



# embracing inclusive development



- Restoring hope
- Securing the future
- Ending poverty



عشق، علم، عمل

پی پی اے ایف کی بنیادی اقدار اور اس کے کام کی اصل روح ہیں۔

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



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

# Acronyms

AGP	Auditor General of Pakistan	HR	Human Resources
AJK	Azad Jammu and Kashmir	HRE	Hydropower and Renewable Energy
AKRSP	Agha Khan Rural Support Programme	IA	Internal Audit
BISP	Benazir Income Support Programme	ICGN	International Corporate Governance Network
BoD	Board of Directors	ICT	Information and Communications Technology
BRDS	Badin Rural Development Society	ID	Institutional Development
C&M	Communications and Media	IDC	Italian Development Cooperation
CBDRM	Community Based Disaster Risk Management	IEC	Information, Education, and Communication
CDD	Community Driven Development	IFAD	International Fund for Agricultural Development
CECP	Committee Encouraging Corporate Philanthropy	IPR	Independent Procurement Review
CEO	Chief Executive Officer	IT	Information Technology
CERP	Centre for Economic Research in Pakistan	IUFR	Interim Un-audited Financial Report
CI	Community Institution	IWEI	Integrated Water Efficient Irrigation
CLF	Community Livelihood Fund	KPK	Khyber Pakhtunkwa
CMDO	Community Motivation and Development Organization	LACIP	Livelihood Support & Promotion of Small Community Infrastructure Project
CMT	Certified Master Trainer	LBOD	Left Bank Outfall Drain
CO	Community Organization	LC	Loan Center
CPI	Community Physical Infrastructure	LEED	Livelihood Employment and Enterprise Development
CQA	Compliance and Quality Assurance	LEP	Livelihood Enhancement and Protection
CRM	Corporate Relations Management	LHV	Lady Health Visitors
DDF	District Development Forums	LSO	Local Support Organization
DECRG	World Bank's Development Research Group	M&E	Monitoring and Evaluation
DFID	Department for International Development	MCF	Muslim Charities Forum
DMPP	Drought Mitigation and Preparedness Project	MDG	Millennium Development Goal
DPM	Disaster Preparedness and Management	MER	Monitoring, Evaluation and Research
DPMC	Disaster Preparedness and Management Centers	MF-CIB	Microfinance Credit Information Bureau
DWSS	Drinking Water Supply Scheme	MFI	Microfinance Institution
EAD	Economic Affairs Division	MGPO	Mountain and Glacier Protection Organization
EDT	Enterprise Development Training	MHP	Micro/Mini Hydro Power
EDU	Enterprise Development Unit	MIS	Management Information Systems
EF	Engro Foundation	MoU	Memorandum of Understanding
EHN	Education, Health and Nutrition	MPA	Member of the Provincial Assembly
ESA	Environmental and Social Audit	MSME	Micro, Small, and Medium Enterprises
ESM	Environment and Social Management	NDMA	National Disaster Management Authority
ESMF	Environmental and Social Management Framework	NFC	National Finance Corporation
F&A	Finance and Accounts	NRSP	National Rural Support Programme
FATA	Federally Administered Tribal Areas	NyK	Naukri ya Karobar
FFCL	Fauji Fertilizer Company Limited	ODF	Open Defecation Free
FGD	Focus Group Discussion	PDMA	Provincial Disaster Management Authority
FMCA	Financial Management and Corporate Affairs	PGS	Public Goods and Services
FMIS	Financial Management Information Systems	PHED	Public Health Engineering Department
FSG	Financial Services Group	PICG	Pakistan Institute of Corporate Governance
FY	Financial Year	PIDE	Pakistan Institute of Development Economics
GH	Group Head	PKR	Pakistani Rupee
GoP	Government of Pakistan	PMIFL	Prime Minister's Interest Free Loan
GRI	Global Reporting Initiative	PMN	Pakistan Microfinance Network
HH	Households (used in table in DPM)		

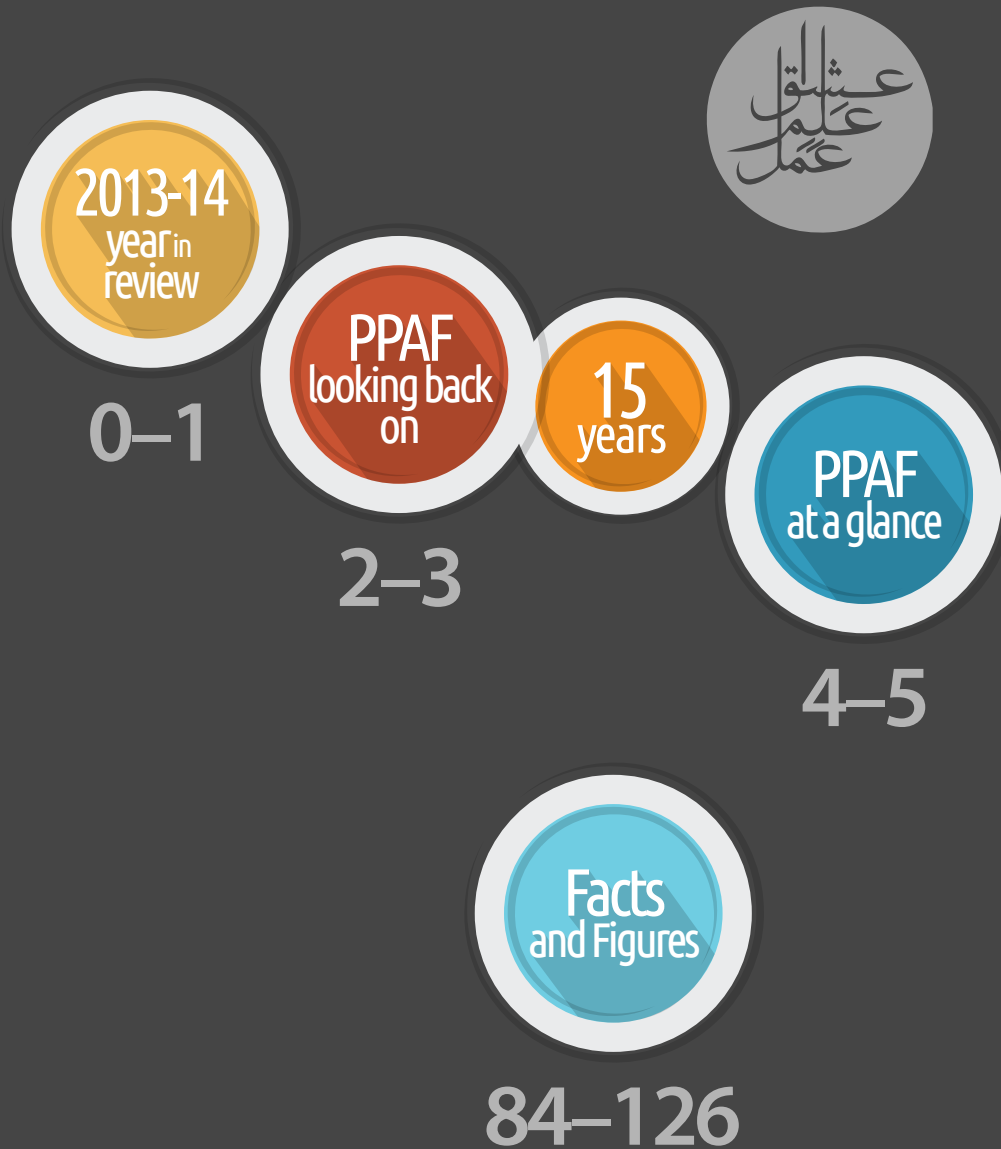
PO	Partner Organization
PPAF	Pakistan Poverty Alleviation Fund
PPL	Pakistan Petroleum Limited
PRISM	Program for Increasing Sustainable Microfinance
PSC	Poverty Scorecard
RBF	Results Based Framework
RE	Renewable Energy
SAARC	South Asian Association for Regional Cooperation
SADU	Sector Analysis and Development Unit
SBP	State Bank of Pakistan
SCAD	Sindh Coastal Area Development
SCAN	Sindh Coastal Areas Network
SDPI	Sustainable Development Policy Institute
SECP	Securities and Exchange Commission of Pakistan
SIP	Session Initiation Protocol
SLMP	Sustainable Land Management Project
SOE	Statement of Expenditures
SOP	Standard Operating Procedure
SRD	Sustainable Rural Development (SRD)
SRSO	Sindh Rural Support Organization
SRSP	Sindh Rural Support Programme
TIP	Technologically Innovative Project
ToR	Terms of Reference
ToT	Training of Trainer
TTO	Third Tier Organization
UC	Union Council
UCDM	Union Council Disaster Management Committee
UCDO	Union Council Development Organization
UCDP	Union Council Development Plan
UCERT	Union Council Emergency Response Team
USD	United States Dollar
VDO	Village Development Organization
VDP	Village Development Plan
VIP	Visually Impaired Person
VO	Village Organization
VOIP	Voice Over Internet Protocol
WB	World Bank
WECC	Water, Energy and Climate Change
WSP-WB	World Bank Water & Sanitation Program
YPIP	Young Professional Internship Program

**edited by**  
Shams Muzaffar and Mariam Haq

**designed by**  
Mohsin Jamal

**coordinated by**  
Raabiya Babar, Ghulam Haider, Nazakat Hussain  
and Maryam Zahra

# Pakistan Poverty Alleviation Fund





6-51

52-61

62-83



INSTITUTIONAL DEVELOPMENT

PUBLIC GOODS AND SERVICES

FINANCIAL SERVICES GROUP

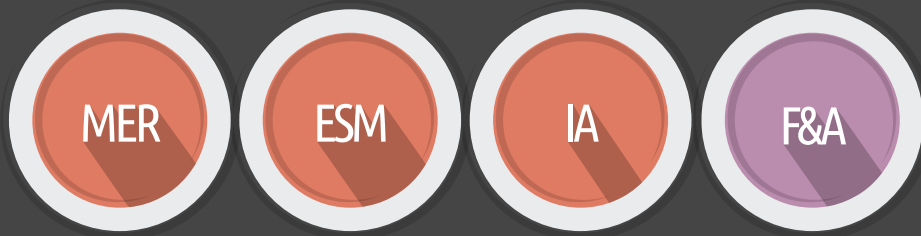
LIVELIHOOD EMPLOYMENT AND ENTERPRISE DEVELOPMENT

6

16

40

48



MONITORING EVALUATION AND RESEARCH

ENVIRONMENT AND SOCIAL MANAGEMENT

INTERNAL AUDIT

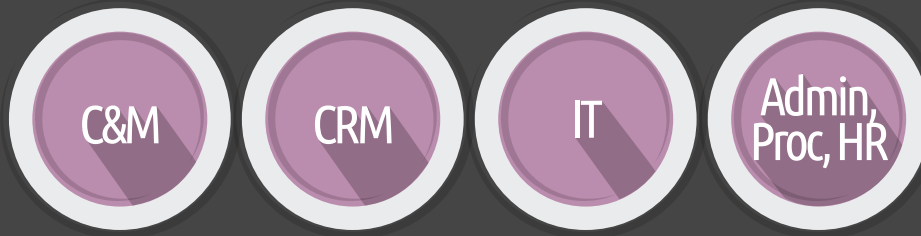
FINANCE & ACCOUNTS

52

56

60

62



COMMUNICATIONS & MEDIA

CORPORATE RELATIONS MANAGEMENT

INFORMATION TECHNOLOGY

ADMINISTRATION PROCUREMENT HUMAN RESOURCE

72

76

78

80



As we come to the close of another financial year, and another year in our journey of *ishq, ilm, and aml*, it is time to reflect on our various opportunities and achievements, as well as challenges and obstacles that we have overcome. It has been another busy year for PPAF, with new projects taken on and new relationships being built.

The year started off with the first ever international Microfinance Summit Pakistan 2013, which was held from 8-10 July 2013 in Islamabad. The summit was hosted in collaboration with EAD, SBP, PMN, IFAD, the World Bank and UKAid, with over 450 international and national participants. The event generated debate and provided policy recommendations on the microfinance sector through dialogue between key stakeholders on important aspects pertaining to the sector.

More than 80% of PPAF microfinance loans are focused on serving communities in rural areas, and our urban portfolio has witnessed a decrease and comprised less than 20% of total loans in FY2013-14. Our increased focus on the inclusion of women, specifically in economic activities, can be

substantiated by the fact that during the year 77% of micro-finance borrowers were women.

Based on its successful previous experiences working with us, the Government of Pakistan (GoP) asked PPAF to design, mobilize, implement, and monitor the Prime Minister's Interest Free Loan (PMIFL) scheme through our partner organizations. The scheme aims to make interest free loans available to men, women, and youth from vulnerable and marginalized households (categorized as under 40 on the poverty score card). The loan program also emphasizes that 50% of borrowers must be women. PMIFL will be launched in July 2014.

Our livelihoods programs have also been going from strength to strength. The livelihoods framework implementation has resulted in the establishment of 66 *Naukri-ya-Karobar* (employment or enterprise) centers. PPAF's Community Livelihood Fund (CLF) was launched to allow vulnerable households to become creditworthy and gain access to financial services for long term sustainable economic growth through loan centers. A total of 93 loan centers have been established.

This year also saw an increased focus on greater integration and consolidation of our Sindh Coastal Area Development Program. We designed, with our POs, integrated programming for 52 Union Councils in SCAD for the first time, simultaneously allowing for the distinct and various expertise of individual partners to be utilized and shared across POs and the region. Our social mobilization/institutional development focus was further enhanced to include an emphasis on MDGs at the community level. The objective is to move communities to act on key areas of concern for them – such as school enrollment for all girls, the need to immunize all infants under the age of 2, and maternal and child health issues.

In order to add value to sanitation services offered to communities, the water and infrastructure team had implemented an Open Defecation Free (ODF) campaign in six UCs of Punjab and Sindh provinces, and villages in these UCs have achieved up to 70% of their ODF target. In collaboration with WSP-WB, the team also launched a phased program for better management of abandoned drinking water supply schemes. The initiative focuses on developing



community-owned water utilities to run these schemes on a PPP (public-private partnership) model.

In April, we held our First International Conference on Research and Learning in Islamabad, which brought together researchers, academics, and development practitioners from across the globe and across Pakistan. Research conducted on PPAF initiatives by the Development Economics Research Group of the World Bank since 2008 was presented. Some of the findings were extremely heartening for PPAF, particularly the findings on the mandates we have applied on inclusion in community institutions (at least 40% women and at least 60% membership from poor/poorest households).

Results from the pre-mandates survey completed in 2009 show that COs were generally male-dominated and most members were landholders. The midline survey conducted in 2013 shows that there was a change in villages where inclusion was mandated – a majority of CO members were among the poor/poorest (with little or no access to land) and women. A key feature of this shift was that youth in these villages were positively impacted by these inclusion mandates – and that perceptions among boys regarding women's roles had changed for the better.

Considering the challenge of “energy poverty” in the country at large and particularly in remote areas, the KfW-funded Renewable Energy Project has

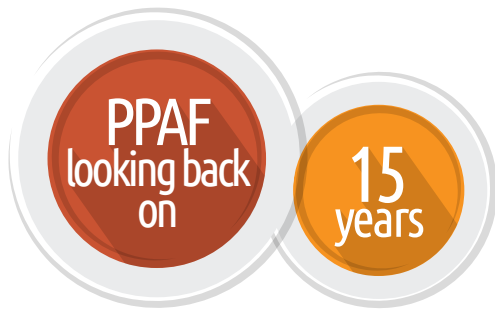
been supporting the use of innovative technologies to facilitate access to energy for marginalized off-grid communities of KPK. We are approaching the halfway mark of our Livelihoods and Community Infrastructure Project, also funded by KfW. Work has been accelerated on the Government of Italy funded Program for Poverty Reduction (PPR), which is being implemented in districts of Balochistan and KPK and in FATA. A Socio-economic Transformation Framework has been developed to guide its implementation.

PPAF, through our partners and community institutions, was one of the first organizations to take action in the aftermath of the earthquake that struck the Awaran and Kech districts of Balochistan, and we committed over Rs. 40 million towards the relief and rehabilitation efforts in these areas. With an appropriate set of skills the institutions of the poor are now emerging as the primary stakeholder for both private and public sector engagement. Even in insecure areas, they have demonstrated their capability and effectiveness as partners in development. This engagement will, Insha Allah, go a long way towards reducing inequality, bridging disparities, and developing an enabling environment for peace and prosperity.

Finally, we continue to grow our alliances and networks, both nationally as well as internationally. PPAF supported the 6th Annual Rural Women's Conference in Islamabad in October 2013, with the aim of taking forward our work on gender and women's empowerment. We also made a commitment with the Muslim Charities Forum to link the Pakistani Diaspora in the UK to programs and activities that directly contribute towards the achievement of the Millennium Development Goals. A conference regarding this matter was held in early December 2013 in London.

We are grateful to the Government of Pakistan for their assistance and proactive support, to our Board and General Body who provide us with regular guidance and advice, and we are equally indebted to our bilateral and multilateral donors who continue to repose their trust in us and our ability to deliver. Our work would not be possible without our partner organizations, many of whom have been with us for 10 or more years. And last but not least, we salute the women, men, and children in the communities we work with, whose courage and spirit inspires us to strive to do even better.

