

Financial Statements

FOR THE YEAR ENDED
JUNE 30, 2012

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, 2012 and the related statement of comprehensive income, 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 statement of comprehensive income 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 except for the changes as stated in note 2 to the financial statements to which we concur;

  (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, statement of comprehensive income, 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, 2012 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: September 19, 2012

Engagement partner: Sohail M Khan

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PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET AS AT JUNE 30, 2012

	Note	2012	2011
		(Rupees in '000)	
NON CURRENT ASSETS			
Property, plant and equipment	5	77,350	58,824
Intangible assets	6	6,870	3,493
Long term investments	7	994,000	1,150,896
Long term loans to Partner Organizations	8	2,191,796	1,466,675
		3,270,016	2,679,888
CURRENT ASSETS			
Current maturity of long term investments	7	3,803,563	2,421,252
Current maturity of loans to Partner Organizations	8	10,360,561	9,630,919
Short term investments	9	6,409,902	6,312,535
Advances, deposits, prepayments and other receivables	10	73,416	72,259
Profit/service charges receivable	11	767,994	682,095
Bank balances-specific to projects	12	2,263,402	2,734,888
Cash and bank balances	13	141,893	31,332
		23,820,731	21,885,280
		27,090,747	24,565,168
FUND AND RESERVES			
Endowment fund	14	1,000,000	1,000,000
Grant fund	4.8	3,803,563	2,572,148
Reserve for grant based activities	4.8	400,467	222,180
Accumulated surplus		3,701,440	3,736,073
		8,905,470	7,530,401
LONG TERM LOANS	15	13,575,482	13,760,923
DEFERRED BENEFIT OF BELOW MARKET RATE OF INTEREST ON LONG TERM LOAN	15.6	1,779,819	-
CURRENT LIABILITIES			
Deferred liabilities - grant fund	16	2,242,391	2,826,743
Deferred income - grant fund	17	12,113	31,427
Current portion of long term loans	15	467,610	282,795
Service and commitment charges payable	18	35,522	37,194
Accrued and other liabilities	19	72,340	95,685
		2,829,976	3,273,844
CONTINGENCIES AND COMMITMENTS	21		
		27,090,747	24,565,168

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

Chairman

Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		(Rupees in '000)	
INCOME			
Service charges on loans to Partner Organizations	22	1,212,646	1,055,042
Income on investments and saving accounts	23	1,268,696	1,022,302
Amortization of deferred income - grant fund	17	278,299	389,582
Amortization of deferred benefit of below market rate of interest on long term loan	15.6	33,334	-
Other income	24	656	18,360
		2,793,631	2,485,286
EXPENDITURE			
General and administrative expenses	25	435,486	349,046
Seminars, workshops and trainings	26	40,916	24,759
Technical and other studies	27	98,830	350,940
Project and relief activities	28	472,117	207,908
Loan loss provision	8	223,457	27,660
Financial charges	29	147,756	109,033
		1,418,562	1,069,346
SURPLUS FOR THE YEAR		1,375,069	1,415,940
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,375,069	1,415,940

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, 2012

	Note	2012	2011
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		1,375,069	1,415,940
Adjustment for non cash items:			
Depreciation		25,183	26,439
Amortization of intangible assets		2,790	4,680
Grants for operational assistance		(278,299)	(389,582)
Loan loss provision		223,457	27,660
Gain on sale of fixed assets		(416)	(3,523)
Financial charges		147,756	109,033
		120,471	(225,293)
		1,495,540	1,190,647
Working capital changes			
(Increase) / decrease in current assets:			
Advances, deposits, prepayments and other receivables		(1,157)	17,131
Profit/service charges receivables		(85,899)	(271,158)
Increase / (decrease) in current liabilities:			
Accrued and other liabilities		(23,345)	75,913
		(110,401)	(178,114)
Cash generated from operations		1,385,139	1,012,533
Disbursements to partner organizations:			
Loan		(13,149,241)	(10,952,195)
Grants		(6,437,611)	(4,579,529)
Recoveries of loans from partner organizations		11,471,021	10,399,022
Financial charges paid		(149,428)	(111,050)
		(8,265,259)	(5,243,752)
Cash flows from operating activities		(6,880,120)	(4,231,219)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net purchases		(1,322,782)	(2,462,910)
Capital expenditure incurred		(50,458)	(20,973)
Proceeds from disposal of fixed assets		998	3,757
Cash flows from investing activities		(1,372,242)	(2,480,126)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term loans - received		2,067,806	1,836,364
Long term loans - repaid		(288,613)	(109,617)
Deferred liabilities - grant fund receipts		5,853,259	2,327,147
Deferred income - grant fund receipts		258,985	361,309
Cash flows from financing activities		7,891,437	4,415,203
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(360,925)	(2,296,142)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,766,220	5,062,362
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	12&13	**2,405,295**	**2,766,220**

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, 2012

(Rupees in '000)

	Note	Endowment Fund	Grant fund	Reserve for grant based activities	Accumulated Surplus	Total
Balance as at June 30, 2010		1,000,000	1,763,431	161,052	3,189,978	6,114,461
Total comprehensive income for the year						
Surplus for the year		-	-	-	1,415,940	1,415,940
Other comprehensive income		-	-	-	-	-
		-	-	-	1,415,940	1,415,940
Transfer from accumulated surplus to grant fund	4.8		808,717		(808,717)	-
Transfer from accumulated surplus to reserve for grant based activities	30			61,128	(61,128)	-
Balance as at June 30, 2011		1,000,000	2,572,148	222,180	3,736,073	7,530,401
Total comprehensive income for the year						
Surplus for the year		-	-	-	1,375,069	1,375,069
Other comprehensive income		-	-	-	-	-
		-	-	-	1,375,069	1,375,069
Transfer from accumulated surplus to grant fund	4.8		1,231,415		(1,231,415)	-
Transfer from accumulated surplus to reserve for grant based activities	30			178,287	(178,287)	-
Balance as at June 30, 2012		1,000,000	3,803,563	400,467	3,701,440	8,905,470

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, 2012

1. STATUS, BACKGROUND AND NATURE OF OPERATIONS

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

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

2. STATEMENT OF COMPLIANCE

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

Previously, the financial statements were prepared in accordance with Accounting and Financial Reporting Standard for Medium-Sized Entities (MSEs) issued by the Institute of Chartered Accountants of Pakistan and provisions and directives issued under the Companies Ordinance, 1984. During the year ended June 30, 2011 the Company qualified as an Economically Significant Entity in accordance with the requirements of Companies Ordinance, 1984. Accordingly, the financial statements for the year are prepared as per requirements applicable to Economically Significant Entities.

As a result of the change in accounting framework, the benefit of government loan at a below market rate of interest whose disbursement commenced after July 1, 2009 has been treated as grant and deferred in the balance sheet as detailed in note 15.6, prospectively from the current year. Further, additional disclosures required under the approved accounting standards have been made in the financial statements.

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2011 and not early adopted by the Company:

IAS 19, 'Employee benefits' has been amended to eliminate the corridor approach and recognize all actuarial gains and losses in other comprehensive income as they occur; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). IAS 19 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for the accounting period beginning on or after January 1, 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 is effective for the accounting period beginning on or after January 1, 2013.

The management anticipates that, except for the effects on the financial statements of amendments to IAS 19- "Employee Benefits", the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the Company's financial statements other than in presentation / disclosures. The application of the amendments to IAS 19 would result in the recognition of cumulative unrecognized actuarial gains / losses in other comprehensive income in the period of initial application, which cannot be presently quantified on the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention except for the recognition of employees retirement benefits on the basis of 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 recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods.