**Qazi Azmat Isa**  
Chief Executive Officer



**... change is an evolutionary process which cannot be realized without commitment to sound foundational values — *ishq, ilm, and aml.***

It has been 15 years since PPAF was established and over this time we have evolved significantly in terms of scope and vision. PPAF has dedicated these years to investing in the human, physical, and economic infrastructure of Pakistan by working through partner organizations (POs) that aim to serve the poor and poorest populations across the country. During this process, PPAF has come to realize that if development is to be successful and sustainable, it requires the active participation and ownership of those we aim to serve. Moreover, we have also realized that the foundation of any poverty alleviation program does not merely consist of important tools such as microfinance or livelihood enhancement, but rather, the values that propel our work. These values - our emblem denoting "*ishq, ilm, and aml*" - as well as our emphasis on democratic governance, social inclusion, environmental sustainability, transparency, and

accountability, are ultimately manifested through building value-laden institutions of the poor. Thus empowerment through grassroots institutions has become the foundation of PPAF's approach. PPAF will now strive to leverage its investment in a large network of community institutions by advocating for their recognition by the Government of Pakistan. PPAF envisions a game changing move towards incorporating community institutions into national and provincial policy and ensuring their say and participation in all development initiatives at the village and union council level.

Empowerment can broadly be defined as a process by which people gain control over their own lives and increase their capacity to act on issues they themselves believe are important. A multidimensional approach to poverty alleviation must consider both individual capacities and collective action to address inequalities that

sustain poverty - not just poverty calculated on the basis of income alone, but poverty of opportunity and poverty of the mind. PPAF's engagement encompasses linking up with individuals and institutions, private, public, and not-for-profit, which are interested in contributing to the greater good - be it for economic growth or social change.

In terms of effecting transformation, a key milestone of the past 15 years has been PPAF's contribution to the progressive growth of Pakistan's microfinance sector. The microfinance sector was in a nascent state when PPAF entered the market in the year 2000. The market had weak infrastructure with only a handful of microcredit providers serving a mere 60,000 clients. PPAF's entry at that stage was geared towards sector development and the cultivation of institutions and communities that foster financial inclusion through the provision of credit.

PPAF has remained a leader in sector development as microfinance has gained momentum in Pakistan, working with institutions such as the SBP and the SECP to strengthen the pillars of financial inclusion for those millions of citizens who had little opportunity to avail themselves of loans and products such as microinsurance and women-specific credit options. The success of the sector has led to worldwide acknowledgement, with the Economist Intelligence Unit ranking Pakistan as the third best microfinance business environment in the world for two years running from 2013 to 2014. Presently, all PPAF funds for microcredit are in the market and we are exploring new ways to raise capital to allow for greater market expansion and further improved services for those who, for a variety of reasons, continue to be excluded from the formal banking sector. PPAF is now playing the role of sector developer in new areas such as livelihoods and renewable energy.

A quick, agile, and lean organization with low overheads and high efficiency, PPAF's solid track record has led to the Government of Pakistan calling upon it on several occasions to deliver national programs such as the post-earthquake reconstruction efforts in 2005,

capacity building for beneficiaries of the cash transfer Benazir Income Support Program, as well as the nascent Prime Minister's Interest Free Loan program. PPAF has been a leading organization in disaster management, reconstructing over 120,000 seismically safe houses in earthquake-prone areas. Taking forward an area development approach, PPAF's village-based small infrastructure schemes are now linking up with trunk infrastructure and providing greater connectivity to people. Rather than village-based infrastructure, we are moving towards area-based infrastructure, the likes of which our drought mitigation program has been a great example of success that should be widely emulated.

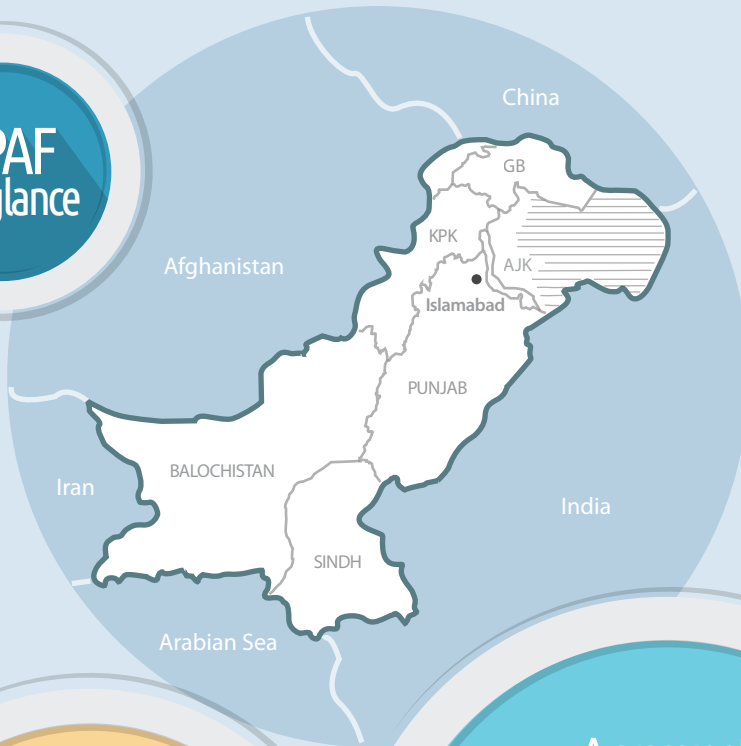
Another lesson learned over the years has been the need to deepen PPAF's outreach and ensure outcomes and impact vis-à-vis poverty alleviation, contrary to the traditional approach of keeping track of outputs only. Our commitment to quantifying and measuring outcomes and impact has been a great step forward in terms of understanding, addressing, and countering poverty in its various dimensions. This has been further strengthened by ensuring regular third party evaluations and assessments in

order to provide us with an objective and rigorous update on our progress. PPAF sets an example by imposing rigorous good management practices of transparency and good governance upon ourselves, thereby inspiring our partners and communities to willingly follow in our footsteps.

PPAF has always strived to improve our efficiency and effectiveness through innovations and the incorporation of cutting-edge knowledge. In fact, our ability to evolve and embrace the continuous nature of change - while holding onto our values - has become a hallmark of the organization. As such, the utilization of cutting-edge policy research and empirical results has been incorporated in recent years as a cornerstone to PPAF's work, infusing the organization with the requisite dynamism to achieve our twin goals of poverty alleviation and empowered communities.

As PPAF continues to learn, evolve, and affect positive social change, the ultimate lesson of our first 15 years has been that change is not achieved over the course of weeks, months, or even years, but is an evolutionary process which cannot be realized without commitment to sound foundational values — *ishq, ilm, and aml*.

**PPAF**  
at a glance



presence in  
**121** districts  
through **127**  
partner organizations

A grassroots  
network of **125,000**  
Community Organizations  
and **414,000**  
credit/common interest  
groups

 **59%**  
women

Over  
**7.1** million  
microcredit loans  
with **80%**  
of financing extended  
to rural areas

Financing deployed  
in **99,000**  
villages/rural and urban  
settlements

33,000  
health, education, water  
and infrastructure  
projects completed

Productive  
assets transferred  
to 63,000  
in 47 poorest  
districts across the  
country

 47%  
women

Over 17,000  
skills development  
& managerial training events  
for 918,000  
individuals

 51%  
women

Assisted  
over 1.8 million  
households affected by natural disas-  
ters under relief and early recovery  
projects, managed reconstruction  
of 122,000 seismically-safe houses  
affected by 2005  
earthquake

# Institutional Development



Institutional Development has evolved from a short term, growth centric approach to a more long term, development centered approach during PPAF-III. This approach revolves around three important dimensions:

**1.**  
From economic progress to social development:  
**investing in local social capital**

**2.**  
From community organizations to stakeholders involvement:  
**developing a knowledge base**

**3.**  
From interns to community activists:  
**creating a critical mass**

## Development through institutions

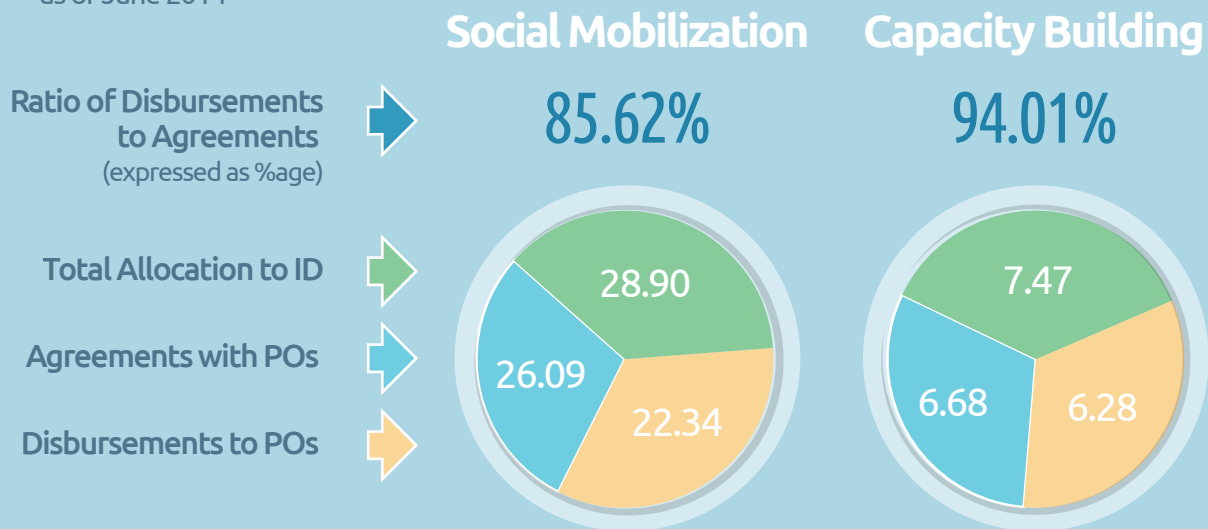
case  
study

Page 15

Village Painsa Shah embodies PPAF's ethos of empowerment through social mobilization. A mountainous village in UC Kuz Aba Khel, tehsil Kabal, district Swat, Village Painsa Shah is situated 30 km to the west of the main Kabal bazaar.

# Financial Progress

as of June 2014



Amount in million US\$

# Physical Progress

cumulative as of June 2014

	Targets	Achievements	%age Achieved
CO Formation	25,000	52,993	212%
VO	3,250	5,398	166%
UCDO	81	330	407%
Staff Trainees	4,400	5,623	128%
Community Trainees	183,406	223,160	122%
Interns & Junior Professionals Trained	328	216	66%

## Important activities conducted during the year

The ID Unit contributed towards progress through various activities conducted at the partner, community, and organizational levels.

### internal knowledge sharing workshops

### capacity building of partners

### capacity building of youth

### national and international networking and liaison

### achievements under HRE

#### Internal knowledge sharing

##### Disaster Risk Management Workshop

A workshop was organized on Disaster Risk Management by Prof. Ing. Stefano Mambretti, Consultant, Italian Mission/ Italian Embassy, and Mr. Fabio Tabbo, Consultant, Italian Ministry of Foreign Affairs, on the 21st of November 2013 at the PPAF office. The objective of the workshop was to give an overview of disaster preparedness concepts, followed by details of the disaster risk management proposal by the Italian Development Cooperation.

The event also included short addresses from Mr. Dominico, Head of Overseas Technical Unit, Italian Development Cooperation (IDC) Pakistan; Mr. Ramesh Singh, the first Sikh Parliamentarian from the Punjab Provincial Assembly; other Italian experts and some PPAF staff members.

#### Trauma Buster Technique

A training titled "Trauma Buster Technique" was conducted by the internationally experienced Ms. Rehana Webster, who visits Pakistan every year to share an effective trauma elimination formula. This one day hands-on training was specifically designed to give participants the skill to deal confidently with any trauma. As many as thirty eight PPAF staffers attended.

#### PIDE Research Sharing Session

The inaugural ceremony of the YPIP and PIDE Research Sharing Session was hosted jointly by ID and MER on January 7, 2013 at Jinnah Hall.

The guests included Dr. Feriyal Aslam, Head of Development Studies Department, PIDE, Ms. Samia Liaquat Ali Khan, Group Head, CQA, PPAF, and PIDE scholars.

The three scholars from PIDE presented their interesting research findings on PPAF's work in Punjab and





Gilgit-Baltistan, presenting papers on “River Bank Erosion: Gender and Adaptation Processes in Layyah District,” “Islamic Microfinance and Empowerment of Women,” and “Internal dynamics of livelihood assets in mitigating natural disasters.” The event ended with a short address by GM-ID, Mr. Allah Nawaz Samoo, in which he appreciated the collaboration between PPAF and PIDE in research work aimed at poverty alleviation.

## Capacity Building of Partners

### Awareness Campaign on Seasonal Epidemics

ID & EHN conducted a joint awareness campaign on seasonal epidemics through a series of workshops for institutions of the poor. The first two workshops of the series, titled “Prevention of Seasonal Disease Outbreaks in Sindh,” took place on January 21, 2014 in collaboration with Liaquat University of Medical &

Health Sciences (LUMHS), Jamshoro. As many as fifty participants, including Health Coordinators and communities of Sindh Rural Support Program, Indus Earth Trust, and Badin Rural Development Society based in Thatta and Badin, participated in this workshop.

The third and fourth workshops of the aforementioned series were hosted jointly by ID and EHN in Multan on January 30 and 31, 2014, respectively, with Multan-based village organizations participating. The workshops aimed to develop understanding among communities on seasonal disease outbreaks like Dengue, Measles, Malaria, Poliomyelitis & water born diseases such as diarrhea.

### Dynamics of Deepening and Saturation - A series of workshops

ID has conducted a series of five Orientation Workshops with KP, Punjab and Sindh-based partners. The primary objective of these workshops was to orient the partners with PPAF’s New Institutional Development Framework.

During the workshops, the ID team discussed in detail the dynamics of deepening and saturation with mobilizing second and third tier organizations, developing area development plans, and capacity building of second and third tier organizations for “investment leverage.”

### **Achieving MDGs: Focusing on Polio Eradication**

ID and C&M completed a series of workshops on Achieving MDGs: Focusing on Polio Eradication. A series of two-day workshops were conducted with Punjab, Sindh, Baluchistan, Khyber Pakhtunkhwa and FATA-based partners and village organizations. Local lady health workers and primary school teachers were also invited.

The primary objective of these workshops was to articulate the vision of the MDGs to communities and energize them to set their own village-level targets for school enrolment, child immunization focusing on polio eradication, improved maternal health, and improved access to clean drinking water and to incorporate these goals into their integrated village development plans.

The ID team also developed a community toolkit with reference to Millennium Development Goals such as school enrolment, child immunization, and improved maternal health.

### **Networking and Liaison - Regional, National and International Level**

Institutional Development remained focused on building networks at the regional, national and international levels to further

promote the cause of institutions of the poor and provide the most relevant structures for leverage and support.

### **MOU with LUMHS**

On December 24, 2013, PPAF signed a memorandum of understanding with Liaquat University of Medical & Health Sciences (LUMHS).

The primary objective of the MoU was for PPAF and LUMHS to collaborate on community-based health activities, particularly training workshops with community activists focusing on maternal health, prevention of water-borne diseases, and improving the status of malnutrition.

### **Capacity building of youth**

#### **Young Professional Internship Program (YPIP)**

The Program was launched on Dec 26, 2013. A total of eighteen interns (eight girls and ten boys) from various priority districts of KP, Sindh, and Punjab were competitively selected for this program. YPIP consists of one month of participatory training sessions in Islamabad and four months of field exposure with PPAF Partners. The first batch is currently undergoing one month of classroom training.



The primary objective of the MoU was for **PPAF and LUMHS to collaborate on community-based health activities, particularly training**

## **summer internship program 2013**

### **Summer Internship Program 2013**

ID received numerous CVs and graduated a batch of 22 interns from all over Pakistan, including 14 boys and 8 girls. Spanning the month of July 2013, this internship program was primarily exposure-based, allowing undergraduate students to explore possible

career choices in the development sector through theoretical knowledge at PPAF's offices as well as fieldwork.

## Integration and Coordination

### Institutional Development under Hydro and Renewable Energy (HRE), KfW (Jul 2013 to Dec 2014)

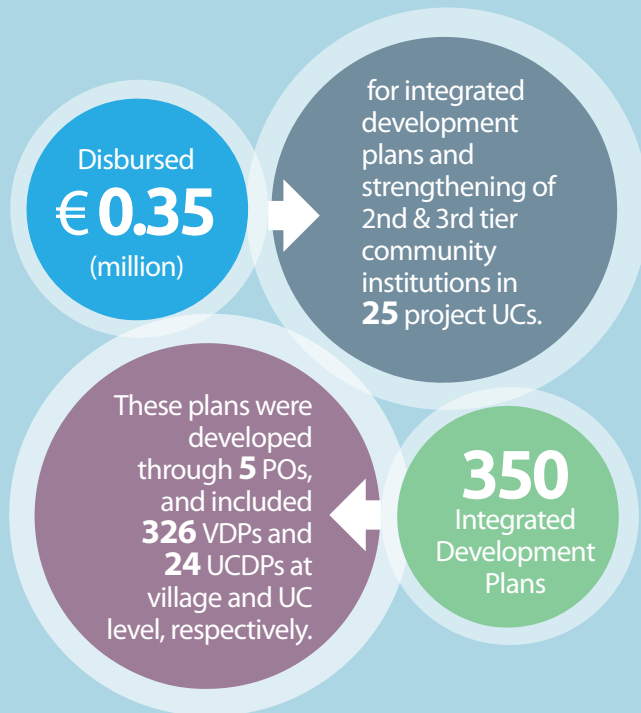
Before the physical implementation of Hydro and Renewable Energy small projects, the Institutional Development Unit completed financing agreements with five POs and capacitated 2nd and 3rd tier community institutions. The duration of this project was eight months and it was completed on Dec 30, 2014. The table below shows UCs and districts where Hydro and Renewable Energy small projects are planned and where the ID Unit implemented a new ID framework with existing community institutions.



### Hydro and renewable energy small projects planned in the following UCs

POs	District	Project UCs
CMIDO	Karak	Ghundi Mir Khan Khel, Palosa Sar, Jehangiri, Shanawa Gudi Khel and Warana Ahmad Abad
SABAWAN	Lakki Marwat	Ghaznikhel & Marwandi Azim
	Bannu	Mandan, Baharat, Kaki-2, Narjaffar & Mithakhel
SRSP	Upper Dir	Palam, Patrak, Kulandai and Barawal
	Chitral	Shishikoh
NRSP	Swabi	Sara Cheena, Yaqobi, Parmolai, Bachai & Asota,
	Buner	Gulbandi
AKRSP	Chitral	Yarkhoon and Khot

## Achievements of ID component under HRE – KFW



The Institutional Development Plan contains a baseline highlighting the overall situation of a village or UC. This baseline identifies the distribution of resources, including private and public goods.

The Institutional Development Plan results in a comprehensive village and Union Council profile highlighting all important stakeholders. Resource Mapping is used as a tool to identify which resources are used for which purpose.

### TRAINED



# 5,195

community members of 2nd & 3rd tier community institutions.

Stakeholders Workshops on Integrated Development Plans

Trainings on Basic Civic & Constitutional Rights

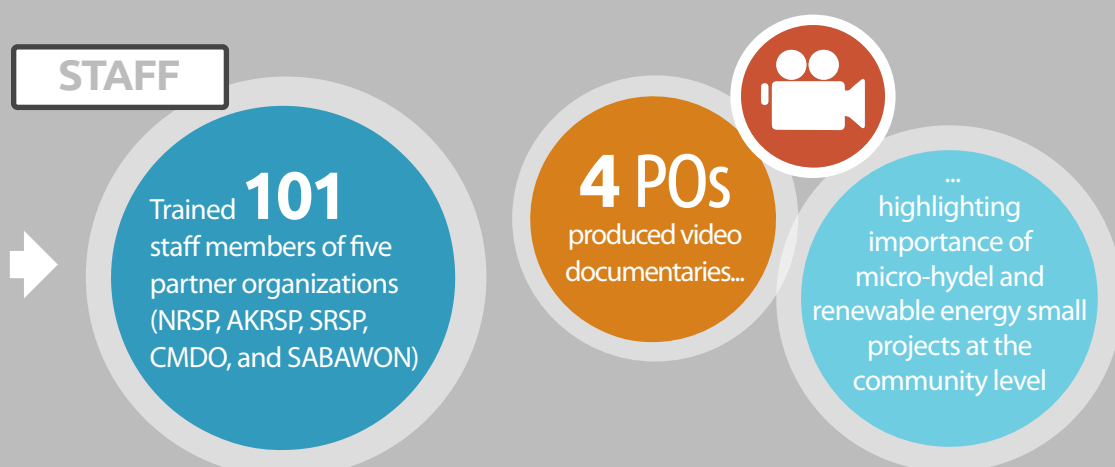
Workshops on Improvement in Maternal Health, Increased Enrollment in Girls' Schools and Awareness in Sanitation

Trainings on Project Proposal Writing

Trainings on Linkages Development and Resource Mobilization

Due to the above mentioned trainings, different cadres of change makers are available to facilitate communities in community-led sanitation, education and health improvement. Teams are also available to implement small projects of hydro and renewable energy in their respective UCs. Change makers and teams have action plans to develop and implement these projects with stakeholders.

### STAFF



## Inclusion and Equity

### Formation of Gender Committee

A Gender Committee was formed in March 2013, comprising members of various units to oversee and ensure that all PPAF policies, processes and programs reflect gender equity and are being implemented in letter as well as spirit. Activities of the Gender Committee:

- Meetings held to review PPAF processes and programs.
- Meetings held with the World Bank, various ministries and parliamentarians, and the women's organizations Aurat Foundation and Shirkat Gah to discuss gender issues.
- Organized learning workshops and panel discussions on MDG-3.
- Development of Gender Action Plan.
- Review of PPAF's gender strategy.

### Session on "Gender in Communication and Media"

Ms. Muqaddisa Mehreen, Senior Gender Specialist at the World Bank, facilitated a session on "Gender in Communication and Media" at PPAF, which was attended by 15 staffers from various units. The session was aimed at creating awareness about gender



mainstreaming in various publications. Ms. Muqaddisa also presented various global perspectives and practices on mainstreaming gender. This session was arranged in the wake of a gender assessment survey at PPAF.

### Gender Orientation Training

Members of the PPAF Gender Committee (GenCom) participated in a two day Gender Orientation Training facilitated by Ms. Muqaddisa Mehreen, Gender Specialist at

the World Bank. The training was aimed at introducing the GenCom members to a gender and development policy framework and equipping them with skills for developing indicators for promoting gender mainstreaming within PPAF as well as in economic development and women's participation through audio visuals, case studies, and lectures.

The participants were engaged in interesting hands on exercises

to understand the importance of bringing gender perspectives into all aspects of PPAF's activities and policies. Tools were shared to explain how injustice and inequity can affect inclusion at various levels. The training also provided an overview of trends in the conceptualization of women's issues in the development context.



## Mainstreaming Gender

- Justice (Rtd.) Yasmin Abbasey, Federal Ombudsman for Protection against Harassment of Women at Workplace, was the chief guest on the occasion of 3rd annual Amtul Raqeeb award ceremony. She spoke on government policy and procedures to sensitize staff and communities on harassment at the workplace.
- PPAF management participated in the conference "Looking beyond 2015: Pakistan post Millennium Development Goals" held in December 2013 at Church House, London.
- GM-ID Unit participated in the 4th International Symposium "AgroSym 2013"

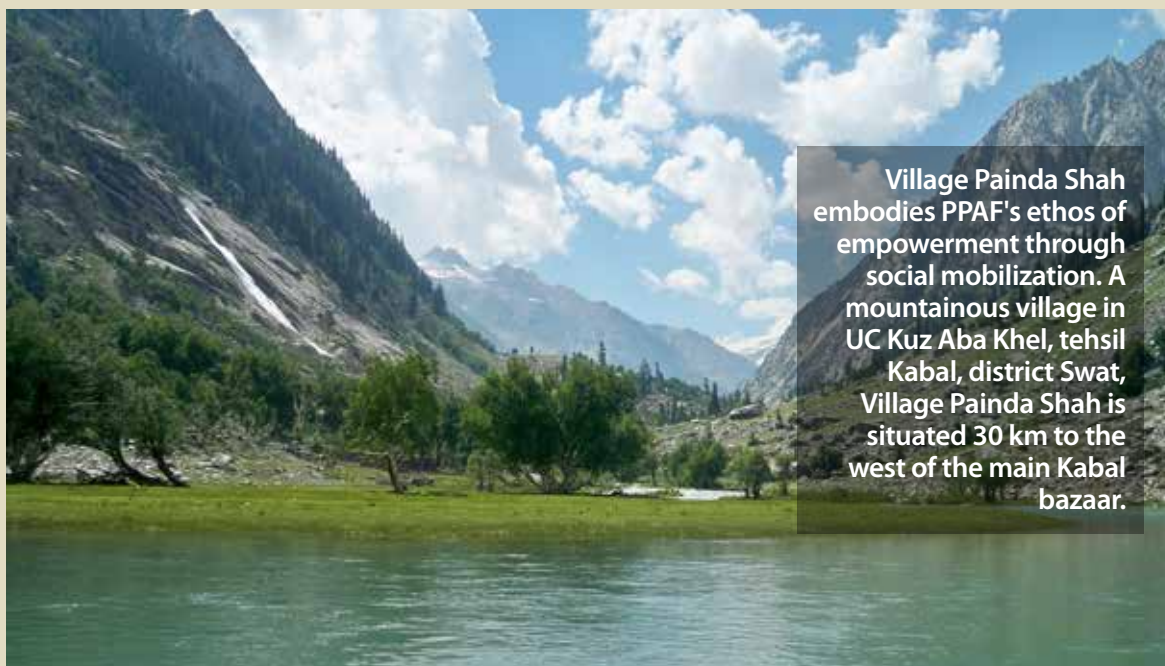


- held 3 – 6 October 2013 in Bosnia and Herzegovina, presenting a paper on the "Role of women's agency/ inclusion in making participatory development a means for inclusive growth."
- PPAF's CEO and GM-ID held a meeting with Balochistan's Chief Minister, Dr. Abdul Malik Baloch, and parliamentarian Ms. Raheela Durani on girls' education and women's empowerment.

## Facilitation/Initiation of the Italian Project

- The work plan for both components of the project, i.e., tied and untied, was prepared, revised and approved by the Italian Development Cooperation.
- The preparation of TORs for the project, containing a baseline survey and the prioritization of union councils, was facilitated.

## Development through institutions



Village Painsa Shah embodies PPAF's ethos of empowerment through social mobilization. A mountainous village in UC Kuz Aba Khel, tehsil Kabal, district Swat, Village Painsa Shah is situated 30 km to the west of the main Kabal bazaar.

Image courtesy: www.wikipedia.org

case study

### Khad-e-Maane Painsa Shah Tanzeem

After a visit highlighting the importance of community organizations by the SRSP social mobilization team in December 2011, the people of Painsa Shah began to form community organizations at the hamlet level, eventually forming 5 MCOs (Male Community Organizations) – one for each hamlet of the village.

With the help of ongoing trainings, community members raised their awareness about the importance of institution building and the inclusion of women in the development process. The people of Painsa Shah successfully strived to form two WCOs (Women's Community Organizations) and felt the need for a platform where representatives of the COs could discuss the problems/ issues of the community and set an agenda. The COs then formed an organization at the village level named Khad-e-Maane Painsa Shah Tanzeem, to which members were nominated and selected through resolutions.

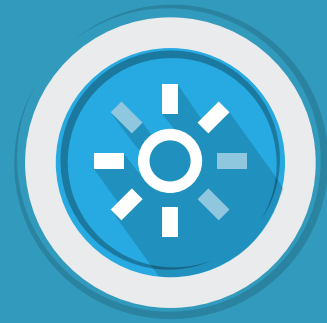
Desiring to further build their institutions, two members of the village level organization were nominated through resolution to visit Haripur, where a potential LSO at the UC level would be based in the future.

### Khad-e-Maane Painsa Shah Tanzeem's Work

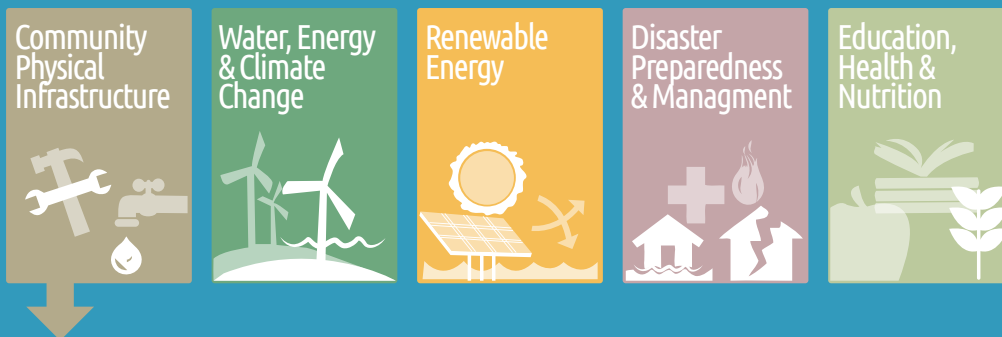
Khad-e-Maane Painsa Shah Tanzeem has collaborated with organizations such as SRSP and Mercy Corps, creating linkages through SRSP and constructing a drinking water supply scheme (DWSS) with the financial support of Mercy Corps. The VO was also able to successfully lobby – via the local MPA – for the construction of a road leading to the village, which is currently in progress. The VO has distributed many relief items to the community with the help of the Pakistan Army. More than 30 people have undergone skills training or received asset transfers as part of the LEED-ID project. The members hold meetings regularly and also collect dues for the sustainability of the organization, which currently runs a bank balance of approximately Rs. 18,000.

The people of the Painsa Shah have taken ownership of and pride in the VO, happy to benefit from and see the success of development initiatives undertaken by their village organization.

# Public Goods and Services



Our mission is to enhance human capabilities by promoting access to health, education, infrastructure and energy, ensuring nutrition and food security and developing community resilience against extreme climate and natural hazards.



Life-changing development –

**CPI projects** have made it possible for poor households to access services and resources necessary to uplift economic conditions, enhance opportunities for income generation, and improve their quality of life.

Livelihood Support and Promotion of Small  
Community Infrastructure

[LACIP]

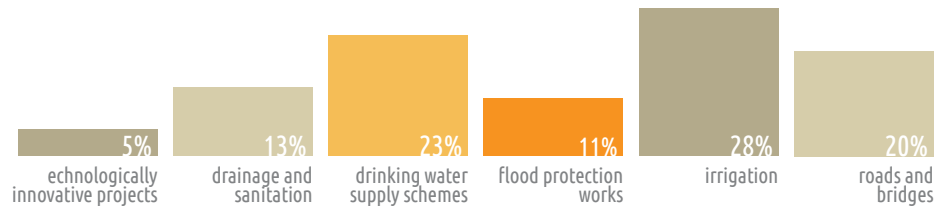
special  
initiative

Livelihood Support & Promotion of Small Community Infrastructure Project (LACIP) is co-financed by the Federal Republic of Germany through KfW (German Development Bank) and executed by PPAF over a period of four years. It aims to reduce poverty levels by increasing economic opportunities in the project region.



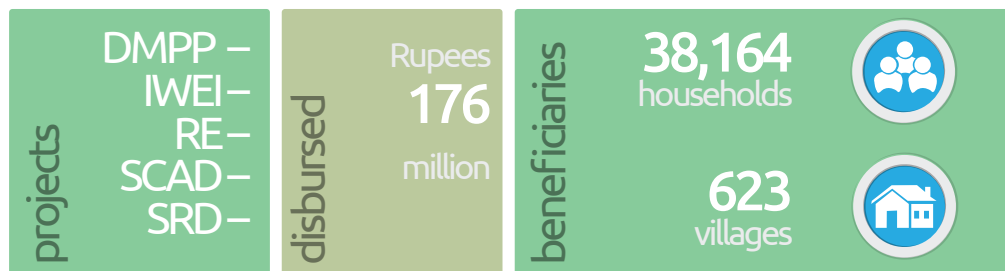
## CPI

### Breakdown of investments (total Rs. 188.42 million)



## WECC

### FY 2013-14



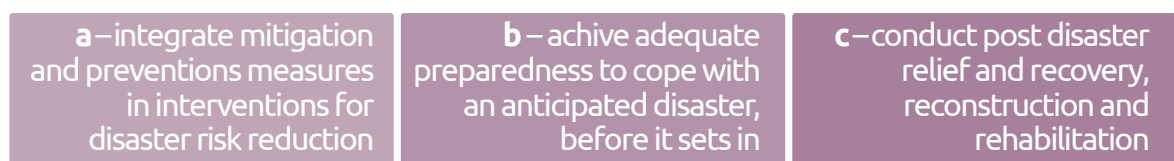
## RE

### Main objectives:



## DPM

### Main objectives:



## EHN

### Beneficiaries (Fy 2013-14)

		Education				Health			
		Public Sector		Private Sector		Public Sector		Private Sector	
<b>Total Beneficiaries</b>		<b>98,115</b>		<b>27,810</b>		<b>7,054,294</b>		<b>631,057</b>	
<b>Male</b>	<b>Female</b>	42,816	13,896	13,896	13,914	2,843,750	4,210,544	285,609	345,448

## Community Physical Infrastructure

The Community Physical Infrastructure (CPI) Unit of PPAF has implemented 370 small scale infrastructure projects addressing the needs of approximately 33,976 households settled in 59 Union Councils across 25 poverty-stricken districts of the country.

The implementation of these projects forged linkages among PPAF and its Partner Organizations (POs), as well as organized and mobilized local people in the shape of community organizations. For the sake of the continuity of interventions and their effects, the community was involved throughout the process - from identifying needs and solutions to designing projects, from pooling in resources in the form of cash and labour (equivalent to a minimum of 20% of project cost), to implementing, operating, and maintaining projects.

Investing a total of Rs. 188.42 million in poor communities in all four provinces as well as AJK, Gilgit-Baltistan, and FATA, PPAF has addressed their most urgent needs of irrigation (28% of projects), safe drinking water (23% of projects), drainage and sanitation (13% of projects), roads and bridges (20% of projects), and technologically innovative projects like solar

lights, wind mills, microhydels, and biogas plants (5% of projects). Communal hand pumps, tube wells, overhead tanks with communal taps, water reservoirs, and gravity-fed water supply lines have given 6,383 households access to safe drinking water. Women and girls in these communities no longer undergo the drudgery of fetching water from long distances. Instead of spending hours collecting water, women have more free time and can now earn an income; girls have time to attend school or just play with friends. Additionally, safe drinking water has cut healthcare cost by preventing many water borne diseases.