The area involving a higher degree of judgment or complexity or area where assumptions and estimates are significant to the financial statements is loan loss provision (note 8), staff gratuity scheme (note 20) and deferred benefit of below market rate of interest on long term loans (note 15.6).

4.2 Employee benefits

The Company operates the following staff retirement benefits plans:

(i) 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, 2012, related details of which are given in note 20 to the financial statements.

(ii) From the current year the Company has established an approved contributory provident fund for all employees for which contributions of Rs 4,768 thousand are charged to income for the year.

4.3 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.

4.4 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.

4.5 Deferred liabilities - grant fund

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

4.6 Property, plant and equipment

Property, plant and equipment 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. Depreciation is charged on additions from the date the asset becomes available for the intended use up to the date on which they are derecognized.

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 assets is included in current year's statement of income and expenditure.

4.7 Intangible assets

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

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

4.8 Investments

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

In order to safeguard against major default and provide sufficient capital adequacy, with effect from July 01, 2009, an amount of 15% (2011: 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.

In order to respond quickly in emergency situations, with effect from July 1, 2011, an amount of 5% of total loan receivable from Partner Organization shall be kept as disaster fund. The disaster fund has been aggregated in the grant fund in the financial statements.

4.9 Loans to Partner Organizations

These are stated net of provision for loan losses.

General provision is made for loan losses at the rate of 5% (2011: 5%) of the gross outstanding balances of loans to POs 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.

4.10 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.

4.11 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.

4.12 Receipts - micro-credit loans and grants

Receipts from Government of Pakistan (GOP) on account of donors' (International Development Association (IDA) ,International Fund for Agricultural Development (IFAD) and German Financial Cooperation - kfw) projects are recorded on the basis of Financial Monitoring Reports and Statement of Expenses, raised on periodic basis, under relevant categories of micro-credit loan fund, community physical infrastructure (CPI) grant fund, livelihood enhancement and protection and capacity building grant fund as specified in the Financing Schedules of the respective Financing Agreements.

4.13 Borrowing costs

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

4.14 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, social mobilization, disability, livelihood enhancement and protection and capacity building grant which are included in their respective balances.

4.15 Long term loans

Long term loans whose disbursement commenced before June 30, 2009 are measured at amortized cost. Long term loans at a below market rate of interest whose disbursement commenced on or after July 1, 2009 are carried at present value and the difference between present value and loan proceeds is treated as government grant in accordance with IAS 20 and deferred as a liability. The benefit is recognised as income using the effective interest method over the period of the loan . A corresponding charge at market rate of interest on the carrying value of loan is recognized as imputed interest expense.

4.16 Financial instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. 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.

4.17 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment at each balance sheet date, or wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount for which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date. Reversals of the impairment loss are restricted to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized. An impairment loss or reversal of impairment loss is recognized in income for the year.

4.18 Financial assets

4.18.1 Classification

The Company classifies its financial assets in four categories: held to maturity, loans and receivables, at fair value through profit or loss and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i) Held to maturity

A financial asset is classified in this category if acquired by the Company with the intention and ability to hold them up to maturity.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Company's loans and receivables comprise Loans to partner organizations, Advances, deposits, prepayments and other receivables, Profit/service charges receivable and cash and bank balances.

(iii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

4.18.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other income when the Company's right to receive payment is established.

4.18.3 Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

4.19 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.

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5. PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fixtures	Vehicles	Office Equipment	Computer equipment	Total
			Rupees in '000		
At June 30, 2010					
Cost	13,223	60,555	41,603	51,000	166,381
Accumulated depreciation	(8,504)	(38,309)	(20,109)	(34,486)	(101,408)
Net book amount	4,719	22,246	21,494	16,514	64,973
Year ended June 30, 2011					
Opening net book amount	4,719	22,246	21,494	16,514	64,973
Additions	1,712	12,607	1,454	4,751	20,524
Disposals					
Cost	-	(6,579)	(819)	(2,462)	(9,860)
Depreciation	-	6,533	631	2,462	9,626
	-	(46)	(188)	-	(234)
Depreciation charge	(1,747)	(10,034)	(6,486)	(8,172)	(26,439)
Closing net book amount	4,684	24,773	16,274	13,093	58,824
At June 30, 2011					
Cost	14,935	66,583	42,238	53,289	177,045
Accumulated depreciation	(10,251)	(41,810)	(25,964)	(40,196)	(118,221)
Net book amount	4,684	24,773	16,274	13,093	58,824
Year ended June 30, 2012					
Opening net book amount	4,684	24,773	16,274	13,093	58,824
Additions	7,989	21,270	5,072	9,960	44,291
Disposals					
Cost	-	(2,388)	(311)	(690)	(3,389)
Depreciation	-	2,146	109	552	2,807
	-	(242)	(202)	(138)	(582)
Depreciation charge	(1,883)	(9,674)	(6,057)	(7,569)	(25,183)
Closing net book amount	10,790	36,127	15,087	15,346	77,350
At June 30, 2012					
Cost	22,924	85,465	46,999	62,559	217,947
Accumulated depreciation	(12,134)	(49,338)	(31,912)	(47,213)	(140,597)
Net book amount	10,790	36,127	15,087	15,346	77,350
Annual rate of depreciation (%)	20	20	20	25	

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6. INTANGIBLE ASSETS

	Satellite Imageries	Computer Software	Total
		Rupees in '000	
At June 30, 2010			
Cost	18,547	4,577	23,124
Accumulated amortisation	(11,631)	(3,769)	(15,400)
Net book amount	6,916	808	7,724
Year ended June 30, 2011			
Opening net book amount	6,916	808	7,724
Additions	-	449	449
Amortisation charge	(4,353)	(327)	(4,680)
Closing net book amount	2,563	930	3,493
At June 30, 2011			
Cost	18,547	5,026	23,573
Accumulated depreciation	(15,984)	(4,096)	(20,080)
Net book amount	2,563	930	3,493
Year ended June 30, 2012			
Opening net book amount	2,563	930	3,493
Additions	531	5,636	6,167
Amortisation charge	(1,945)	(845)	(2,790)
Closing net book amount	1,149	5,721	6,870
At June 30, 2012			
Cost	19,078	10,662	29,740
Accumulated amortisation	(17,929)	(4,941)	(22,870)
Net book amount	1,149	5,721	6,870
Annual rate of amortisation (%)	25	25	

	Note	2012	2011
		(Rupees in '000)	
7. LONG TERM INVESTMENTS - held to maturity			
Pakistan Investment Bonds (PIBs)	7.1	994,000	1,000,000
Term Deposit Receipts (TDR)	7.2	3,803,563	2,572,148
		4,797,563	3,572,148
Less: Long term investments maturing within next twelve months shown as current asset		(3,803,563)	(2,421,252)
		994,000	1,150,896

7.1 Represents investments in PIBs as follows:

Principal (Rupees)	Issue Date	Maturity Date	Coupon rate % per annum	Payment terms
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
194 million	31-05-2012	22-07-2013	11.25	Semi annually

7.2 These investments include term deposit receipts of various commercial and investment banks at annual markup rates ranging from 10.00% to 14.00% (2011:12.15% p.a. to 13.75% p.a).