Sanitation has been improved in 18 villages by the laying of sewer lines and rainwater drainage and the construction of oxidation ponds, brick soling, culverts, covered drains, and community toilets. Now sewage and waste water is safely disposed off and/or treated and households enjoy an

environment free of mosquitoes.

Rural households depend heavily on agriculture to eke out a living. Irrigation projects, such as water channel lining, karez (traditional underground water channels used for agricultural activities) rehabilitation, water reservoir and dug well construction, irrigation pipe installation, etc., have made more water available in 30 villages and consequently improved cropping intensity and increased cultivable land area. Additionally, 40 flood protection structures in KPK and Balochistan are now protecting agricultural land and the assets and property of 3,103 households from the devastating effects of flood.

Link roads, bridges, and culverts have connected remote communities settled in 25 villages to main roads leading to rural towns, ultimately improving access to health, education, markets, and other services.

PPAF has undertaken 17 Technologically Innovative Projects (TIP) in 4 villages to address the concern for energy shortage and cost through the renewable energy options of biogas and solar energy. Biogas technology fulfills households' need for cooking fuel, and the installation of solar street lights provides light to communities at night. A few communities have benefited from the installation of solar pumping systems, which have decreased fuel costs and increased the reliability of water delivery systems, in addition to offsetting carbon emissions.

## Good Practices and Innovations

### PPAF-SHELL: Transforming Goth Noor Muhammad

Investment in social mobilization, infrastructure, health, education, and livelihoods has transformed the lives of people dwelling in huts made of found materials and living off scavenging waste in Goth Noor Muhammad, Karachi. Village Goth Noor Muhammad received a fund of Rs. 12 million from Shell Pakistan in 2010 for the construction of 57 housing units with PPAF providing

technical support and also investing Rs. 6.74 million for street paving and drainage to create a hygienic and healthy environment. PPAF's Partner Organization in these endeavours is HANDS. Since the demand for permanent shelter is high, PPAF plans to build 76 houses with its own resources of Rs. 16.23 million. Twenty three houses are currently under construction.

### PPAF-PPL: Infrastructure Projects in Flood Affected Communities

PPAF signed an MoU with Pakistan Petroleum Limited

## CPI - Current and Cumulative Physical Progress

Category	FY 2013 - 2014			Villages	Cumulative (FY 2000-2014)	
	Projects	Beneficiary Households	Beneficiary Population		Projects	Villages
Drainage and Sanitation	48	6,224	45,443	18	24,498	17,224
DWSS	85	6,384	43,468	30		
Flood Protection Works	40	3,103	26,655	20		
Irrigation	104	7,010	56,353	30		
Roads & Bridges	74	10,600	75,518	25		
IAUP*	2	180	1,863	2	166	116
TIP	17	475	3,512	4	711	484
<b>Total</b>	<b>370</b>	<b>33,976</b>	<b>252,812</b>	<b>129</b>	<b>25,375</b>	<b>17,824</b>

\* Integrated Area Upgrading Project: A combination of interventions, such as drinking water supply, safe waste water disposal, street soling and lighting, etc., in an area

## CPI - Current and Cumulative Financial Progress (Rs. in Millions)

Project Category	FY 2013 - 2014		Cumulative (FY 2000-2014)	
	Funds Allocated	Funds Disbursed	Funds Allocated	Funds Disbursed
Conventional*	169.7	164.45	7,990	7,883
IAUP	9.1	9	378	378
TIP	9.62	9.65	458	455
<b>Total</b>	<b>188.42</b>	<b>183.1</b>	<b>8,826</b>	<b>8,716</b>

\* Drainage and sanitation, DWSS, flood protection works, irrigation, roads and bridges

(PPL) for the provision of small scale infrastructure projects, such as sanitation and drainage, link roads, drinking water supply, water course lining, etc., in three flood affected Union Councils: Gublo, Malhir, and Haibat in District Kashmore. In a 70/30 split partnership, PPL pooled in Rs. 50 million and PPAF contributed Rs. 21.43 million and worked with Sindh Rural Support Organization (SRSO) as its implementing partner. Between 2013 and 2014, 51 projects were initiated of which 37 have been completed.

### **Managing Water Professionally**

PPAF, with the support of the Water and Sanitation Program of the World Bank, is piloting a drinking water supply utility model to address water shortages in three districts - Lodhran, Sheikhpura, and Chakwal - by rehabilitating the abandoned drinking water supply schemes of public health engineering departments. This home grown utility will be owned by all the households, including women through equity participation, and run as a private entity registered with the government auditing system.

The utility will upgrade traditional community management practices by

grafting modern management, organizational knowledge, and market principles onto them. The revenue will be used to hire technical staff for operations and maintenance, as well as for future investments and upgrades. Physical work on all these schemes have been completed and are fully functional. By the end of the year, water metres will be installed and these projects will be running as social enterprises. This drinking water supply project meets multiple sustainability criteria - technical, economic, social, and environmental - and has immense potential for replicability and scalability. PPAF is not just providing a service, but building the capacity of the communities to sustain the service and improve their quality of life.

### **Prosperity Lies in Sustainable Land Use**

Eighty percent of land in Pakistan faces high risk of desertification due to deforestation, overgrazing, drought, floods, etc. PPAF, in collaboration with the Sustainable Land Management Project (SLMP) of the Ministry of Climate Change, is implementing eight infrastructure projects in three villages of districts Laki Marwat and Pishin to improve land use and arrest degradation and desertification. Over 1,500 households will be restoring

their lands and livelihoods as part of SLMP interventions which include water harvesting, rehabilitation of rangelands, tree plantation, flood water management, nursery farming, and low delta, high commercial value crop cultivation.

### **Changing Behavior: Continuing campaign to end open defecation:**

Sanitation affects not only the individual, but also the community as a whole. Poor sanitation and unsafe water stand out as the leading cause of malnutrition in Pakistan and have contributed to an enormous economic loss as well. To contribute to the Millennium Development Goal of ensuring environmental sustainability, PPAF is supporting a total of 6 UCs in district Layyah in Punjab and districts Badin, Tharparkar, Mirpurkhas, and Kashmore in Sindh, representing a population size of 150,000, in achieving open defecation free status. Raising awareness about the importance of health, hygiene, and household latrines, so far all households in 317 settlements, totalling a population of approximately 110,000, are no longer practicing open defecation. Gradually, the pilot will be scaled up and replicated in additional union councils.

## Water, Energy and Climate Change

The goal of WECC Unit is to alleviate poverty, reduce vulnerability, and improve food security through sustainable agricultural development, focusing on the efficient management of water and water related-disasters and developing effective renewable energy resources. Our water and energy projects embrace institutional and technological innovations focusing on climate compatible development for a future characterized by reduced climate and carbon vulnerabilities and more resilient communities.

WECC projects have thus far conserved 1.7 million cubic metres of water, providing adequate water for irrigation of existing agricultural land, bringing more land under cultivation, and reviving associated livelihood activities. WECC projects have also generated 10.5 megawatts of clean energy which offsets 87.15 tons of carbon emissions per annum, preserves forests, and reduces

the environmental burden borne by healthcare. Additionally, WECC interventions prepare communities for adverse natural events through disaster risk reduction measures.

During 2013-2014, Drought Mitigation and Preparedness Projects (DMPPs), Integrated Water Efficient Irrigation (IWEI) projects, Renewable Energy (RE)

projects, projects under the Sindh Coastal Area Development (SCAD) program, and projects under the Sustainable Rural Development (SRD) program have benefited approximately 38,164 households in 623 villages across the country. For implementation of these projects, Rs. 176 million has been disbursed to various partner organizations (POs).

### WECC - Current and Cumulative Physical Progress

Program Category	FY 2013 - 2014			Cumulative (FY 2000-2014)		
	Projects	Sub projects	Villages	Projects	Sub projects	Villages
DMPP	0	78	69	38	2,916	2,623
IWEIP	4	12	4	211	632	211
RE	0	0	0	58	58	174
SCAD	529	529	507	3,695	3,695	3,293
SRD	36	87	43	124	204	263
CECP	0	0	0	16	16	60
<b>Total</b>	<b>569</b>	<b>706</b>	<b>623</b>	<b>4,142</b>	<b>7,521</b>	<b>6,624</b>

### WECC - Current and Cumulative Financial Progress (Rs. in Millions)

Program Category	FY 2013- 2014		Cumulative (FY 2000-2014)	
	Funds Allocated	Funds Disbursed	Funds Allocated	Funds Disbursed
DMPP	50	32.65	1,425	1,383.33
IWEIP	30	25.67	485	475.89
RE	30	20.29	467	431.38
SCAD	70	43.81	2,284	1,802.41
SRD	70	53.23	203	154.19
CECP	0	0	636	636
<b>Total</b>	<b>250</b>	<b>175.65</b>	<b>5,500</b>	<b>4,883</b>

# Water is scarce, conserve it!

## Drought Mitigation and Preparedness Program

Drought Preparedness and Mitigation Projects (DMPPs) strengthen the resilience, capacity, and preparedness of communities to handle successive drought cycles through local level interventions, policy formulations, and awareness raising campaigns.

DMPPs have improved access to water. As a result of groundwater recharge through interventions such as delay action dams, check dams, and efficient irrigation systems, people are able to recultivate their lands - with an increase in per acre yield and value of production - and hence secure access to sufficient food. Moreover, there is a dramatic increase in the value of agricultural land and lease rentals. Organizations formed at the community, village, and union council (UC) level for implementing DMPP projects have led to the development of social cohesiveness as people act collectively to improve their lives and address the health, education, and other needs of their communities.

## Integrated Water Efficient Irrigation Projects

PPAF's Integrated Water Efficient Irrigation (IWEI) projects have been designed for the efficient and optimal use of water and its associated resources through the construction of irrigation related infrastructure and its better management in an integrated manner. IWEI projects develop water sources, convey water efficiently through underground pipes, and apply water to the field through pressurized irrigation systems such as drips, bubblers, sprinklers, etc. In most cases, solar panels have replaced diesel generators for lifting water from shallow/tube wells. The projects target poor communities and involve them in the design and implementation process. This year such projects have benefited four villages.

### Drought Mitigation and Preparedness Project, Rodh Malazai

#### Celebrating 10 Years of Successful Operations Lessons from Experience, 2004 to 2014

On March 13, 2014, WECC held a colloquium to celebrate 10 years of successful operation of its drought mitigation and preparedness project in Rodh Malazai with the purpose of learning lessons from

experience and spreading the story of the project's success. The lessons learned from the experience of Rodh Malazai are: 1) Money is not an issue; it's about the principles of organizing households, thinking together, and making use of resources efficiently; 2) Through partnership, communities can achieve a large number of small projects and together they can bring about meaningful and sustainable change; 3) Poverty cannot be reduced in a day.

Long term vision and planning is required; and 4) Local wisdom, local knowledge, and local decision making structures are important for creating ownership and ensuring sustainability of actions.

Around 90 km from Quetta lies Rodh Malazai, stretching over an area of 244 sq km and supporting a population of approximately 28,000 (2014). The Union Council boasts well managed water resources,

which have not only ensured access to reliable water but also created pathways for enhanced food security and resilient livelihoods. With drought mitigation projects, some 600 acres of orchards have grown. Employing drip irrigation technology, good quality, value-added apples, tomatoes, peas, and chick peas are cultivated while using less water. By growing multiple crops the household economy has become resilient. Moreover, households now grow kitchen gardens, thus increasing food security. Now residents of Rodh Malazai eat 3 square meals a day. Rodh Malazai's prosperity is reflected in the annual household income which is now Rs. 600,000 to 700,000.

Rodh Malazai's circumstances were quite different in 1998. Due to drought, the centuries-old karez system (traditional irrigation method using underground water channels) had completely collapsed. Without water as the key input in agriculture, the annual income of the Union Council decreased from Rs. 18 million to Rs. 10 million. Households would go without food for 3 to 4 days in a row. Women and children would walk for miles over tough terrain to fetch water. People could no longer afford to call water tankers from other areas to

water the apple crop. The apple trees - the community's source of livelihood - died and the wood was used as fuel.

Then, six years later, PPAF's first DMPP was piloted and the residents of Rodh Malazai began the process of sustainably rebuilding and increasing resilience in their community.

### Outputs and Achievements

A renowned national consulting organization was hired to conduct studies, including hydrological and hydro-geological studies, and propose a plan for drought mitigation and preparedness. The report was thoroughly reviewed and gaps identified, and differences of opinion hammered out on the anvil of discussions with the task force, putting in local wisdom to match with the ground realities. Outputs and achievements of the program are as follows:

1. Without hiring any contractors, the task force at Rodh Malazai built 5 delay action dams to store water from snow meltdown and rain and recharge groundwater and 9 check dams to check the flow of debris to the delay action dams.
2. With aquifers recharged, karezes were rehabilitated.
3. A thousand feet of flood

protection works were constructed to protect agricultural land from erosion and inundation.

4. Watershed management projects encompassing the preservation of soil, vegetation, and water resources of the watershed were undertaken. These projects included:
  - a. Crop rotation to increase land productivity and water efficiency and value chain development for diversifying agriculture-based livelihood activities
  - b. Rangeland management for livestock by delineating areas for drinking water and fencing up areas in order to limit grazing and regenerate the protected area
  - c. Introduction of efficient irrigation systems
5. Installation of a community-based early warning system to gauge the water level.

The Rodh Malazai DMPP is a model of innovative practices, both in terms of technology and institutional arrangements, where many new ideas were tested, successfully carried out, and then later replicated in 38 other DMPPs across the country.

## Renewable Energy Program

The rural communities in Pakistan mostly depend upon fuel-wood, crop residue and cattle dung, kerosene oil, and diesel based power for meeting basic energy needs. PPAF has implemented around 700 renewable energy projects of diverse types and capacities. These include: mini/micro hydroelectric projects, solar lighting and water pumping systems, wind energy projects, solar-wind hybrid systems, pressurized irrigation systems, and biogas plants.

Through micro and mini hydropower projects and solar lighting systems PPAF has provided light to remote off-grid communities and has improved access to low cost electricity for both domestic and productive applications for a large number of rural households in mountainous areas. This eco innovation has: 1) substituted for existing diesel-based power generation and thus reduced greenhouse gas emissions, 2) utilized locally available renewable energy resource, and 3) reduced deforestation and degradation of natural habitats of rare plant and animal species presently threatened by excessive cutting of wood and shrubs for cooking and heating in winters.



Solar applications which are affordable and have low running cost are provided to remote, off-grid communities mainly in coastal areas of Sindh. The solar home lighting system provides electricity for 5 hours a day at the household level. Street lights make it safer to walk around in the village at night and light sources at home make productive and lucrative activity possible even at night. For example, women can sew and stitch items to sell and school-going children can study at night in project villages.

## Sustainable Rural Development Program

Sustainable rural development activities are carried out under second generation interventions of: 1) the Drought Mitigation and Preparedness Program (DMPP) and 2) the Integrated Rural Development Program. The DMPP second generation interventions prepare the community to better manage drought by having an early warning system in place, raising awareness on conserving and efficiently using water, altering



water usage based on monitoring indicators, and establishing relevant productive linkages of task forces with research and extension services, agricultural institutes/farms, technology, information sources, markets, and industries.

Under the concept of Integrated Rural Development, in strategically important and conflict affected areas like FATA, different PPAF units are addressing needs of the community through a multi-sector integrated development approach. Infrastructure developing projects such as drinking water supply, irrigation, link road, sanitation, health and education, etc., are implemented along with livelihood interventions. Also, the institutional development activities provide a solid base of multi-tier community institutions.

### **Sindh Coastal Areas Development Program**

Sindh coastal areas have experienced spatial and economic isolation compounded by recurring natural/man-made disasters in the form of global warming, seawater intrusion, floods, cyclones, drought, and backwash effects of Left Bank Outfall Drainage (LBOD), specifically in the districts of Thatta and Badin. Consequently, there is destruction of

livelihoods and widespread poverty and vulnerability leading to perpetual indebtedness and migration from the village. In response to this situation, PPAF initiated its first multi-sector initiative, involving synergetic development of protective and productive infrastructure, health, and education, administered in tandem with a workfare program and livelihood, employment and enterprise development interventions in 52 union councils in five southern districts of Sindh - Karachi, Badin, Thatta, Tharparker and Sanghar - covering a population of over 1.55 million.

Following the 2011 floods in southern Sindh, a comprehensive Community Based Disaster Risk Management (CBDRM) Program is in place. In addition to the regular CBDRM activities, two consultative workshops were held to reposition the SCAD integrated program and consequently a SCAD concept note was jointly prepared with the LEED Group. Also, WECC developed partnerships with other organizations working in the SCAD area and signed memorandums of understanding. A key partner in this regard is the Pakpur Foundation (TPF). TPF invested over Rs. 35 million to reconstruct 115 completely destroyed houses of flood affected people in 2011, while

PPAF addressed the infrastructure needs and implemented the integrated infrastructure upgrading project.

# Khair Muhammad Laghari, Then and Now

## Khair Muhammad Laghari in 2011...

PPAF began its work in Khair Muhammad Laghari under the Sindh Coastal Areas Development Program (SCAD) after the 2011 floods destroyed the village, which is situated in UC Aahori of Tehsil Jhudo, District Mirpurkhas. Spread over eight acres, Khair Muhammad Laghari consisted of 115 households living in thatched huts constructed on landlord's property. After the floods, land remained inundated for two months and the agricultural field for over six months. Residents were displaced, taking shelter in nearby elevated areas and some having no choice but to migrate to Mithi and Umerkot. Livestock and standing crops were lost to the flood.

PPAF then joined hands with The Pakpur Foundation (TPF) to undertake reconstruction and rehabilitation of Khair Muhammad Laghari under SCAD.

Khair Muhammad Laghari's population consists of 3 baradaris: Laghari, Bheel, Kolhi. Residents were divided along lines of faith and caste and lived below the poverty line. PPAF's Partner Organisation, National Rural Support Programme (NRSP), mobilized households and organized them into community institutions. Community divisions gave way to common goals for a prosperous future. PPAF funded public goods while TPF supported private goods, i.e., houses.

Through interactive lectures, role plays, group activities and discussions, pictorial handouts, review techniques, brainstorming sessions, case studies, practical exercises, and exposure visits the households enhanced their knowledge, skills and capabilities in planning, managing and monitoring developmental activities. Community awareness was raised on social rights and responsibilities. Community members were also trained on how to respond to natural disasters and develop their resilience capacity to reduce the risk of disaster.

The community institutions then developed a village development plan articulating their needs to be met through available resources and by developing linkages with other development organizations and government departments.

## Khair Muhammad Laghari in 2014...

Four blocks of burnt brick houses are featured on tree-lined brick paved streets. The pavements provide year round access to the main road and local market; children can easily go to school even when it rains.

The neighbourhood parks nestled in each block and lit by solar lights encourage a stable community as children play and households interact and experience nature. Children can now study under the streetlights. Space has been set aside for setting up a primary school close to the community.

Households fetch drinking water from community water points which provide filtered water from the canal. Household connections are provided for non-potable water.

There are separate communal bins for different types of recycling, encouraging households to think more about what they are throwing away and what can be recycled. Livestock is kept away from the residential area under a thatched roof shelter.

Households are outfitted with toilets and bathrooms. Sewage water is aerated through a series of oxidation ponds and the water is then used for irrigation.

Khair Muhammad Laghari is envisioned as an economic hub to help regenerate life across surrounding villages and rural towns. Space has been set aside next to the residential area for the development of an economic area/market place, where goods and services would be exchanged not only for agriculture inputs and outputs, but also for forward and backward production linkages. A training facility could be set up here to train people in adding value to their agriculture products by going up the chain - for example, training in chili processing. Furthermore, the economic area includes provisions for holding rural crafts shows, thus establishing new platforms for work and creating new customers and markets.

## Good Practice

Drinking Water Supply Utility Model, Village Gohol - UC Lawa, District Chakwal



Image courtesy: www.en.wikipedia.org

case study

The PPAF drinking water supply project addresses severe water scarcity in village Gohol, UC Lawa in district Chakwal. As a long-term solution, PPAF aimed to create community owned water infrastructure, such as small earthen dams, but under proper engineering design. Hence, PPAF constructed a dam under its Drought Mitigation and Preparedness Program. The water is now conveyed under gravity from the dam to a tank where it is filtered through a rapid sand filtration method. The filtered water is then pumped up by a turbine run by a diesel generator to two overhead tanks from where it is supplied through gravity to the three settlements of Ashab (20 households), Taag (80 households), and Gohol (200 households) of Village Gohol. The water being supplied is 20 litres per capita per day.

The district of Chakwal, Punjab experienced widespread drought from 1997 to 2002 and from 2006 to 2009. Insufficient rainfall resulted in shrinking aquifers and consequently wells and springs ran dry.

Now PPAF and WSP-WB have joined hands to help VDO Gohol develop a community owned water utility that will not only maintain and operate the system, but also add new features, such as distribution lines and solar pumps, to reduce the cost of pressurized distribution. At present only 172 households, who can afford it, have water connections and 128 households have sharing arrangements with their neighbors. Overall, the project has improved access to water for 300 households representing a population size of 2,100.

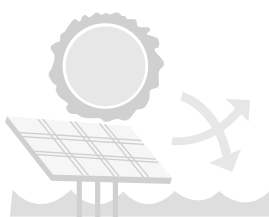
There is an immediate economic benefit due to the project. In 2012 a household paid Rs. 500 per month for water, while currently, with the solar powered system, the cost is Rs. 300 per month. Meters have been purchased and installation is in process. Once tariff slabs are introduced, it is expected that at least 50% of households will pay Rs. 200 per month. Going solar has accrued economic and environmental benefits due to the elimination of the use of diesel generators for pumping water. The community is saving Rs. 4000/day. Earlier, diesel consumption released 76 kg of CO<sub>2</sub> emission per month. The solar powered system has offset carbon emissions to the tune of 900 kg per annum.

With water points available, the community is building household and community toilets, improving sanitation at the household and community levels. Households have also reported improvements in health, with fewer children suffering from diarrhea and abdominal discomfort. The expected ultimate outcome of the water supply project is sustainable access to water resources, improved productivity of household members, better health, and improved agriculture and livelihoods.

## Renewable Energy

Renewable Energy (RE) is one of PPAF's core areas of intervention and also one of international donor organizations' main sectors of investment in Pakistan. PPAF has thus far financed the implementation of more than 800 renewable energy projects of diverse types and sizes in Pakistan.

The Renewable Energy Unit was established in December 2013 with a view to manage PPAF's RE obligations and commitments to various international funding agencies.



The main objectives of the Unit are to:

- Promote and scale up the use of alternative technologies for poverty eradication in Pakistan.
- Make energy accessible for rural, poor communities.
- Improve the quality and standards of existing micro and mini hydropower (MHP) plants and other RE technologies.
- Streamline RE technologies by shortlisting solution providers for solar energy applications.
- Protect local environment and increase the renewable energy contribution to the energy mix.

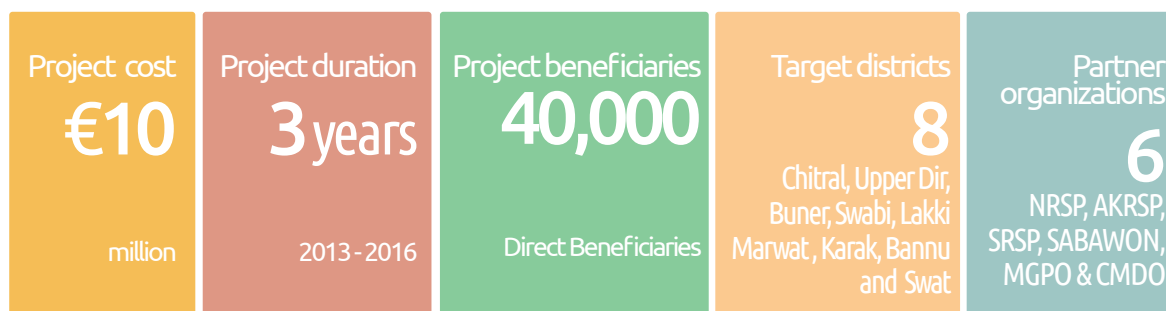
The Renewable Energy unit's primary focus is currently on the design and implementation of a KfW-funded HRE (Hydropower and Renewable Energy) Project in 8 selected districts of KPK province. There are three major components of the HRE project:

1. Design and implementation of 12 mini and micro hydropower projects
2. Design and implementation of 252 community based solar photovoltaic (PV) projects
3. Design and implementation of two pilot projects in RE

**INTEGRATION**, a German-based international consulting firm, is providing technical assistance to the RE Unit for the HRE project.

- The RE Unit with the technical support of INTEGRATION has completed designs for the implementation of three mini hydropower plants in district Chitral. Two plants are currently under construction.
- The design for 252 community based solar PV projects has been completed and approved by KfW. The physical implementation is expected to start in November/ December 2014, after the

## HRE Project at a glance



finalization of the bidding process for the procurement of technological equipment. The pre-qualification of six vendors for this procurement is completed and approved by KfW.

- The Unit facilitated four technical trainings/ workshops conducted by international consultants for the capacity building of PO engineers on the design and implementation of sustainable RE projects.
- With the assistance of INTEGRATION, the Unit designed 12 Operational Manuals to build the technical capacity of partner organizations

The RE Unit is also providing technical facilitation to other operations units within PPAF for the accurate design and implementation of community

based solar PV and MHP projects.

- The solar water pumping project of NRSP in UC Lawa, district Chakwal is of great significance. A diesel operated DWSS scheme was converted to solar energy, thus saving the community Rs. 50,000 per month in operating expenses and promoting a green environment.
- The Renewable Energy Unit staff provided technical assistance for the design of solar street lighting and filtration plant in Khair Mohammad Laghari. The project is completed and jointly benefits the Hindu-Muslim community.

The RE Unit's other activities include:

- Capacity building of partners to develop high quality and sustainable RE projects

1. Training on MHP project design
2. Training on solar energy systems
3. Developing Operational Manuals

- Financing the training of local manufacturers to produce standard equipment for hydro turbines
- Facilitating manufacturers' training in Indonesia conducted by Entec, a Swiss-based consulting and engineering company
- Coordination with all the relevant stakeholders in Pakistan (donors, developers, and international agencies ) to create synergies and share knowledge and experience regarding renewable energy

## Disaster Preparedness & Management

Pakistan is subject to frequent natural and man-made disasters which are becoming increasingly common. Disasters such as droughts, earthquake, floods, and conflict (with significant impacts in 2005, 2010, 2011, 2012, and 2013) have critically increased the vulnerability of affected communities.

Increasingly frequent disasters, combined with persistent poverty, climate change, and environmental degradation, are deteriorating the resilience mechanisms of disaster affected communities.

After establishing a dedicated disaster management Unit in 2011, PPAF's disaster preparedness and management strategy was formulated. The strategy is a framework for action by PPAF and its Partner Organizations with the purpose of: (a) integrating mitigation and prevention measures in interventions for disaster risk reduction, (b) achieving adequate preparedness to cope with an anticipated disaster before it sets in, and (c) conducting post disaster relief and recovery, reconstruction, and rehabilitation.

PPAF has included disaster risk reduction and management in all its operations and launched preparedness initiatives in select Union Councils across the

country, prioritizing high risk districts for initial action. At the union council level - the country's lowest administrative level - PPAF works closely with communities through its POs and connect the villages and settlements below to the authority at the district level above.

### CBDRM Program

A comprehensive Community Based Disaster Risk Management (CBDRM) Program was initiated under PPAF's Disaster Preparedness component as value addition to the Sindh Coastal Area Development (SCAD) program, augmenting the program's livelihood restoration/ enhancement, health, education, and infrastructure rehabilitation components. Furthermore, a CBDRM training program was expanded to the flood affected district of Sialkot in Punjab.

Based on PPAF's disaster management strategy, after training dedicated teams of CBDRM master trainers, DPM

replicated and scaled up the CBDRM trainings to community level. Under DPM's preparedness component of SCAD in Sindh, a total of 168 training events of 5 days each have been conducted in 42 union councils of Thatta, Badin, Sanghar, Tharparkar, and Mirpurkhas in which 5,003 persons were trained (2,603 men and 2,400 women), while 8 training events of 5 days each have been conducted in 2 union councils of district Sialkot, Punjab in which 200 persons were trained (99 men and 101 women).

The CBDRM trainings enhanced the capacities of community members/volunteers through the transfer of skills and knowledge of disaster management subjects, including basic search and rescue, hazard vulnerability and capacity assessment, first aid, firefighting, casualty evacuation, etc.

As part of the CBDRM training program, union council disaster management committees (UCDMC) and union council

emergency response teams (UCERT) are formed under the umbrella of existing community institutions in each UC. 42 UCDCMs and UCERTs were formed in 5 districts of Sindh under SCAD and 2 were formed in District Sialkot, Punjab. These UCDCMs and UCERTs were adequately trained and facilitated for preparing local level preparedness plans, conducting hazard vulnerability and capacity assessment, coordinating with other relevant stakeholders, and carrying out search & rescue and evacuation in case of disaster.

Stockpiles of emergency tools and equipment have been provided in 44 UCs (42 in Sindh, 2 in Punjab) to enable the local communities and authorities to respond effectively to future emergencies.

Resource manuals along with information, education, and communication materials were prepared and shared at community level and amongst

UCDCMs and UCERTs to enhance learning and understanding of the disaster management cycle and the importance of preparedness.

In addition to CBDRM trainings, comprehensive skills development trainings were carried out for 42 union councils of SCAD in Sindh. The trainings were specifically designed to enhance local artisans' existing skills, keeping in mind a risk resilient and DRR focus. A total of 10 trainings were completed in which 351 artisans from 42 union councils were trained.

### School Shakeout Drills and DRR sessions

Children are not only amongst the most vulnerable groups in society whose protection must be prioritized, but there are also great benefits to working with children in disaster preparedness. Children can identify risks and vulnerabilities in their community that adults often fail to see or prioritize. Children are

great communicators and change agents, possessing the ability to disseminate important information to their families and within their community.

A comprehensive school safety program was initiated for school children in district Sialkot, Punjab and in AJK. The objectives of the program were to (a) make children aware of the techniques to save themselves and help others in case of an emergency, and (b) enhance the skills and knowledge of teachers and School Management Committees (SMCs) regarding the importance of preparedness and disaster risk reduction measures to make schools safer.

The sessions were conducted through interactive exercises, discussion, animated videos, posters, group work, and mock drills. A total of 2,288 children and 120 teachers in 14 schools participated in DRR trainings in 2 union councils of district Sialkot and in AJK.

### DPM - Progress (FY 2013-14)

Interventions	Planned Trainings	Completed Trainings	Training Beneficiaries		
			Men/Boys	Women/Girls	Total
CBDRM Trainings	176	176	2,702	2,501	5003
Skill Development Trainings	10	10	351	-	351
Stockpiles*	44	44	-	-	44
School Safety Sessions	14	14	950	1,338	2,288

\* Stockpiles include pre-positioning of emergency tools and equipment in targeted UCs based on the recommended NDMA toolkit.

## PPAF Response to Natural Disasters



**Balochistan earthquake**  
A 7.7 magnitude earthquake struck the southwestern region of Pakistan on 24 September 2013 with a focal depth reported between 10 and 20 km.

Image courtesy: [www.urn.publicid-ap.org](http://www.urn.publicid-ap.org)

### 2013 Balochistan Earthquake Response

The quake's epicenter was in a sparsely populated mountainous area of Balochistan province, 66 km northeast of Awaran with tremors felt in neighboring areas of Sindh province. At least 15 aftershocks with a magnitude of up to 5.7 were reported over the next few days. The earthquake was so powerful that it caused the seabed to rise and create a small, mountain-like island about 600 meters off Pakistan's Gwadar coastline.

On 28 September another earthquake of 6.8 magnitude struck the same area at a depth of 14.8 km. More than 825 people were killed in these two earthquakes and hundreds more injured. Districts Awaran and Kech were severely impacted, with the quake destroying 90% of the houses and physical infrastructure and affecting 138,372 people. Districts Panjgur, Chaghi, Khuzdar, and Gwadar were also amongst the worst affected.

Based on NDMA's and PPAF's own Rapid Damage Needs Assessments, PPAF immediately designed and approved a comprehensive relief and recovery project amounting to Rs.401 million of its internal financial resources. The earthquake relief and early recovery program focused on the 4 worst affected UCs of districts Awaran and Kech and aimed to provide immediate assistance through provision of dry food ration bags, hygiene kits, non-food items including kitchen sets and quilts, transitional shelters and latrines, mobile medical facilities, and the establishment of one static health center at the District Headquarters Hospital in Awaran. The program benefited 6,000 families (42,000 people) in 3 UCs in district Awaran (Awaran, Ghishkore, Teertaj) and 1 UC in Kech (Dander).

### Response to 2013 Floods in Punjab and Sindh

As a result of heavy monsoon rains, Pakistan faced severe flash and riverine floods in four provinces resulting in loss of human life, infrastructural damage, and agricultural and economic loss on a massive scale. According to NDMA the monsoon rains claimed 118 lives, injured 812 persons, and affected 1,746 villages and more than 5 million people, while destroying 412,083 acres of agriculture land and damaging/destroying more than 27,000 houses.

PPAF, using internal financial resources amounting to Rs. 316 million, responded immediately to this natural calamity in districts Narowal and Rajanpur in Punjab and district Ghotki in Sindh. The flood relief and early recovery program provided immediate assistance to affected communities through the provision of dry food ration bags, hygiene kits, wheat seed, fertilizers (urea and DAP - diammonium phosphate), and mobile medical facilities. The program benefited 17,931 households (125,517 people) in 21 UCs in districts Narowal and Rajanpur and 2 UCs in district Ghotki.



## Education, Health and Nutrition

The Education, Health and Nutrition program of PPAF focuses on the close links between poverty, health, and education to address social inequities in terms of limited access to education/health facilities, non-availability of or insufficient services, food insecurity and inadequate dietary intake, and lack of awareness of health and nutrition at the grassroots level.