8. LOANS TO PARTNER ORGANIZATIONS - secured, considered good	2012	2011
	(Rupees in '000)	
AGAHE	22,358	8,117
Al Mehran Rural Develpoment and Welfare Organization	66,251	62,783
ASA Pakistan Ltd.	133,875	85,000
Asasah	209,546	222,338
Badbaan Enterprise Development Forum	11,716	2,292
Baidarie	34,630	22,042
Balochistan Rural Development & Research Society	-	1,860
BRAC Pakistan	751,300	966,387
Buksh Foundation	10,000	5,417
Bunyad Literacy Community Council	27,500	14,500
Centre for Women Cooperative Development	156,994	219,420
Chenab Development Foundation	10,500	3,000
Community Support Concern	244,194	270,298
Development Action for Mobilization and Emancipation	682,459	596,842
Dia Welfare Organization	16,750	4,638
Farmers Friend Organization	113,190	61,716
Ghazi Brotha Taraqiatee Idara	14,602	-
Indus Resource Centre	-	1,282
Jinnah Welfare Society	361,368	295,916
Karwan Community Development Organization	15,170	12,353
Kashf Foundation	2,749,750	1,846,500
Khajji Cooperative Society	7,920	16,000
Khushhali Bank	184,053	-
Khwendo Kor Women and Children Development Programme	3,490	1,052
Kiran Welfare Organization	1,500	1,500
Marvi Rural Development Organization	3,615	34,605
Mashal Development Organization	751	3,471
Mehran Education Society	23,000	-
Mojaz Foundation	54,680	26,920
Narowal Rural Development Programme	35,084	35,137
National Rural Support Programme	3,220,548	4,397,851
Network Leasing Corporation Limited	-	15,125
Balances continued - carried forward	9,166,794	9,234,362

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	Note	2012	2011
		(Rupees in '000)	
Balances continued - brought forward		9,166,794	9,234,362
NRSP Microfinance Bank		1,350,000	-
Orangi Charitable Trust		324,300	261,500
Organization for Participatory Development		50,153	47,264
Orix Leasing Pakistan Limited		193,527	216,542
Poverty Eradication Network		2,777	2,777
Punjab Rural Support Programme		307,137	363,942
Rural Community Development Society		420,325	297,819
SAATH Development Society		43,797	24,300
Sarhad Rural Support Programme		10,000	5,000
Save The Poor		19,549	28,916
Sayya Foundation		8,980	3,980
Shadab Rural Development Organization		23,288	-
Shah Sachal Sami Welfare Association		16,333	-
Sindh Agricultural & Forestry Workers Coordinating Organization		365,123	261,400
Sindh Rural Support Organization		494,593	452,473
Sindh Rural Support Programme		200	200
Soon Valley Development Programme		41,675	24,300
Support with Working Solution		-	6,550
Swabi Women Welfare Society		23,559	-
Thardeep Rural Development Programme		517,750	492,845
Villagers Development Organization		28,517	4,950
Women Social Organization		17,956	18,993
Young Pioneers Society		7,250	7,250
	8.1	13,433,583	11,755,363
Less: Loan loss provision	8.2	(881,226)	(657,769)
		12,552,357	11,097,594
Less: Amount receivable within next twelve months shown as current asset		(10,360,561)	(9,630,919)
		2,191,796	1,466,675

8.1 The Company disbursed microcredit loans to POs under respective Financing Agreements at service charges based upon a range of benchmarks including KIBOR. These loans are secured through letter of hypothecation on receivables of POs created out of financing obtained from the Company. Further, the Company maintains a first charge on all assets / capital items created out of financing provided for capacity building and under the exclusive lien of the Company until full repayment of the principal, service charges and other outstanding amounts payable to the Company. These loans are repayable on quarterly basis within two years under the respective financing agreements signed between the Company and the POs. During the year the loans were disbursed at a service charge ranging from 8% to 14.25% (2011: 8% to 14.25%).

	Note	2012	2011
		(Rupees in '000)	
8.2 Movement of loan loss provision			
Opening balance		657,769	630,109
Provision during the year		223,457	27,660
		881,226	657,769
8.3 Movement of loans to Partner Organizations			
Opening balance		11,755,363	11,202,190
Disbursements during the period		13,149,241	10,952,195
		24,904,604	22,154,385
Recoveries during the period		(11,471,021)	(10,399,022)
		13,433,583	11,755,363
Less: Loan loss provision		(881,226)	(657,769)
		12,552,357	11,097,594

	Note	2012	2011
		(Rupees in '000)	
9. SHORT TERM INVESTMENTS			
Specific to projects	9.1	1,845,000	1,445,000
Specific to others	9.2	4,564,902	4,867,535
		6,409,902	6,312,535

9.1 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 11.76% p.a (2011: 10.50% p.a. to 11.50% p.a). As agreed in the Subsidiary Financing Agreement, these funds were 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 2012	2011	Running finance facility 2012	2011
	Rs		Rs	
Kashf Foundation	500 million	500 million	750 million	750 million
National Rural Support Programme	500 million	500 million	850 million	850 million
Orangi Charitable Trust	150 million	150 million	150 million	150 million
BRAC Pakistan	250 million	150 million	425 million	175 million
Sindh Agricultural & Forestry Workers Coordinating Organization	50 million	50 million	60 million	60 million
Asasah	50 million	50 million	55 million	55 million
Jinnah Welfare Society	20 million	20 million	22 million	22 million
Rural Community Development Society	25 million	25 million	28 million	25 million
Development Action for Mobilization and Emancipation	150 million		60 million	
Community Support Concern	50 million		75 million	
Thardeep Rural Development Program	100 million		150 million	
Total	1,845 million	1,445 million	2,625 million	2,087 million

9.2 Specific to others	Note	2012	2011
		(Rupees in '000)	
Term Deposit Receipts (TDR)	9.2.1	2,230,174	3,964,742
Government Treasury Bills	9.2.2	2,101,728	884,300
Pakistan Investment Bonds (PIBs)	9.2.3	233,000	-
Commercial paper		-	18,493
		4,564,902	4,867,535

9.2.1 These funds are invested in term deposit receipts maturing within one year from the date of investment, at annual mark up rates ranging from 11.24% p.a to 14.00% p.a (June 2011: 10.80% p.a.to 16.25% p.a.).

9.2.2 These funds are invested in Government Treasury Bills maturing within one year from the date of investment, at annual mark up rates ranging from 11.78% p.a to 13.28% p.a (June 2011: 13% p.a.to 13.88% p.a.).

9.2.3 This investment amounting to Rs 233,000 thousand was purchased on May 31, 2012 at coupon rate of 11.88%. This investment is maturing on August 31, 2012.

9.2.4 Specific to others include investments of Rs 2,015,037 thousand (2011: Rs 2,351,072 thousand) (equivalent to 15% (2011: 20%) of the loan receivable from Partner Organizations) to safeguard against any major default on loan receivable and provide capital adequacy and Rs 2,549,865 thousand (2011: Rs 2,516,463 thousand) as funds available for lending activities.

	Note	2012	2011
10. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		(Rupees in '000)	
Loans and advances - considered good			
Employees	10.1	16,015	6,816
Suppliers		1,832	1,045
		17,847	7,861
Deposits		1,185	2,065
Prepayments		-	10,275
Income tax refundable		51,906	49,384
Other receivables - considered good		2,478	2,674
		73,416	72,259

10.1 This include advance salary loans and car loans given to the employees of the Company, carrying annual mark up of 3% p.a. (2011: 3% p.a.) and 8% p.a (2011: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly installments.