EHN support is aimed at enhancing access, adequacy, availability and acceptability of basic education and curative health services and strengthening the demand for improving nutrition status and influence at the policy level to contribute to national development goals. In areas where low functioning or dysfunctional health or education facilities are made functional, formal arrangements are made to closely work and share responsibilities with relevant government authorities to ensure the sustainability of interventions and continued services.

PPAF provided support for the establishment of 896 community schools and 504 health centers in areas across 60-plus districts where no schools or health facilities were available. The support was provided for the hiring of qualified and trained teachers/health staff, repair and renovations of existing

buildings, training of staff, provision of furniture, audio visual aids, medical equipment, medicines, library books and laboratory equipment for both public and community facilities. Community engagement and sustainability of activities had been ensured by establishing School Management Committees (SMCs) and Health Management Committees (HMCs) to oversee the functioning and monitoring of the quality of education and health services being provided by these facilities.



For education, the EHN Unit disbursed Rs. 323 million to 20 Partner Organizations providing technical and financial services to 896 schools (690 public sector, 206 private/community sector) in PPAF's identified priority areas with little or no access to quality education. As many as 125,925 students were enrolled, of which 45% were girls. Over 1200 teachers, of which 70% were women, were hired for these schools. Some

54 training sessions were held, training 1,251 teachers.

In the health sector, Rs. 91 million were disbursed among 12 partner organizations. The support was provided to 504 health centers in the form of prenatal and postnatal care, improving health outcomes for children, positively affecting their performance in schools, and brightening their prospects of employment and income in the future. Some 1,862,800 women 18 years or older and 412,674 girls below the age of 18 benefited from outpatient department medical support.

The Unit facilitates the formation of school and health management committees and provides technical assistance to support the committees in effectively performing their oversight role. These committees receive assistance in the areas of record keeping, planning and management of health centers and schools in order to develop the

## Health & Education Committees [FY 2013-14]

	Education	Health
<b>No. of Committees</b>	896	504*
 Men	4,474	1,865
 Women	2,619	972
<b>Total Members</b>	7,093	2,837

\* including 209 health centers which provide medical supplies only

## EHN Training Programs [FY 2013-14]

	Trainings	Participants		Total
		Men	Women	
<b>Health Staff</b>	21	307	114	421
<b>Teachers</b>	54	488	763	1,251
<b>Total</b>	75	795	877	1,672

### **Teacher/Medical Staff Trainings**

An extensive range of trainings was provided to teachers as well as medical staff. The professional teacher trainings focused on the development of child responsive teaching methodologies, which were complemented by capacity building sessions in syllabus and classroom management, lesson planning, and the development of teaching aids and phonics.

Various other training areas included: leadership and management, environment and social management, personal hygiene, library management, information and communications technology (ICT), and sign language for parents and teachers to communicate with deaf children. The teachers also had the opportunity to attend subject-specific refresher courses.

In the health sector, the trainings were categorized for:

- a) Health staff
- b) General public (awareness sessions)

The health staff trainings were exclusively designed for technical staff and aimed at improving the performance and delivery of the medical teams, i.e. doctors, lady health visitors (LHVs), traditional birth attendants and other staff. This year, 421 health staff members

(307 males, 114 females) were trained in the area of safe motherhood.

The sessions for the general public were designed to raise awareness in areas of hygiene, mother-child care, reproductive health, nutrition, family planning, immunization, communicable/non-communicable diseases and infant care.

### **Sustainability and Ownership of Schools and Health Centers**

This year, EHN oversaw the gradual handover of 541 government and 77 community schools to the government and community organizations, respectively. This gradual transition with complete financial independence marks a milestone in achieving the long term goal of sustainability. EHN ensured quality control in the transition and post hand-over period. Similarly, 282 PPAF-supported health centers have been handed over, including 142 government adopted centers and 140 community centers (excluding 209 health centers which are being supported for medical supplies only).

Community ownership was made possible by aligning a number of support variables: significant contributions from the communities themselves, a tolerable raise in fees, support of

local philanthropists, fundraising campaigns by the Partner Organizations, and the development of linkages with the government. The process of handing over sustainable ownership of the remaining schools and health centers is underway, and a complete handover is envisioned in the near future.

### **Nutrition Activities**

Undernourishment causes one-third of all child deaths in Pakistan, where 350,000 children under the age of 5 die every year. Stunting and wasting account for 43.7% and 15.1% of the deaths due to undernourishment, respectively. Micronutrient deficiency leads to a 2.65% annual loss in GDP, which is far greater than the amount of investment required in nutrition.

Food insecurity, insufficient health services, unclean environment and water, and inadequate care of women and girls are the underlying causes of nutritional deficiencies. These in turn result in inadequate dietary intake, diseases, and consequently malnourished mothers and children.

In order to understand the underlying causes of malnourishment, the roles of key players and to integrate nutrition into PPAF's health and

education program, an Inception Workshop on Nutrition was held on July 12, 2013 at PPAF. The take-home lesson from this workshop for PPAF was the importance of creating and strengthening the demand for improving nutrition status in its intervention communities, as well as the importance of influence at the policy level.



## Good Practices and Innovations

### Financing Tertiary Healthcare

Often families sell off their assets to finance tertiary healthcare or do not receive treatment at all. PPAF and Heartfile together are providing health financing services to poor people who face the risk of spending catastrophically on medical treatment or who cannot afford it altogether, thereby protecting them from the risk of medical impoverishment. On the recommendation of a doctor, a poor patient with a poverty score of less than 23 is assessed for assistance, and if approved, financed for tertiary treatment.

### Maternity Care Voucher

The Maternity Care Voucher is a financing mechanism for subsidizing the price of health services for identified underserved, poor and marginalized pregnant women, improving their access to and



utilization of pre- and postnatal services. The beneficiary receives nine vouchers that cover price of a full package of services, including delivery by a skilled birth attendant, lab investigations, and family planning services. The beneficiary chooses where to purchase the service, usually in the public or private sector from among program-approved service providers.

### Education for Visually Impaired Persons

PPAF is also supporting activities

aimed at mainstreaming visually impaired persons (VIPs) into society. Audio World Program is a doorstep facility providing:

- 1) Audio textbooks from grade-V up to the post-graduate level for all educational boards in Pakistan and
- 2) General audio books of more than 1000 titles on audio cassettes and CDs free of charge to VIPs across Pakistan through free registered postal service.

PPAF-supported computer centers in special schools of the government in Multan, Peshawar, and Lahore provide free training in computer/IT skills to users from underprivileged backgrounds.

spread of measles were also distributed. The key message presented was that measles is a preventable and curable disease.

### **Chamalang Education Program**

Under the Chamalang Education Program based in Kohlu, PPAF has provided scholarships to over 3,000 children from various districts of Balochistan to study in areas with schools or areas which are conflict-free by sponsoring school fees, books, uniforms, and stationery. The children are also taken to other cities of the country on exposure visits.

### **Awareness Raising Workshop on Measles**

In response to the measles epidemic and its high mortality rate in Pakistan, The EHN Unit arranged a measles awareness workshop in Lahore on June 7, 2013 for nearly 75 participants from Punjab Province, including school teachers, health center staff, and members of SMCs/HMCs, POs, and COs/VOs/LSOs.

The purpose of the workshop was to raise awareness in local communities on how to control the spread of, and complications arising from, measles. Posters/flyers graphically illustrating how to prevent the

# Livelihood Support and Promotion of Small Community Infrastructure

[LACIP]



special  
initiative

Livelihood Support & Promotion of Small Community Infrastructure Project (LACIP) is co-financed by the Federal Republic of Germany through KfW (German Development Bank) and executed by PPAF over a period of four years. It aims to reduce poverty levels by increasing economic opportunities in the project region.

## LACIP comprises five major components:

1. Institutional development at the community level in project districts
2. Community physical infrastructure projects
3. Livelihood enhancement and protection of the weakest sections of the population
4. Establishment of basic health and education services at the grassroots level
5. Preparation of communities to respond to natural disasters in disaster prone areas in the seven selected districts (Chitral, Buner, Swabi, Charsadda, D.I. Khan, Haripur and Nowshera) of Khyber Pakhtunkhwa

The implementation of LACIP, which was initiated in April 2012, required PPAF to adjust and develop its management systems and structures. To ensure the smooth operation of the project, a coordination Unit was formed initially and is being supported by sector specialists of the core units of PPAF.

Recently PPAF has established a dedicated Unit for the management of LACIP project. The Unit is headed by the GM supported core project staff with respect to the various project components.

The community physical infrastructure component of LACIP is responding to communities' basic needs and demands following the community-driven development approach. To date, 1,500 community physical infrastructure schemes have been implemented through partner organizations in 7 districts of KPK.

Through its livelihood enhancement and protection component, LACIP has thus far imparted 2,500 vocational trainings and transferred 5,700 livelihood assets to the poor based on the Poverty Score Card (PSC).

Through LACIP's health and education component, support

is being provided to villages to physically and functionally improve existing health and education facilities operated by the government or community organizations.

LACIP's disaster preparedness and mitigation component is focusing on not only mainstreaming DRR in small community infrastructure schemes, but also enhancing the capacities of communities to prepare for and cope with natural disasters.

Under LACIP, PPAF has established district development forums (DDFs) in the seven districts in order to bring synergy with existing district level development programs of various stakeholders, including government agencies, and establish linkages to ensure poverty alleviation.

# Financial Services



As of June 30, 2014, the microfinance sector in Pakistan serves

**3.3**  
million

policy holders

microinsurance

**7.3**  
million

savers

Gross loan portfolio



Active borrowers

**31%**

higher than 2013

**61.19**

PKR Billion

**19%**

higher than 2013

**3.14**

million

microfinance market estimated at more than

**25**  
million clients

Microfinance penetration rate went up to

**11.47%**





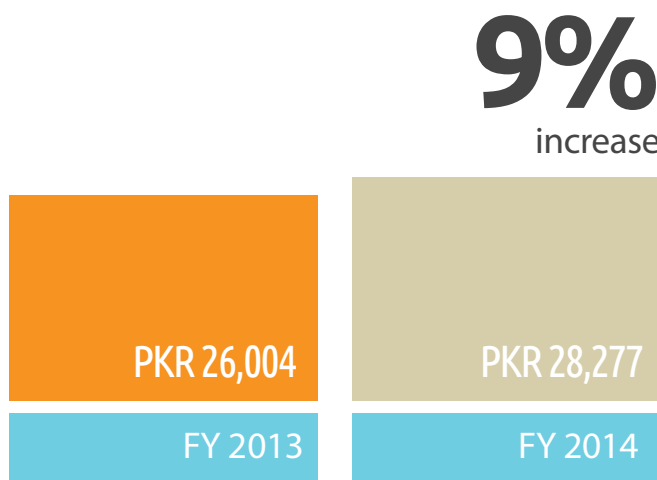
As a sector developer PPAF continued its efforts to improve the business environment and foster growth in the microfinance sector of the country.

The **Focus remained** on promoting international best practices in corporate governance, strengthening risk management systems, diversifying funding sources, promoting technological innovations, and developing demand-based client centric products, while ensuring responsible business conduct & impact at the client level.

**This significantly contributed to another year of consistent growth and development in the microfinance sector of Pakistan.**

The number of branches offering financial services to the poor has crossed 2,300 (compared with 1,932 last year).

The average amount of loan disbursed



The increase in average loan size can be attributed to Microfinance Institutions' (MFIs) increased focus on providing demand-based products designed according to the needs of the borrowers, as well as the greater number of microfinance banks and greater use of the Microfinance Credit Information Bureau.

PPAF partners with more than 40 retail service providers in the industry as well as with 2 national microfinance banks. PPAF has diversified its risk by reducing portfolio concentration, with 15 institutions now accounting for approximately 85% of the total portfolio. Recognizing the need for funds for growth, PPAF has successfully crowded in commercial financing by partnering with 9 commercial banks.

Keeping in mind the vast underserved needs of microfinance clients and the funding resources required that can only be satiated through commercial resources, PPAF has decided to spin-off the Financial Services Group. As the sector evolves in multiple dimensions the proposed entity would be in a better strategic position to meet the challenges of change and innovation.

### **Disbursements and Product Diversification**

As of June 30, 2014, PPAF accounted for 36% of the total microcredit clients in Pakistan.

Cumulative disbursements of over PKR 92.540 billion have been made since inception. PKR 13.279 billion was disbursed during the current financial year for on-lending to 43 Partner Organizations (POs), bringing PPAF's total outstanding loans to MFIs at PKR 17.975 billion.

PPAF has diversified its portfolio in terms of gender, region, and sector. PPAF has designed its products and services to expand outreach and coverage, while improving the income stream and livelihoods of its beneficiaries. Whereas more than 80% of PPAF microfinance loans continue to be in rural areas, the urban portfolio has witnessed a decrease and comprised less than 20% of total loans in FY 2013-14. The increased focus on inclusion of women in economic activities is substantiated by the fact that during the year 77% of all loans have been offered to women.

During the financial year, 73% of partner organizations achieved operational self-sufficiency. More than 92% of PPAF's portfolio remains invested through institutions that have achieved 100% sustainability. Concurrently, 69% of the portfolio is invested in institutions registered under the Securities and Exchange Commission of Pakistan (SECP) or that are under the regulatory oversight of the Central Bank.

## PROGRAMS

PPAF's products and services are channeled through four main financing windows: PPAF-III (World Bank), PPAF-Reflows (previously accumulated funds at PPAF), and two IFAD supported programs, i.e., Program for Increasing Sustainable Microfinance (PRISM) and Microfinance Innovation and Outreach Program (MIOP).

### PPAF-III

The objective of funding under the third phase of the PPAF-WB partnership is to improve access of the poor to microfinance in districts with limited access to financial services and to enhance their capacities, productivity, and returns from livelihood initiatives. The funds available for on-lending have been successfully utilized and 100% of the grant funds available have already been allocated as of June 30, 2014. Under the program 123 new branches have been added in less penetrated areas while another 128 already established branches were provided funds for on-lending. The infrastructure created through the program is capable of serving more than 250,000 clients in selected districts. By the end of FY 2013-14, more than 450,000 loans have been disbursed under PPAF-III

### Equity Funding

PPAF continued investing capital in promising medium and small scale institutions. Eighteen partners were provided equity amounting to PKR 857 million based on stringent eligibility criteria. PKR 60 million was provided to the Pakistan Microfinance Network as endowment, enabling it to broaden and streamline its services to ensure inclusion of small and medium institutions as part of the network.

funding, of which almost 66% is disbursed to women.

Based on review and assessment of the viability of sustaining microcredit operations in priority districts of KP and Balochistan, the World Bank sanctioned that all the districts of KP and Balochistan be made eligible for utilizing grants to extend microfinance operations and capacity building under PPAF-III. In addition to KP and Balochistan, the capacity building component of the program now also caters to 11 districts of Punjab and 7 districts of Sindh.

## **IFAD-PRISM**

The IFAD-PRISM program was successfully completed in September 2013, achieving 100% of its targets. The Credit Enhancement Facility was able to crowd in PKR 3.1 billion through nine commercial banks against a PKR 2 billion guarantee of funds made available under this component of the program. 100% of the funds available under the equity fund component have been utilized and provided to partner organizations. Similar progress has been made in the Knowledge Management & Policy Dialogue component as well as the Technical Support/ Institutional Strengthening component. The objective of linking the microfinance sector to the financial market was met successfully as the program is rated highly satisfactory by IFAD. Some of the important areas addressed through this program include:

### **1. Microfinance Credit Information Bureau**

PPAF in partnership and collaboration with the Pakistan Microfinance Network (PMN), State Bank of Pakistan (SBP), and other stakeholders launched the national rollout of MF-CIB. The objective was to report the entire client database to DataCheck, a private credit bureau working with

MF-CIB, ensuring the use of queries by microfinance institutions and the integration of credit reports for making credit decisions. The national rollout of MF-CIB has enabled the sector to practice informed lending decisions, keeping in view risk appetite. Since December 2013, all PPAF partners are reporting their data to MF-CIB.

### **2. Good Governance**

To promote best practices in corporate governance, PPAF organized a workshop in September 2013 for all partner organizations, as a result of which a "Good Governance Practices" framework - coming into effect in the current year - was drafted and circulated to partner organizations.

PPAF also funded the Board Members of its POs to attend a course on Corporate Governance which is designed by M/s Hikmah Consulting with support from PMN. The course is designed to provide insight into the concept of corporate governance, the corporate structure of organizations, the regulatory framework in Pakistan, as well as controls, audits, compliance, and risk governance.

### **3. Internal Rating System (IRS)**

The Financial Services Group, in consultation with M-CRIL, a leading international rating agency, developed an Internal Rating System (IRS) to assess the performance of partner organizations. This assessment tool covers over 50 indicators in four broad categories of MFI performance, i.e., governance and strategy, microfinance operations, management, internal control, client protection, and financial performance. On the basis of the score achieved by a partner organization, a rating is awarded ranging from "AAA" to "CC". In addition to the lending decision, the tool also helps in identifying areas of improvement in a particular organization.

## **Innovation and Value Addition**

PPAF remained committed to providing products and services that are innovative, niche, market-based, abiding by international best practices, and above all, client-centric. These products and services supplement the provision of microcredit and serve as effective and holistic poverty alleviation and risk mitigation tools.

This was also validated by Gallup Pakistan in the 2014 'Assessment of Outcomes Report' conducted on behalf of PPAF. Borrowers reported a 29% increase in their income with 78% reporting a positive perception of loans. 91% of borrowers surveyed indicated that they experienced a positive return on investment, while a large portion said that they would borrow again to expand their businesses further.

### **PPAF's Crop and Livestock Insurance Initiative**

PPAF through a strategic partnership with SECP designed and implemented index-based crop insurance - the first of its kind in Pakistan and the world's first ever live weight livestock insurance products - in districts Talagang and Soon Valley. The two initiatives have resulted in reducing the vulnerability of clients, increasing credit uptake, and hence reducing portfolio risk for MFIs. Currently the products are being scaled up, with 25,000 animals insured in Layyah, Muzaffargarh, Tharparkar, Matiari, Jacobabad, and Bahawalpur, while indices are being developed for various other regions. Additionally, FSG is exploring the possibility of extending the microinsurance products to animals provided to beneficiaries under PPAF's livelihood program's "asset transfer scheme" for the ultra-poor in

some of the underdeveloped areas of the country.

Furthermore, in an effort to address the mass market's need to mitigate risk, PPAF has formed a strategic partnership with MicroEnsure Asia. Both parties are working together for the purpose of developing and providing need-based health microinsurance products to the largely unserved population of Pakistan. Opportunities for using technology, especially to deliver health care from a distance - telemedicine - in addition to hospitalization coverage are being explored to overcome barriers to healthcare for communities located in rural and remote areas.

### **Value Chains**

Through value chains (VCs) PPAF seeks to strengthen the economic base of microfinance clients, with increased and timely access to easy and cost-effective financial and non-financial services, capacity building initiatives, and upstream/downstream markets in order to improve the communities' overall socioeconomic status in life.

Following the success of value chain pilots (embroidery in Haripur, poultry in Swabi, dairy in Mandi Faizabad, and crop in Gujranwala) the projects are now implemented on a larger scale based on findings and

learning from the pilots. The Agri-VC model is now being replicated on a large scale in Bahawalpur with 10,000 farmers. Linkages with government's agricultural departments and corporates are being created for capacity building of poor farmers.

Similarly, the dairy project is being replicated in Jacobabad with 500 farmers with the aim to create a sustainable dairy VC initiative that is to be owned, operated, and managed by the community. Simultaneously, the poultry VC is being replicated in Haripur, while leveraging the existing setup to further augment incomes of clients.

Moreover, a Stitching Center has been setup for more than 500 unemployed women (football stitchers) in Sialkot, providing them with an opportunity to utilize their skills with improved income streams. This Center is also being supported by corporate entities and the Chamber of Commerce and Industry of Sialkot, ensuring employment opportunities, offtake of goods, and the establishment of similar centers in the district.

### **Branchless Banking and Savings**

With an increased trend to utilize ICT and technology-

based interventions for the provision of financial services to communities, branchless banking and savings models are being explored by PPAF. To target efficiency, flexibility, and increased outreach across Pakistan, the first linkage between the banking sector and MFIs was created by PPAF and a pilot was implemented to facilitate collections from microfinance clients using the branchless banking platform of UBL “Omni” and Tameer-Telenor’s “Easy Paisa.” Consequently, an evaluation of the super-agent model was conducted by experts to explore options for providing a full array of financial products and services through commercial banks to un-banked communities using MFIs as agents.

Moreover, PPAF and IFAD are in the process of designing a project aimed at channeling remittances from the Pakistani diaspora by offering investment and savings products that yield market returns. The project will be implemented through MFIs using the super-agent model for licensed money transfer agencies and branchless banking service providers.

### **Promoting Education through Microfinance**

With one-third of Pakistan’s primary level students enrolled

in private schools, PPAF in collaboration with a PO piloted the ‘Microfinance for Low Cost Private Schools’ project in 5 private schools in Lahore. Credit lines were provided to improve the quality of these low-cost private schools, catering to low-income households through improvements in school infrastructure, teaching techniques, materials, and curriculum. The project supported and facilitated entrepreneurs in developing their schools towards sustainable operations while linking them with established institutions in the country for curriculum development and teacher training. Given the success of the model in terms of increased student enrollment - particularly for girls - and greater business opportunities for the entrepreneurs, PPAF has scaled up this pilot to 100 schools in Multan, Muzaffargarh, Bahawalpur, Gujrat, and Sialkot districts.

### **Renewable Energy**

To assess the feasibility of the provision of energy solutions through microfinance, PPAF’s POs piloted financial products to install a biogas digester in Chakwal and household-based solar solutions in district Khushab. PPAF and the German development agency GIZ engaged ‘MicroEnergy International’, a well known

institution in developing microfinance-based products in solar and other clean energy solutions, to conduct a demand assessment of solar household systems in off-grid areas in districts Chakwal, Khushab and Thatta.

## **Empowering Women and Encouraging Entrepreneurship**

Ensuring that its microfinance products are inclusive, PPAF continues to support female borrowers and encourage its POs to introduce specialized products and services. Some of our partner organizations, including three national level MFIs, have 100% female clients. PPAF also encourages all of its POs to have at least 40% female clients with one-third representation of women in their BoDs.

Business incubation labs have been supported by PPAF to ensure that startup women entrepreneurs are provided skills and business development training, handholding in market assessment and linkages, along with a small loan in the initial stage. Clients that graduate through the incubation cycle are then made part of the regular loan programs. After successful completion of the pilot, the project is now being scaled up in Abbottabad,

Haripur, Multan, and Muzaffargarh.

### **Asset Backed Lending**

PPAF has launched the "Asset Backed Lending" initiative which aims to develop mechanisms through which assets created through loans or otherwise can be used by clients as collateral to secure loans from MFIs. Options for using leasing, hypothecation, mortgage, hire-purchase and other viable mechanisms which offer convenience to clients and legal recourse to MFIs are being explored. MFI staff will be provided training to calculate cash flow of businesses along with changes in MIS and loan delivery mechanisms of the POs, if applicable.

The initiative is being piloted with three POs in districts Haripur, Gujrat, and Sialkot. If successful, the pilot will open business opportunities to the high-end micro and low-end small business segments of economy, which are currently part of the "missing middle" of the MSME sector.

### **Social Performance Management**

In line with PPAF's mandate, FSG strives to promote responsible finance to ensure positive impact at client level. Moreover, FSG focuses efforts to keep its POs abreast of key sector trends

both locally and globally, and aims to promote social performance management (SPM) and a double bottom line for all its POs through a structured approach. For this purpose, PPAF engaged EDA Rural Systems, internationally renowned pioneers of social performance management, to conduct SPM Training Workshops for members of the Board of Directors, Chief Executive Officers from all PPAF Microfinance Partner Organizations, as well as CEOs of Microfinance Banks. The trainings aimed to create awareness and understanding of various SPM tools and techniques to ensure effective compliance with double bottom line objectives.

### **Microfinance Summit 2013**

The first ever international Microfinance Summit - Pakistan was held from 8-10 July 2013 in Islamabad. The summit was hosted in collaboration with the Economic Affairs Division (EAD), SBP, PMN, IFAD, the World Bank, and UKAid with over 450 international and national participants. The event generated debate and provided policy recommendations on the microfinance sector through dialogue between key stakeholders on important issues pertaining to the sector.

The summit ended with the

"Islamabad Declaration" wherein stakeholders of the sector agreed to optimal and efficient use of public and private funds to foster equitable growth and widen the menu of products and services available to meet financial needs of the poor. The overarching goals for the way forward remain the need to increase financial inclusion in Pakistan, achieve a target of 5 million clients by 2018, as well as to double the number of savers and insurance policyholders.

## Moving Forward

Worldwide, microfinance is experiencing a paradigm shift away from government and donor-funded subsidized credit to sustainable financial intermediation that can provide access to finance for a large number of unserved communities. Institutions cannot become fully sustainable if they on-lend donor funds at subsidized rates and combine social and financial services. The scale required to serve large numbers of financially excluded communities and individuals can only be achieved through the amount of funding that is available on commercial terms. To meet the evolving needs of partner organizations and the microfinance sector, PPAF has decided to spin-off its Financial Services Group.

DFID and KfW have also decided to contribute to the initiative with equity investments; thus, the new institution will have the strong backing of PPAF as well as two other donor organizations.

The new company will have a commercial (for-profit) structure by being the first national level microfinance investment vehicle (MIV) in the world. Nevertheless, the company will be characterized by a balance of both financial and social returns on investment.

The spin-off of microfinance operations is key to attracting a new volume of funds for the sector and further improving the capability and capacity of the sector to absorb these funds and remain robust. It will promote growth in the microfinance sector and foster the provision of more sophisticated financial products and services to millions in unserved markets.

# Livelihood Employment and Enterprise Development



From LEP  
to LEED

This year saw the graduation of PPAF's Livelihood Enhancement and Protection (LEP) Unit to the Livelihood, Employment, and Enterprise Development (LEED) Group. Throughout the year the focus was on building a sector-wide development approach to livelihoods promotion and poverty alleviation, in the areas of employment, agriculture, livestock, horticulture, crafts promotion, etc. Promising examples were collected and disseminated to promote the concept of entrepreneurial innovation to drive social change.



نوکری یا کاروبار مرکز  
چلتا رہے سلسلہ روزگار



قرض سہولت مرکز  
قدم اٹھاؤ زندگی بناؤ



بیوتھ مرکز  
ترقی کا نشان ہر ٹوبہاں



پروڈکشن سینٹر  
بہتر معلومات بڑھائے کاروبار



## **Institutions for the Poor (PPAF's Partner Organizations)**

All PPAF LEED POs received training on how to implement the revised LEED Programming Framework. POs' understanding of and participation in the 'sector-wide development approach to livelihood programming' has become evident, and their interest and ability to engage with each other, leverage, and synergize has increased.

### **Institutions of the Poor**

Given that LSOs are the bedrock of all LEED interventions, a comprehensive capacity building program was developed and implemented in collaboration with Partner Organizations.

With the assistance of POs, four community members from each LSO (one per union council) were selected and trained as community facilitators and were given orientation on concepts of poverty, livelihood, and enterprise development, the Millennium Development Goals (MDGs), and the role they can play in reducing poverty in their areas.

### **PPAF and i-genius**

The UK-based world community which seeks to inspire a new generation of social

entrepreneurs – have joined hands to promote social enterprise and entrepreneurship in Pakistan. Three roadside shows were conducted in Lahore, Islamabad, and Karachi in September 2014.

### **Naukri Ya Karobar (NyK)**

**Centers** - In order to provide a proper placement mechanism to graduates of skills and enterprise development trainings, the LEED Group evolved the concept of Naukri ya Karobar centers, an indigenous placement model to better harness the benefits of these trainings.

A total of 66 NyKs, a majority of which are now generating their own resources, have been established thus far across the country.

### **Youth Centers (YCs)**

Youth Centers are semi-formal platforms where male and female youth (mixed or separate) come together as agents of change to engage in various activities, such as health and gender raising campaigns, that can bring positive change to their own lives, the lives of their families, other households, the village, and the union council. PPAF organized a 4-day training of trainers on establishing Youth Centers for PO staff.

### **Bazaar for Women by Women**

PPAF's Partner Organization Indus Earth Trust (IET) started the innovative Indus Bazaar for Women" - a bazaar for women by women - with the support of Local Support Organizations. These bazaars take place on a monthly basis and to date have been set up in 65 villages of Sindh, where 1,009 households have participated.

### **Two-Day Deewali Market**

PO Baanhn Beli, in collaboration with four LSOs, organized a two-day "Deewali Market" in Nagarparkar, Sindh on the premises of a local temple where the local traders and LEED enterprise beneficiaries were invited to set stalls and renowned religious Sadhus participated in the Sat Sangans, a type of religious music.

### **Threads & Textures – Binding Us Together**

The Enterprise Development Unit (EDU) of LEED organized an exposure visit to India from August 25 – September 01, 2013, where artisans from SAARC countries showcased their work. The Dastkar South Asian Bazaar is an initiative of Government of Delhi and Delhi Tourism in association with Dastkar.

### **Loan Centers (LCs)**

PPAF's Community Livelihood Fund (CLF) was launched by

LEED to allow vulnerable households to become creditworthy and gain access to financial services for long term sustainable economic growth through the concept of loan centers. A total of 93 loan centers have been established. A module was specially designed to train managers for the loan centers, training a total of 321 community and PO staff members. The loan centers are now functional.



## Exposure, Linkages and Networking

### LEED Network

The LEED Network was envisioned by the LEED Group as a platform where POs and other stakeholders could come together, share best practices, and learn and grow together for more effective interventions in livelihood, employment, and enterprise development. After a workshop conducted by the LEED Group, the LEED Partner Organizations set up LEED Networks in all four provinces. The Sindh LEED Network was eventually subsumed under the Sindh Coastal Area Network (SCAN). All networks are vibrant and fully functional.



### Exposure and Linkages

The LEED Group's Sector Analysis and Development Unit (SADU) organizes round table conferences on various subjects

to link the POs with relevant organizations, resources, and experiences that can directly enhance existing programming. When the NyK Center was being conceptualized, SADU incubated such a center so that the POs could learn directly by doing. Similarly, the LEED team has designed specially tailored workshops around craft, agriculture, and livestock so that POs can gain access to new information and knowledge and factor them into their work.

SADU has collaborated on projects that promote sanitation, insurance, sexual and reproductive health, nutrition, digital hubs, etc.

### Prime Minister's Interest Free Loan (PMIFL)

Based on its successful previous experiences, PPAF was asked by the Government of Pakistan to design, mobilize, implement, and monitor the Interest Free

Loan scheme through its partner organizations. The scheme is aimed at making interest-free loans available to men, women, and youth from vulnerable and marginalized households (categorized as under 40 on the poverty score card). Fifty percent of loan beneficiaries must be women and the maximum loan size will be Rs. 50,000.

Provincial allocation of funds will be as per National Finance Corporation (NFC) allocation, with priority given to districts with low socioeconomic indicators, high food insecurity, limited or no existence of microfinance institutes and concurrent investments or activities in livelihoods, employment, enterprise development, and social mobilization.

### **Sindh Coastal Area Development Program (SCAD)**

SCAD's objective is to rehabilitate the livelihoods of the communities in the Sindh coast and build their resilient capacity to cope with recurring disaster. SCAD has followed a four-pronged strategic framework since 2006, which encompasses institutional development, infrastructure upgrading/development, improvement in health and education services, and

livelihood enhancement and protection. LEED held consultation meetings with its SCAD partners on TOCF (training of community facilitators), sector development, and the development of UCDPs in close liaison with the Local Support Organizations (LSOs).

# Monitoring, Evaluation and Research



## MIS

PPAF-MIS entered its operationalization phase after the development and customization of the program was completed by the end of 2013. The legacy and running portfolio data import was completed and data updating continued along with enhancements in modules and tweaking in the MIS as a whole. All PPAF Units have designated their MIS focal persons who have been trained. Two training workshops were organized in Lahore for representatives of 15 microfinance partners with the objective of building their capacity. A series of trainings is planned in the coming months to cover all remaining partner organizations.

## Overview

The Monitoring, Evaluation, and Research (MER) Unit is mandated to critically evaluate the impact and progress of PPAF interventions in addition to regularly collecting and disseminating information to all stakeholders.

The MER Unit performs several essential management functions which include monitoring and reporting on outputs and outcomes achieved, carrying out third party and internal assessments and evaluations, and thirdly, engaging in research.

In addition to functioning as PPAF's main data repository, the Unit has the responsibility for regularly disseminating information through a series of ongoing and periodic reporting formats, including quarterly progress reports, annual reports, lesson sharing events, conferences, guidance notes, the knowledge management portal, thematic reports, baseline reports, research studies, and impact assessment studies.

PPAF has shifted towards a more focused approach in assessing and identifying its progress at outcome and impact level through both

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 partner organization level.

### Progress on Strategic Partnerships for Research with Academia and Research Institutions

#### New Partnerships

##### Research and Development Studies (RADS)

The MER Unit signed an MoU with RADS concerning cooperation on learning and research strategies. The first project to be undertaken under this umbrella would aim to develop policy briefs focusing on the MDGs.

##### Sustainable Development Policy Institute (SDPI)

An MoU was signed between

PPAF and SDPI and MER proposed to initiate an updated edition of SDPI's report on "Clustered Deprivation: District Profile of Poverty in Pakistan," authored by Arif Naveed and Nazim Ali.

##### Women's Development Department (WDD) and Literacy and Non-Formal Basic Education (NFBE) Department

PPAF has signed an MOU with WDD and the Literacy and NFBE Department to work jointly to promote gender mainstreaming within PPAF's projects. Under the agreement, PPAF will collaborate in piloting policy-grassroots linkages by supporting networks of women's and youth organisations in interacting more closely with WDD, the Literacy and NFBE Department, and other government entities.

#### Ongoing research studies

##### Centre for Economic Research in Pakistan (CERP)

PPAF-CERP's Asset versus Cash Transfer Program is an

evaluation study that is being conducted in four poor districts of southern Punjab which aims to use a randomized control trial to evaluate the causal impact of asset and cash transfers on household outcomes such as engagement in different livelihood activities, labor productivity, earnings, and overall economic and psychological well-being.

As of now, partner organizations have completed the cash/asset transfers to all beneficiaries. Two tracker surveys will be conducted to observe immediate changes in income and expenditures of households receiving cash/asset transfers.