	2012	2011
	(Rupees in '000)	
11. PROFIT / SERVICE CHARGES RECEIVABLE		
Profit receivable on		
Pakistan Investment Bonds (PIBs)	26,784	35,622
Term deposit receipts / saving accounts	164,773	220,867
Short term investments specific to grant based activities	177,217	109,447
Project bank accounts / investments	58,997	56,403
	427,771	422,339
Service charge receivable on loans to POs	340,223	259,756
	767,994	682,095
12. BANK BALANCES - SPECIFIC TO PROJECTS		
Cash at banks - current accounts		
Specific to IDA III	1,492,802	2,472,254
Specific to IFAD-MIOP	-	121,304
Specific to IFAD-PRISM	109,913	-
Specific to Kfw	41,992	-
Specific to Banezir Income Supprot Program (BIPS)	498,082	-
Specific to CECP grant	21,167	30,267
Specific to Shell Pakistan	-	8,001
	2,163,956	2,631,826
Cash at banks - deposit accounts		
Specific to USDA grant	99,446	103,062
	2,263,402	2,734,888

12.1 As per the financing agreements signed with various donors, PPAF is allowed to draw funds from the special accounts for carrying out eligible categories of expenses. However, such funds cannot be invested to earn profit and are hence kept in special project specific bank accounts.

13. CASH AND BANK BALANCES

	2012	2011
	(Rupees in '000)	
Cash in hand		
in head office	10	14
in field coordination offices	-	30
	10	44
Cash at banks - current accounts	529	9,476
Cash at banks - deposit accounts	141,354	21,812
	141,883	31,288
	141,893	31,332

The balances in deposit accounts carry average mark up of 11 % p.a. (2011: 5 % p.a.). These include foreign currency balances aggregating to US$ 4,281 (2011: US$ 3,878).

14. ENDOWMENT FUND

This represents the amounts paid by GOP for endowment fund under the Subsidiary Financing Agreements (SFAs) for IDA I and IDA II projects. 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.

15. LONG TERM LOANS - Unsecured

	Note	2012	2011
		(Rupees in '000)	
Government of Pakistan - PPAF - I (IDA financing)	15.1	2,083,152	2,202,789
Government of Pakistan- PPAF - II (IDA financing)	15.2	8,414,199	8,313,889
Government of Pakistan - (IFAD financing-MIOP)	15.3	1,144,527	1,137,540
Government of Pakistan - (IFAD financing-PRISM)	15.4	1,885,000	1,279,000
Government of Pakistan- PPAF - III (IDA financing)	15.5	2,296,033	1,110,500
		15,822,911	14,043,718
Amount payable within next twelve months shown as current liability		(467,610)	(282,795)
		15,355,301	13,760,923
Deferred benefit of below market rate of interest on Government of Pakistan - PPAF-III (IDA financing)	15.6	(1,779,819)	-
		13,575,482	13,760,923

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

	2012	2011
Opening balance	2,202,789	2,343,784
Amount repaid	(109,617)	(109,617)
Adjustment on finalisation of repayment schedule with GOP - note 28	(10,020)	-
Amount transferred to deferred liability	-	(31,378)
	2,083,152	2,202,789

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 Subsidary 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 reimburseable basis. The principal amount of loan is repayable 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 2.083% of such principal amounts and each installment thereafter shall be equal to 4.167% of such principal amount. These loans carry 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.

		2012	2011
		(Rupees in '000)	
15.2	Government of Pakistan- PPAF - II (IDA financing)		
	Opening balance	8,313,889	8,321,429
	Adjustment in finalisation of repayment schedule with GOP - note 28.1	279,306	-
	Amount repaid	(178,996)	-
	Amount transferred to deferred liability	-	(7,540)
		8,414,199	8,313,889

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 teh 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 amount of loan is repayable 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 2.083% of such principal amounts and each installment thereafter shall be equal to 4.167% of such principal amount. These loans carry 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.

		2012	2011
		(Rupees in '000)	
15.3	Government of Pakistan - (IFAD financing MIOP)		
	Opening balance	1,137,540	813,980
	Amount received	6,987	323,560
		1,144,527	1,137,540

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 Subsidary 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 buildings. The principal amount of loan is repayable 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. These loans carry a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time, payable on June 01 and December 01 each year.

	2012	2011
	(Rupees in '000)	
15.4 Government of Pakistan - (IFAD financing PRISM)		
Opening balance	1,279,000	609,175
Amount received	606,000	669,825
	1,885,000	1,279,000

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

Under Subsidiary Financing Agreement (SFA) dated January 12, 2008 executed between GOP and the Company, the GOP agreed to provide 65% of the amount as loan to the Company and the balance as grant on non reimbursable basis on account of capacity building. The principal amount of loan is repayable 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. These loans carry a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time, payable on June 01 and December 01 each year.

	Note	2012	2011
15.5 Government of Pakistan- PPAF - III (IDA financing)		(Rupees in '000)	
Opening balance		1,110,500	267,521
Amount received		1,185,533	842,979
		2,296,033	1,110,500

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 amount of loan is repayable 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 2.083% of such principal amounts and each installment thereafter shall be equal to 4.167% of such principal amount. These loans carry 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 June 15 and December 15 each year.

15.6 Deferred benefit of below market rate of interest on Government of Pakistan - PPAF - III (IDA financing)

The loan is carried at present value computed at market based interest rate. The difference between present value and loan proceeds is recognised as deferred benefit. The deferred benefit is recognized as income using the effective interest method over the period of the loan. Movement of deferred benefit during the year is as follows:

	(Rupees in '000)
Deferred benefit recognised at July 1, 2011	1,813,153
Amortization during the year	(33,334)
Balance at June 30, 2012	1,779,819

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		Note	2012	2011
16.	**DEFERRED LIABILITIES - GRANT FUND**		(Rupees in '000)	
	Government of Pakistan - IDA I&II	16.1	-	-
	Government of Pakistan - IDA III	16.2	1,392,948	2,388,314
	US Agency for International Development/Pakistan	16.3	115,984	115,984
	Government of Pakistan - USDA	16.4	96,526	100,144
	Government of Pakistan - IFAD (MIOP)	16.5	-	125,631
	Government of Pakistan - IFAD (PRISM)	16.6	105,197	(301)
	USAID - Flood Relief	16.7	-	-
	Benazir Income Support Program (BISP)	16.8	462,347	56,868
	Committee Encouraging Corporate Philanthropy (CECP)	16.9	21,668	30,768
	Shell Pakistan Ltd.- Model Village	16.10	3,797	6,446
	Engro Foundation - Flood Relief	16.11	2,889	2,889
	Grant for Flood relief from corporations and individuals	16.12	3,690	-
	Grants from Government of Pakistan - kfw	16.13	37,345	-
			2,242,391	2,826,743

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

		Note	2012	2011
			(Rupees in '000)	
16.1	**Grants from Government of Pakistan - IDA I & II**			
	Opening balance		-	2,085,857
	Amount received		-	128,530
	Amount transferred from long term loans		-	38,918
	Amount transferred to deferred income		-	(178,817)
			-	2,074,488
	Less: Disbursements for Social mobilization project	16.1.1	-	2,074,488
			-	-
16.1.1	Disbursements for social mobilization project include			
	Social Mobilization		-	575,960
	Community Physical Infrastructure		-	945,782
	Social Sector Development		-	552,746
			-	2,074,488
16.2	**Grants from Government of Pakistan - IDA III**			
	Opening balance		2,388,314	2,278,886
	Amount received		3,309,609	1,661,265
	Less: Disbursements			
	Social mobilization		621,368	240,253
	Institutional building		76,073	128,823
	Livelihood enhancement and protection		1,392,181	414,941
	Micro credit access		346,375	52,165
	Health and education		823,935	313,571
	Water and infrastructure		1,045,043	402,084
			4,304,975	1,551,837
			1,392,948	2,388,314

	2012	2011
	(Rupees in '000)	
Disbursements to POs		
Aga Khan Education Support Programme	6,419	4,160
Aga Khan Health Support Programme	6,310	4,245
Aga Khan Rural Support Programme	138,409	12,957
AKPBS-Water and Sanitation Extension Programme	31,441	21,886
ASA Pakistan Ltd.	-	3,180
Awami Development Organization	36,875	10,191
Awaz Foundation Pakistan - Centre for Development Services	16,150	6,200
Baanhn Beli	27,240	3,512
Badbaan Enterprise Development Forum	4,198	-
Badin Rural Development Society	14,652	333
Baidarie	5,592	7,359
Balochistan Environmental and Educational Journey	55,320	4,286
Balochistan Rural Development & Research Society	42,106	1,566
Balochistan Rural Development Society	10,947	8,397
Balochistan Rural Support Programme	105,018	23,383
BRAC - Pakistan	17,869	10,299
Bunyad Literacy Community Council	1,883	1,774
Change in Education	22,527	-
Chenab Development Foundation	67,395	-
Community Mobilisation and Development Organization	36,368	4,464
Community Support Concern	-	1,278
Community Support Foundation	4,000	-
Community Uplift Programme	33,513	29,014
DEVCON An Association for Rural Development	2,391	3,283
Development in Literacy	14,817	7,749
Direct expenses by PPAF on seminars, workshops and trainings	1,986	5,580
Environment Protection Society	105,596	45,361
Family Educational Services Foundation	22,949	-
Family Planning Association of Pakistan	79,474	29,917
Farmers Development Organization	92,378	39,964
Farmers Friend Organization	5,070	3,364
Ghazi Brotha Taraqiatee Idara	1,563	-
Hazara Development and Advocacy Foundation	61,294	8,013
Health and Nutrition Development Society	90,733	10,404
Heartfile	34,309	-
Himalayan Wildlife Foundation	26,312	3,601
Human Development Foundation	24,035	5,603
Human Resource Development Society	21,266	21,603
Indus Earth Trust	14,829	6,689
Indus Resource Centre	54,153	32,275
Karwan Community Development Organization	3,181	4,777
Kashf Foundation	8,971	20,284
Khwendo Kor Women and Children Development Programme	2,284	-
Marafie Foundation	13,438	5,538
Marvi Rural Development Organization	29,688	54,552
Mashal Development Organization	2,060	2,512
Mountain and Glacier Protection Organization	6,894	4,498
Mountain Institute of Educational Development	53,310	43,964
Narowal Rural Development Programme	10,704	17,793
Disbursements continued - carried forward	1,467,917	535,808

	2012	2011
	(Rupees in '000)	
Disbursements continued - brought forward	1,467,917	535,808
National Rural Support Programme	1,335,898	351,641
Pakistan Foundation Fighting for Blindness	9,615	-
Participatory Integrated Development Society	87,111	31,118
Poverty Eradication Initiative	23,004	-
Punjab Rural Support Programme	26,674	21,223
Research Advocacy & Health Strenthening Alliance (Guarantee) Limited	11,412	-
Rural Community Development Society	75,068	32,853
Rural Development Project	14,519	15,332
Salik Development Foundation	26,466	89,599
Sarhad Rural Support Programme	269,434	42,213
Sayya Foundation	594	-
Shadab Rural Development Organization	974	-
Sindh Agricultural & Forestry Workers Coordinating Organization	96,922	88,806
Sindh Rural Support Organization	94,435	23,005
Sindh Rural Support Programme	10,520	-
Social Action Bureau for Assistance in Welfare and Organisation Network	26,599	-
Society for Community Support for Primary Education Balochistan	1,597	-
Society for Conservation and Protection of Environment	16,275	956
Society for Human Empowerment and Rural Development	8,000	6,556
Soon Valley Development Programme	4,117	26,381
SOS Children's Village	41,544	38,555
South Asia Partnership Pakistan	82,764	30,506
Strengthening Participatory Organization	15,068	-
Sungi Development Foundation	21,696	-
Support With Working Solutions	24,254	115,736
Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment	17,746	18,817
Sustainable Use Specialist Group - Central Asia	3,000	-
Taraqee Foundation	263,645	22,387
Thardeep Rural Development Programme	223,969	57,619
TIPU Foundation	533	-
Villagers Development Organization	2,000	-
Women Social Organisation	1,605	2,726
	4,304,975	1,551,837

Financing Agreement was signed between GoP and IDA on June 9, 2009 and Subsidary Loan Agreement between GoP and PPAF on June 15, 2009 for PPAF-III project. The project focuses on empowering the targeted poor with increased incomes, improved productive capacity and access to services to achieve sustainable livelihood. This would include stronger approaches to building institutions of the poor and to livelihood enhancement that would enable poor households and communities to be more successful at attracting financial and other service providers.

16.3 Grants from USAID/Pakistan

The closing balance represents revolving fund for disbursement to POs. These funds were received as grant from U.S. Agency for International Development Mission to Pakistan (USAID/Pakistan) for Enterprise Development Facility.

16.4 Grants from Government of Pakistan - USDA

	2012	2011
Opening balance	100,144	206,227
Amount transferred	-	(17,957)
Profit on project bank account	6,113	11,106
	106,257	199,376

	2012	2011
	(Rupees in '000)	
Less: Disbursements to POs		
Aga Khan Rural Support Programme	7,463	42,085
Community Mobilisation and Development Organization	1,224	7,342
Human Resource Development Society	-	428
Indus Earth Trust	-	13,728
Rural Community Development Society	91	11,406
and Organizational Networking	-	11,834
South Asia Partnership Pakistan	824	10,221
Taraqee Foundation	129	2,188
	9,731	99,232
	96,526	100,144

16.4.1 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 agreed to provide 37,800 metric tons of soybean oil to GOP. The GoP authorized Trading Corporation of Pakistan to receive and monetize the commodity and use the sale proceeds to finance PPAF to implement long-term poverty reduction programmes, including: small-scale infrastructure programmes; sustainable agriculture development programmes.

16.5 Grants from Government of Pakistan - IFAD (MIOP)

	2012	2011
	(Rupees in '000)	
Opening balance	125,631	61,294
Amount received	182,217	555,588
	307,848	616,882
Less: Disbursements to POs		
AGAHEE	3,433	4,304
AKPBS-Water and Sanitation Extension Programme	-	-
AL Mehran Rural Development and Welfare Organization	16,363	13,348
Asasah	-	2,000
Badbaan Enterprise Development Forum	5,974	3,840
Badin Rural Development Society	-	18,000
Baidarie	3,104	4,309
Balochistan Rural Development & Research Society	-	1,100
BRAC - Pakistan	47,034	26,834
Buksh Foundation	3,509	3,995
Bunyad Literacy Community Council	918	1,090
Centre for Women Cooperative Development	2,000	15,491
Chenab Development Foundation	4,870	2,248
Community Support Concern	(4,757)	18,815
Development Action for Mobilization and Emancipation	3,195	2,875
Dia Welfare Organization	9,674	3,006
Direct expenses by PPAF on seminars, workshops and trainings	4,886	6,560
Farmers Friend Organization	4,246	10,231
Indus Earth Trust	-	3,284
Jinnah Welfare Society	9,645	24,554
Karwan Community Development Organization	2,015	2,449
Kashf Foundation	1,894	16,558
Khajji Cooperative Society	7,954	4,870
Khwendo Kor Women and Children Development Programme	-	990
Marvi Rural Development Organization	1,350	2,038
Mashal Development Organization	97	1,686
Mehran Education Society	7,845	
Mojaz Foundation	12,264	10,075
Narowal Rural Development Programme	3,158	2,160
Disbursements continued - carried forward	150,671	206,710

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	2012	2011
	(Rupees in '000)	
Disbursements continued - brought forward	150,671	206,710
National Rural Support Programme	54,497	55,284
Orangi Charitable Trust	10,158	76,125
Organization for Participatory Development	1,600	840
Orix Leasing Pakistan Limited	201	5,259
Pakistan Microfinance Network	7,748	3,748
Punjab Rural Support Programme	152	476
Rural Community Development Society	5,472	39,595
Rural Development Project	-	609
Saath Development Society	8,389	8,399
Sarhad Rural Support Programme	1,776	7,050
Save The Poor	3,360	900
Sayya Foundation	2,232	3,228
Shadab Rural Development Organization	8,160	
Shah Sachal Sami Welfare Association	7,035	
Sindh Agricultural & Forestry Workers Coordinating Organization	19,249	12,594
Sindh Rural Support Organization	7,083	38,324
Soon Valley Development Programme	2,512	2,053
Support with Working Solutions	1,437	1,803
Thardeep Rural Development Programme	5,740	24,217
TIPU Foundation	1,063	
Villagers Development Organization	8,354	3,687
Women Social Organisation	959	350
	307,848	491,251
	-	125,631

16.5.1 Programme Loan Agreement was signed between GoP and IFAD on January 18, 2006 and Subsidiary Loan and Grant Agreement between GoP and PPAF on April 18, 2006 for Microfinance Innovation and Outreach Programme (MIOP). The project focuses on PPAF's microfinance operations and would enable the Company to extend its outreach to rural areas of the country in terms of credit and enterprise through development of new products and services.

16.6 Grants from Government of Pakistan - IFAD (PRISM)

	2012	2011
Opening balance	(301)	217,127
Amount received	321,391	(215,826)
	321,090	1,301
Less: Disbursements to PO		
Baidarie	800	-
Community Support Concern	38,000	-
Jinnah Welfare Society	33,500	-
Kashf Foundation	-	-
Pakistan Microfinance Network	20,493	701
Rural Community Development Society	60,000	-
Sindh Agricultural & Forestry Workers Coordinating Organization	63,100	600
Direct expenses by PPAF on seminars, workshops and trainings	-	301
	215,893	1,602
	105,197	(301)

16.6.1 Programme Loan Agreement was signed between GoP and IFAD on November 22, 2007 and Subsidiary Financing Agreement between GoP and PPAF on January 12, 2008 for Programme for Increasing Sustainable Microfinance (PRISM). The project focuses on provision of microcredit to the poor on a self-sustaining basis and envisages developing access to banks/financial institutions for future growth and expansion.

16.7 USAID - Flood Relief

	2012	2011
	(Rupees in '000)	
Amount received	-	228,281
	-	228,281
Less: Disbursements to PO		
National Rural Support Programme	-	228,281
	-	-

16.7.1 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.

16.8 Benazir Income Support Program (BISP)

	2012	2011
	(Rupees in '000)	
Opening balance	56,868	-
Amount received	1,648,232	127,130
	1,705,100	127,130
Less: Disbursements to POs		
Aga Khan Rural Support Programme	2,348	-
Balochistan Rural Support Programme	25,039	4,333
Community Mobilisation and Development Organization	79,113	9,814
Direct expenses by PPAF on seminars, workshops and trainings	98,382	39,940
Farmers Development Organization	84,556	8,283
Sindh Agricultural & Forestry Workers Coordinating Organization	25,199	5,284
Sindh Rural Support Organization	13,556	2,608
	328,193	70,262
Payments to beneficiaries through BISP	914,560	-
	462,347	56,868

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 had 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 for each participant trained, as against previous terms involving reimbursement of expenses for training from BISP.

Every beneficiary having successfully undergone enterprise and skill training will be entitled for a maximum of Rs 300,000 as a loan from BISP, on terms and conditions laid down by BISP from time to time. For the purpose of disbursement of amounts to beneficiaries, BISP shall transfer the funds into a bank account specifically opened by PPAF solely for onward disbursements to Waseela-e-Haq beneficiaries according to the beneficiaries lists issued and verified by BISP from time to time. On the basis of beneficiary list provided by BISP, PPAF get the pay order prepared in the beneficiaries' name and hands over the pay order to BISP for distribution of pay order to the beneficiary. The beneficiaries will repay the loan directly to BISP without any involvement of PPAF. Further, there is no involvement of PPAF in selection of beneficiaries and disbursements to the beneficiary.

16.9 Grants from Committee Encouraging Corporate Philanthropy

	2012	2011
	(Rupees in '000)	
Opening balance	30,768	74,831
Less: Disbursements to POs		
Community Uplift Programme	-	5,224
Mountain and Glacier Protection Organization	-	16,801
National Rural Support Programme	9,100	22,038
	9,100	44,063
	21,668	30,768

16.9.1 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.

16.10 Shell Pakistan Ltd - Model Village

	2012	2011
	(Rupees in '000)	
Opening balance	6,446	-
Amount received	11,654	8,000
	18,100	8,000
Less: Disbursements to PO		
Health and Nutrition Development Society	4,303	1,554
Engro Foundation	10,000	
	14,303	1,554
	3,797	6,446

16.10.1 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.

16.11 Engro Foundation - Flood Relief

	2012	2011
	(Rupees in '000)	
Opening balance	2,889	-
Amount received	-	16,417
	2,889	16,417
Less: Disbursements to POs		
Health and Nutrition Development Society	-	2,528
Sindh Rural Support Organization	-	11,000
	-	13,528
	2,889	2,889

16.11.1 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.

	2012	2011
	(Rupees in '000)	
16.12 Grant for Flood relief from corporations and individuals		
Opening balance	-	-
Amount received	12,143	3,428
	12,143	3,428
Less: Disbursements to POs		
Direct expenses by PPAF on seminars, workshops and trainings	-	1,746
Rural Community Development Society	2,143	832
Sindh Rural Support Organization	6,310	-
Support With Working Solutions	-	850
	8,453	3,428
	3,690	-

	2012	2011
16.13 Grants from Government of Pakistan - Kfw		
Amount received	361,900	-
	361,900	-
Less: Disbursements to POs		
Aga Khan Rural Support Programme	68,642	-
National Rural Support Programme	78,257	-
Rural Development Project	16,358	-
Sarhad Rural Support Programme	86,487	-
Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment	12,772	-
Support With Working Solutions	62,039	-
	324,555	-
	37,345	-

16.13.1 On June 12, 2010 PPAF and German Financial Cooperation - Kfw signed loan, financing and project agreement under which Kfw has agreed to make available an amount of EUR 31,562,661 to the Company as grant on non reimbursable basis for the support of livelihood measures and the promotion of small community economic and social infrastructure in Khyber Pakhtunkhwa (North West Frontier Province-NWFP). The agreement will expire on December 31, 2012.

17. DEFERRED INCOME - GRANT FUND

	As at July 01, 2011	Amount Received	Expenditure from grant recognized as income	As at June 30, 2012
	(Rupees in '000)			
Government of Pakistan (GoP)				
Capacity Building - IDA II	3,951	-	2,902	1,049
Capacity Building - IDA III	-	230,464	230,464	-
Capacity Building - IDA (RNR)	1,368	-	1,155	213
Capacity Building - IDA (Social mobilization)	7,599	-	2,977	4,622
Capacity Building - IDA (Disability)	3,237	-	1,527	1,710
Capacity Building - IFAD (MIOP)	1,035	6,316	6,575	776
Capacity Building - IFAD (PRISM)	-	8,834	8,834	-
Capacity Building - Kfw	-	11,371	10,885	486
Capacity Building - USDA	6,074	-	2,817	3,257
	23,264	256,985	268,136	12,113
Capacity building - USAID/Pakistan	8,162		8,162	-
Capacity building - CECP	1		1	-
Model villages projects	-	2,000	2,000	-
2012	31,427	258,985	278,299	12,113
2011	59,700	361,309	389,582	31,427

18. SERVICE AND COMMITMENT CHARGES PAYABLE

	Note	2012	2011
		(Rupees in '000)	
Service charges payable	18.1	30,043	36,710
Commitment charges payable	18.2	5,479	484
		35,522	37,194

18.1 These represent service charges payable to GOP at the rate of 0.75% per annum (2011: 0.75% per annum) on the principal amount of long term loan outstanding withdrawn from time to time.

18.2 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 (2011: 0.50 % per annum) on the principal amount of long term loan not withdrawn from time to time.

19. ACCRUED AND OTHER LIABILITIES

	Note	2012	2011
		(Rupees in '000)	
Consultancy fee payable		2,967	43,439
Unamortised discount on purchase of Pakistan Investment Bonds	19.1	44,176	42,929
Accrued expenses and other liabilities		25,197	9,317
		72,340	95,685

19.1 Amortisation of discount for the year amounts to Rs 4,259 thousand (2011: Rs 638 thousand).

20. DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY SCHEME

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

Present value of defined benefit obligation	37,561	28,597
Fair value of plan assets	(26,124)	(23,212)
Net actuarial gains / (losses) not recognised	(12,292)	(5,385)
	(855)	-

	2012	2011
	(Rupees in '000)	

20.2 Movement in net liability/(asset) recognised

	2012	2011
Opening net (asset)/liability	-	-
Expense for the year	8,824	8,901
Contribution for the year	(9,679)	(8,901)
Closing net (asset)/liability	(855)	-

20.3 Charge for the Defined Benefit Plan

	2012	2011
Current service cost	8,236	4,862
Interest cost	3,326	4,321
Expected return on plan assets	(3,159)	(1,121)
Actuarial (gain)/losses recognised	421	839
	8,824	8,901

20.4 Change in the present value of defined benefit obligation

	2012	2011
Opening defined benefit obligation	28,597	37,697
Current service cost	8,236	4,862
Interest cost	3,326	4,321
Benefits paid	(9,679)	(13,664)
Actuarial (gain) or loss on obligation	7,081	(4,619)
Closing defined benefit obligation	37,561	28,597

20.5 Changes in fair value of plan asset

	2012	2011
Opening fair value of plan assets	23,212	28,049
Expected return on plan assets	3,159	1,121
Benefit payment on behalf of fund	9,679	8,901
Benefits paid	(9,679)	(13,664)
Actuarial gain or (loss) on assets	(247)	(1,195)
Closing fair value of plan assets	26,124	23,212

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

	2012	2011
Valuation discount rate	12.5% per annum	14% per annum
Salary increase rate	12.5% per annum	14% per annum
Expected return on plan assets	12.5% per annum	14% per annum

20.7 Amounts for current and previous four annual periods are as follows:

	2012	2011	2010	2009	2008
	Rupees in '000				
Defined benefit obligation	37,561	28,597	37,697	25,233	15,852
Plan assets	(26,124)	(23,212)	(28,049)	(11,364)	(12,554)
Deficit	11,437	5,385	9,648	13,869	3,298
Experience adjustments on plan liabilities	7,081	4,619	1,792	4,504	-
Experience adjustments on plan assets	247	1,195	910	172	64

	2012	2011
	(Rupees in '000)	
21. CONTINGENCIES AND COMMITMENTS		
Contingencies		
Guarantees to the banks against lending to Microfinance institutions as given in note 9	1,845,000	1,445,000
Commitments		
Aggregate commitments under Financing Agreements with		
Partner Orgñisations for;		
Loans	12,256,433	4,426,701
Grants		
Community physical infrastructure	1,693,230	1,157,356
Capacity building	578,201	289,462
Social sector development	2,211,889	1,511,875
Social mobilization	748,928	211,392
Livelihood enhancement and protection	1,651,853	293,411
	6,884,101	3,463,496
	19,140,534	7,890,197

22. SERVICE CHARGES ON LOANS TO PARTNER ORGANISATIONS

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

	2012	2011
	(Rupees in '000)	
23. INCOME ON INVESTMENTS AND SAVING ACCOUNTS		
Profit on long term investments	107,121	103,942
Profit on term deposit receipts/saving accounts	1,161,575	918,360
	1,268,696	1,022,302

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

	2012	2011
	(Rupees in '000)	
24. OTHER INCOME		
Income from training	-	5,033
Gain on sale of fixed assets	416	3,523
Markup on loans to employees	119	64
Others	121	9,740
	656	18,360

	Note	2012	2011
		(Rupees in '000)	
25. GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries, wages and other benefits	25.1	242,710	196,090
Rent		31,042	29,162
Repairs and maintenance		9,595	7,054
Traveling, lodging and conveyance		51,569	40,413
Communication		3,878	4,676
Printing and stationery		4,616	3,720
Insurance		2,469	2,328
Vehicles running and maintenance		24,293	13,890
Utilities		4,085	3,982
Legal and professional charges		2,551	3,405
Auditor's remuneration	25.3	4,740	3,805
Advertisement		2,736	1,317
Media projection		6,749	1,452
Newspapers, books and periodicals		765	482
Depreciation		25,183	26,439
Amortization		2,790	4,680
Security services		1,949	2,165
Office shifting and related expenses		8,095	
Others		5,671	3,986
	25.4	435,486	349,046

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

	2012	2011
Managerial remuneration	13,464	12,175
Other allowances	-	60
	13,464	12,235

In addition, the Chief Executive Officer is provided medical insurance, car, accommodation/house rent allowance. Gratuity and providend fund are payable to the Chief Executive Officer in accordance with the terms of employment. Leave encashment of Rs Nil thousand (2011: Rs 2,040 thousand) was paid to the Chief Executive Officer on separation during the year, in accordance with the Company's policy.

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

	2012	2011
	(Rupees in '000)	
25.3 Auditor's remuneration		
Statutory and projects' audit	1,395	1,265
Audit of POs	2,635	2,195
Tax services	710	345
	4,740	3,805

25.4 General and administration expenses include Rs 115,208 thousand incurred on different programme activities as disclosed in note 17.

26. SEMINARS, WORKSHOPS AND TRAININGS

	2012	2011
	(Rupees in '000)	
Training	15,040	3,401
Seminar and workshops	25,876	21,358
	40,916	24,759

Seminars, workshops and training expenses include Rs 4,922 thousand incurred on different programme activities as disclosed in note 17.

27. TECHNICAL AND OTHER STUDIES

	2012	2011
	(Rupees in '000)	
Poverty score card	41,618	285,038
General	57,212	65,902
	98,830	350,940

Consultancy charges include Rs 158,159 thousand (including Rs 69,868 thousand related to previous year) incurred on different programme activities as disclosed in note 17.

28. PROJECT AND RELIEF ACTIVITIES

	2012	2011
	(Rupees in '000)	
Flood relief	202,831	193,951
Project activities for PPAF II - note 28.1	279,306	-
Project activities for PPAF I	(10,020)	-
National Rural Support Program - School Milk Project	-	12,158
Relief for Internally Displaced Persons - USAID grant	-	1,799
	472,117	207,908

28.1 This represents the difference in loan amount recorded by the Company and booked by GoP in respect of PPAF II project. The amount was finalized on the basis of amortization schedule agreed with GoP during the current financial year. The Company utilized amounts allocated for loans under the Financing Agreements for PPAF II project by September 2007 well before the project closing date i.e. June 30, 2010. The recording of loan by the Company was on the basis of amount allocated and utilized for loans, which corresponded with IDA records. The booking of loan by GoP continued till June 2010. The variation in amount was due to the time differences of booking of loans between IDA, GoP and the Company.

29. FINANCIAL CHARGES

	2012	2011
	(Rupees in '000)	
On long term loans	112,123	107,675
Imputed interest on below market rate long term loan	33,334	-
Bank charges	2,299	1,358
	147,756	109,033

30. TRANSFER FROM ACCUMULATED SURPLUS TO RESERVE FOR GRANT BASED ACTIVITIES

	2012	2011
Income earned during the period on grant fund investments	379,762	267,237
Contribution from individual donor	1,356	-
Less: Expenditure on project and relief activities		
Flood relief	202,831	193,951
National Rural Support Program - School Milk Project	-	12,158
	202,831	206,109
	178,287	61,128

31. TRANSACTIONS WITH RELATED PARTIES

The related parties of the Company comprise the Government of Pakistan, Employees Gratuity Fund, Employees Provident Fund, directors and key management personnel. Transactions with related parties and amounts due from/(to) related parties are disclosed in the relevant notes to the financial statements.

32. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

32.1 Financial assets and liabilities

	June 30, 2012			June 30, 2011		
	Held to maturity investments	Loans and receivables	Total	Held to maturity investments	Loans and receivables	Total
			(Rupees in '000)			
Financial Assets:						
Maturity upto one year						
Current maturity of long term investments	3,803,563		3,803,563	2,421,252		2,421,252
Short term investments	6,409,902		6,409,902	6,312,535		6,312,535
Current maturity of loans to Partner Organisations		10,360,561	10,360,561		9,630,919	9,630,919
Advances, deposits and other receivables		19,678	19,678		11,555	11,555
Profit/service charges receivable		767,994	767,994		682,095	682,095
Bank balances - specific to projects		2,263,402	2,263,402		2,734,888	2,734,888
Cash and bank balances		141,893	141,893		31,332	31,332
Maturity after one year						
Long term investments	994,000		994,000	1,150,896		1,150,896
Long term loans to Partner Organisations		2,191,796	2,191,796		1,466,675	1,466,675
	11,207,465	15,745,324	26,952,789	9,884,683	14,557,464	24,442,147
Financial Liabilities:						
		Other financial liabilities			Other financial liabilities	
Maturity upto one year						
Deferred liabilities - grant fund		2,242,391	2,242,391		2,826,743	2,826,743
Current portion of long term loans		467,610	467,610		282,795	282,795
Service and commitment charges payable		35,522	35,522		37,194	37,194
Accrued and other liabilities		72,340	72,340		95,685	95,685
Maturity after one year but before five years						
Long term loans		2,309,120	2,309,120		2,152,906	2,152,906
Maturity after five years						
Long term loans		13,046,181	13,046,181		11,608,017	11,608,017
	-	18,173,164	18,173,164	-	17,003,340	17,003,340
Off balance sheet items:						
Commitments	-	19,140,534	19,140,534	-	7,890,197	7,890,197

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32.2 Credit quality of financial assets

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

	Name of Credit rating Agency	Short term rating	2012 Balance Rs in '000	2011 Balance Rs in '000
Investments				
Counterparties with external credit rating				
	JCR-VIS	AAA	-	350,896
	PACRA	A1+	2,810,090	2,227,555
	JCR-VIS	A-1+	4,859,450	3,249,083
	Moody's	P-1	-	826,491
	PACRA	A1	500,000	18,493
	PACRA	A2	-	250,000
	JCR-VIS	A-2	703,198	1,077,866
	Standard & Poors	A-1	-	-
Securities issued/supported by Government of Pakistan		-	2,334,728	1,884,299
			11,207,466	9,884,683
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	39,260	37,312
	JCR-VIS	A-1+	2,250,105	2,696,917
	Moody's	P-1	628	181
	PACRA	A1	44	-
	Standard & Poors	A-1	114,156	30,724
	PACRA	A2	1,047	-
	JCR-VIS	A-2	45	1,031
Balance with National Saving Centre		-	-	11
			2,405,285	2,766,176
Loans to Partner Organizations				
Counterparties without external credit rating		*	12,292,811	11,097,594
		**	259,546	-
			12,552,357	11,097,594
Profit/service charges receivable				
Counterparties with external credit rating				
	PACRA	A 1+	110,564	156,583
	JCR-VIS	A-1+	189,827	132,514
	Moody's	P-1	-	63,411
	PACRA	A1	62,904	-
	PACRA	A2	-	24,890
	JCR-VIS	A-2	37,692	40,176
	JCR-VIS	A-3	-	43,431
Counterparties without external credit rating		*	367,007	221,090
			767,994	682,095

* Counterparties with no defaults in the past.
** Counterparty overdue for more than 90 days.

32.2 Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rates risk and price risk). The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

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 organizations, investments and bank balances. The Company is exposed to credit related losses in the event of non-performance by Partner Organizations of micro-credit loans to the extent of Rs 13.43 billion (2011: Rs 12.02 billion) (including loans to two major POs of Rs 5.97 billion; 2011: Rs 6.24 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) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company manages liquidity risk by maintaining sufficient cash and investments. The Company's financial position is satisfactory and the Company does not have any liquidity problems. The contractual maturities of financial liabilities are disclosed in note 32.1.

c) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows 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 material foreign currency assets and liabilities except for financial assets of US$ 4,281 (2011: US$ 3,878).

(ii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets include balances of Rs 24,016,637 thousand (2011: Rs 21,113,967 thousand) and financial liabilities include balances of Rs 15,822,911 thousand (2011: Rs 14,043,718 thousand) which are subject to interest rate risk. Applicable interest rates for financial assets and financial liabilities have been indicated in respective notes.

If interest rates had been 1% higher/lower with all other variables held constant, surplus for the year would have been Rs 81,937 thousand (2011: Rs 70,702 thousand) higher/lower.

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(iii) Other price risk

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

At the year end the Company is not exposed to price risk since there are no financial instruments, whose fair value or future cash flows will fluctuate because of changes in market prices.

d) 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.

32.3.2 Capital risk management

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern so that it can achieve its primary objectives, provide benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses in line with the objects of Company.

33. NUMBER OF EMPLOYEES

The Company had 223 employees as at June 30, 2012 (June 30, 2011: 195).

34. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, for better presentation as follows;

Reclassified from	Reclassified to	Rs '000
Term investments-specific to grant fund	Long term investments	350,896
Short term investments-specific to projects	Short term investments	1,445,000
Short term investments-other	Short term investments	4,867,535

35. DATE OF AUTHORISATION

These financial statements were authorised for issue by the Board of Directors of the Company on 19 SEP 2012.

Chairman

Chief Executive Officer

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