#### **Lahore School of Economics (LSE)**

PPAF has partnered with LSE on a research study that focuses on the motivation of Third Tier Organizations (TTOs) and the impact of various factors on their performance. Currently, the research team is conducting a baseline study, the results of which will be shared by the end of December. Furthermore, a firm has been hired to conduct the training of partner organizations and TTOs on the experiment.

#### **DECRG**

The World Bank's Development Research Group (DECRG) and PPAF have been working

together to evaluate various interventions in order to increase understanding of ongoing activities by PPAF and implementing partners. This year MER completed the last component of the research collaboration 'Impact Assessment of Social Mobilization and Scaling Up a CDD Program.' The Unit also successfully completed a midline evaluation survey during the financial year.

### **Assessments & Evaluations**

#### **User Beneficiaries Assessment**

The User Beneficiaries Assessment Survey was carried out in 21 districts across Pakistan where PPAF interventions are being implemented through partner organizations in collaboration with local community organizations. The research team surveyed 2,000 households/beneficiaries to collect information about six major components of the PPAF-III program. A consulting firm collected household income data of beneficiaries. Household Poverty Score classification was used to calculate an average poverty score for each district.

#### **PO Perception Survey and SCAD Impact Assessment**

MER completed a rapid perception survey to gauge and compare the experiences of POs

working with poor communities. The first round of the survey covered the opinions of stakeholders – particularly communities, other donors, and line agencies – regarding the overall performance of selected partner organizations.

Moreover, another impact assessment study was completed in which the overall effectiveness and impact of the multisector Sindh Coastal Area Development (SCAD) Program on the beneficiary population was evaluated.

### **Dissemination of results and findings**

#### **Annual Rural Women's Conference**

To commemorate the International Day of Rural Women, 1,200 women from 80 districts of Pakistan were invited to Islamabad on the 30th and 31st of October 2013 for the 6th Annual Rural Women's Conference.

The objective of this gathering was to allow these women to share their experiences, contributions, and challenges and to collectively approve a charter of demand. The event was planned as a bridge between policy makers and rural women, giving the latter a platform to raise their voices.

### **In-House Lesson Sharing Event**

A participatory lesson sharing workshop was held on 20 November 2013, with the intention of enlightening all units of PPAF's contribution to the Millennium Development Goals (MDGs). The PPAF Results Based Framework, which has been developed in the context of the MDGs, was discussed during the workshop with emphasis on sharing progress against each RBF indicator.

### **International Conference on Research and Learning**

MER hosted its First Annual International Conference on Research and Learning on the 2nd and 3rd of April 2014. The primary objective of this conference was to share the results of all the ongoing and completed research studies at PPAF with the rest of the development sector, academia, researchers, and the government. The aim of these studies is to evaluate the approaches and components being used for development, and to appropriately intervene with course correction.

## **Monitoring and Reporting**

### **Outcome Monitoring**

As per MER's mandate, a total of 10 outcome monitoring visits were conducted, covering four

provinces and 8 districts. The Unit produces reports from each monitoring visit which comprehensively relay the progress of partner organizations and communities in terms of outcomes and impact.

### **PO Watch List**

The PO Watch List is a highly effective tool introduced and currently being managed by the MER Unit in order to monitor the performance of POs in a holistic manner. It consists of a set of general criteria/issues (both external and internal), followed by a set of specific criteria and risk categories for both credit and grant-based partners.

The triggering of any one of the general external/internal issues is an indicator requiring the PO to be placed on the Watch List and subsequently categorized into high, medium, or low risk.

### **ICT Pilot**

Bolstering PPAF's M&E system as well as local accountability through beneficiary feedback, a pilot SMS survey was conducted in order to receive feedback from participants of LEED's TOCF (Training of Community Facilitators) program. The SMS survey helped MER in establishing the importance of ICT (Information and Communication Technology) in monitoring and in ensuring

transparency and accountability. This pilot will be expanded to other monitoring purposes as well.

### **Italian Funding**

Under the Italian Project (PPAF's collaboration with IDC), MER is carrying out "Situation Analysis and Baseline Surveys" through a reputable consultancy firm. The findings from this research will be utilized for the three-year investment, "Program for Poverty Reduction - Italian Program" in Balochistan, KPK, and FATA. MER's assignment, which is spread over a period of six months, will be completed by December 2014. This study aims to achieve three key outputs: situational analysis reports of each of the 14 target districts, an assessment report of the community institutions and levels of social mobilization in the districts, and the collection of poverty scores and a socioeconomic baseline in selected union councils.

# Environment and Social Management





## Environment and Social Management

The Environment and Social Management (ESM) Unit functions to ensure compliance with PPAF's Environment and Social Management Framework (ESMF) within PPAF and its partner organizations.

All PPAF-funded PO and community-run development interventions are expected to follow certain guidelines and protocols outlined in the ESMF that will ensure environmental and social sustainability.

To meet this end, the ESM Unit conducted field visits to intervention sites, organized capacity building workshops, and held an awards ceremony, entitled Obaidullah Baig Awards, to acknowledge and appreciate best practices in environmental and social management.

### Field Visits

Visiting intervention sites in order to conduct environmental and social audits (ESAs) that physically verify the compliance status of select POs vis-à-vis the ESMF is an essential monitoring strategy. This year the ESM Unit conducted 6 field visits to audit 11 partner organizations. The Unit observed that most POs were taking ESMF guidelines into consideration before, during, and after implementation of the project.

Moreover, partner organizations were also taking community members into confidence and informing them about environmental and social safeguards. Furthermore, the focal persons were well informed about compliance Forms A and B and their importance in maintaining compliance status. However, social inclusiveness of women and disabled people was not very much evident. A brief detail of the audits is given below in chronological order.

- In August 2013, the ESM auditing team visited southern Punjab where they audited the Farmers Development Organization (FDO) in Multan for community physical infrastructure and livelihood enhancement and protection interventions on the 27th and 28th and the Family Planning Association of Pakistan (FPAP) in Muzaffargarh for education, health and nutrition interventions on the 29th and 30th.
- In October 2013, the ESM auditing team visited Khushab and audited Soon Valley Development Program (SVDP) for livelihood enhancement and protection and micro-finance interventions on 9th and 10th and then audited the Society for Human Empowerment and Rural Development (SHER) on the 11th for community physical infrastructure interventions.
- From the 3rd to 9th of November 2013 the ESM

auditing team was in Thatta where they audited Sindh Rural Support Program for community physical infrastructure and livelihood enhancement and protection interventions.

- The ESM auditing team visited Layyah from 6th to 8th January to audit Awami Development Organization (ADO) for CPI and LEP interventions and later went to Sheikupura to audit Rural Community Development Society (RCDS) for CPI, LEP, ID interventions on the 9th and 10th of the month.
- The ESM auditing team visited Jamshoro and Karachi on 6th and 7th May 2014 to audit Orangi Charitable Trust (OCT) for microfinance interventions.
- In east Punjab, ESM audited Mojaz Foundation based in Narowal, Development Action for Mobilization and Emancipation (DAMEN) based in Lahore, and Jinnah Welfare Society (JWS) based in Gujranwala on 17th - 19th June 2014. All three POs were audited for microfinance interventions only.

## Capacity Building

Capacity building initiatives have run parallel to compliance and monitoring activities. During



the field visits, environmental and social audits were always preceded by 1-2 hours of training sessions for the ESM focal person as well as the internal staff of partner organizations. In light of the ESMF, the ESM focal persons were refreshed about his/her role in ensuring interventions do not breach environmental and social safeguards.

As a result of these training sessions, the PO internal staff and ESM focal person were updated

about environmental and social guidelines for each type of intervention. Moreover, they were informed of the importance of compliance Forms A and B and taught how to fill and maintain Quarterly Progress Reports (QPRs). In addition, the community members were also briefed about their role in maintaining compliance to Environment and Social Management Framework guidelines.



## Environmental Initiative

PPAF has achieved great success in ensuring environmentally safe and socially viable community driven development all over Pakistan. Moreover, our partner organizations have also shown great eagerness to move beyond simply complying with our designed safeguards to introduce innovation and sustainability. PPAF acknowledges the efforts of its partner organizations and has a

clear policy of rewarding them to keep their motivation high and enthusiasm alive.

Therefore, as part of our environmental initiative, the ESM Unit organized the Obaidullah Baig Awards on 5 June 2014, in which the best community driven environmental projects were acknowledged for their performance. To this end, PPAF invited examples of best practices as well as success stories from their partner

organizations and community institutions. These best practices were assessed at PPAF and the top three were recognized by celebrating their success during the Obaidullah Baig Awards held at PPAF.

# Internal Audit



FY 2013-14 was marked by the evolution of the Internal Audit Unit as a mature business partner and value added service provider to PPAF.

## 2 Major Events

which exemplified this transformation were the complete and effective implementation of the holistic integrated approach to the audit of PPAF units/POs and the establishment of a capacity building partnership with the Chartered Institute of Management Accountants (CIMA), UK.

AUDIT

Audit coverage of operations and support units, as well as their partners, was achieved during the implementation of the holistic integrated approach aligned with the annual audit plan in 2013-2014. The end result was the generation of audit reports covering all aspects of the multidimensional programmes of PPAF for poverty alleviation. The holistic integrated approach encapsulates the entire business process, from induction of a partner to the eventual utilization of funds at the community level.

A Memorandum of Understanding (MoU) was signed between PPAF and CIMA, UK on February 12, 2014. CIMA is the world's largest professional body of management accountants. The institute offers the most relevant finance qualifications for businesses worldwide. The MoU provides for top notch capacity building and training of not only PPAF employees but also of the thousands of professionals working in development organizations supported by PPAF.

Another significant step was the hiring of chartered accountant firms to audit previously unmonitored POs situated in security sensitive areas and others with limited financial

exposure that did not meet Internal Audit's financial threshold for audit coverage. In this regard, audits of a selection of such POs were completed by M/s Grant Thornton and Crowe Horwath. This initiative was appreciated by the Audit Committee of the BoD and was approved to be adopted as an integral part of the audit planning process.

Other significant activities carried out by the Internal Audit Unit during the year include the following:

- Analysis, review and update of critical risk management practices. As part of the new audit approach, the Internal Audit Unit analyzed the risk management practices applied at PPAF and certain critical areas were identified. Brainstorming sessions were organized with all operations and support units of PPAF to discuss and illuminate control weaknesses as well as to identify steps for improvement.
- Development of the Partners Audit Toolkit in line with the new approach, covering financial management systems, compliance with agreements, and review of financial statements.

Detailed guidelines for each of these areas are included in the toolkit.

- In order to enhance the capacities of Internal Audit at the PO level, an exercise of profiling the internal audit units in POs was carried out and a training needs assessment of our partner organizations was conducted on that basis. The Internal Audit Unit plans to carry out tailored capacity building initiatives in 2014-15 using the above assessment.
- The Audit Committee was reconstituted after Board elections. The head of Internal Audit serves as Secretary to the Committee. The Committee is thoroughly involved in the issues encountered during audits conducted by the Internal Audit Unit and its guidance is solicited on issues of strategic importance.

# Finance and Accounts



The F&A Unit provides an array of support, analysis, and assistance to the management on major policy initiatives and options, as well as ensures compliance with financial management and corporate governance practices at PPAF, Partner Organizations, and Community Organizations.

“FMIS is functioning effectively. F&A training Unit for capacity building of POs and COs and a training manual in Urdu has been prepared. The manual is quite comprehensive and user friendly and is an excellent product which can be shared externally as a good practice.”

World Bank Supervision Mission

## Overview

Finance and Accounts is an important feature as an accountable and transparent edifice at PPAF. It is the bedrock and principal source of reference for guiding an effective, efficient, and proper utilization of public resources.

The F&A Unit underpins the appropriation and use of resources within PPAF, as well as performs daily activities to facilitate the management and employees at their best. The F&A Unit ensures compliance with Financial Best Practice Standards according to statutory laws and regulations and promulgates financial discipline for the ultimate benefit to the poor. These Practice Standards are intended to:

1. Assure that the practice of financial planning and management is based on established norms of practice
2. Advance professionalism in financial management
3. Enhance the value of financial processes

The Unit has established 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 authorization and recordkeeping is done in a manner that permits the preparation of financial statements in conformity with generally accepted accounting principles. Effective controls are in place at PPAF and also for disbursement of funds to POs. A comprehensive fixed assets management policy, devised and implemented by the F&A Unit, covers the entire fixed assets life cycle and includes internal controls over their management.

The F&A Unit uses an SQL-based financial application that

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. 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 funds as per the respective financing agreements as well as of statements of expenses submitted by these POs. This online facility provides prompt feedback to POs on the status of

their expenses and disbursements.

## Reporting to Stakeholders

### Donor Reporting

Disbursements to PPAF under the World Bank project were on the basis of interim un-audited financial reports (IUFs). 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 disbursements were based on statements of expenses. All IUFs and withdrawal applications related to WB, IFAD and KfW 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.

### Audits and Assessment

Preparing reliable financial information is one of the key responsibilities of the F&A Unit. To fulfill its responsibility the Unit has developed appropriate formats, effective processes, and has put in place proper safeguards. Transparency of financial information for different stakeholders is another prime consideration of the Unit.

In order to ensure this, the F&A Unit has developed accurate and reliable financial and other effective internal control principles.

### Statutory Audit

PPAF annual financial statements are prepared in accordance with international financial reporting standards as applicable in Pakistan. The annual audited financial statements along with Directors' Report are forwarded for the review of the Audit Committee of the Board and the BoD. On the recommendations of the Board of Directors, the General Body accords approval, after which the financial statements are published and circulated to stakeholders and also made available on the Company's website.

PPAF's operations for the fiscal year ending 30 June 2014 were audited by its external auditors M/s A. F. Ferguson and Company, chartered accountants (and a member firm of Pricewaterhouse Coopers) who provided a clean/unqualified opinion. The General Body approved the audited financial statements of the company for the financial year ending 30 June 2014 together with the auditors' and directors' reports within four months of the closure of the financial year. The audited

financial statements are available on PPAF's website ([www.pfaf.org.pk](http://www.pfaf.org.pk)).

### Project Based Audits

In addition to preparing financial statements in line with statutory requirements, the Unit also prepares separate financial statements for different donors' projects which are duly audited by its external auditors. Thereafter, these project specific financial statements are sent for the review of the Audit Committee of the Board.

On the recommendations of the Committee, the Board of Directors accords approval to these statements. After the approval of the Board, these financial statements are sent to respective donors in compliance with the financing agreements signed with them.

During FY 2013-14, the following project specific statements were prepared, audited, and submitted to respective donors:

- Financial statements of the IFAD PRISM project for the period from July 01, 2013 to March 31, 2014
- Financial statements of the KfW Livelihood and Infrastructure project for the half year ended 31 December 2013



- Financial statements of the KfW Hydropower and Renewable Energy project for the half year ended 31 December 2013

The external auditors of PPAF (M/s A. F. Ferguson and Company, chartered accountants) issued unqualified/clean opinions with respect to the above statements.

#### **Auditor General**

The Auditor General of Pakistan (AGP) conducted an audit of PPAF for FY 2012-13. The process continued in the current FY for the resolution of observations highlighted during the audit. All the observations identified by AGP in its audit report stand resolved to their satisfaction on the basis of evidence provided by PPAF.

#### **Donors' Assessments**

The World Bank conducted two supervision missions during FY 2013-14. The mission reviewed overall financial processes and controls of the F&A Unit. The unit's performance was rated "Satisfactory" by the World Bank in its last supervision mission in April 2014. The mission appreciated the financial capacity building trainings of POs/COs and remarked as follows:

"FMIS is functioning effectively. F&A training Unit for capacity building of POs and COs and a training manual in Urdu has been prepared. The manual is quite comprehensive and user friendly and is an excellent product which can be shared externally as a good practice."

**The Program for Increasing Sustainable Microfinance (PRISM), funded by International Fund for Agricultural Development (IFAD), completed successfully in March 2014. The Program Completion Review mission rated F&A performance as "Highly Satisfactory."**

#### **Funds Management**

All project funds are governed by the respective Financing Agreements signed for the specific project. Disbursements are made only for the eligible categories of expenses.

PPAF's own funds management is governed by the Board approved Treasury Management Strategy, which has the following objectives:

- **Maintain liquidity**  
The portfolio will be

managed to provide timely funding for the company's operational and lending needs. Short and long-term cash forecasts will be done on a regular basis and investment duration will be matched against expected cash flow requirements.

- **Security of capital**  
Protection of principal will be given high priority by limiting the company's investments to high credit rated securities.
- **Obtain competitive rate of return**  
The prime consideration is the security of capital/funds and then the maximization of return.
- **Support to Microfinance Sector**  
Provide financial support to the microfinance sector by placing funds in fixed income securities and other instruments (commercial papers or term finance certificates) of microfinance banks where the risk levels are deemed justifiable.

As per policy, the investment/disinvestment of funds is approved by the Treasury Management Committee comprising the Chief Executive Officer, Group Head - Financial Services, and Group Head - Financial Management and Corporate Affairs. The Treasury Manager

acts as secretary of the Committee. The treasury reports are prepared on quarterly basis and shared with the Risk Oversight Committee of the Board. Further, an MS Access database was created for ensuring 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.

### **Budgeting**

The F&A Unit prepared PPAF's budget for FY 2014-15 in coordination with PPAF's other units. The finalized budget was also approved by the Board of Directors. The budget package includes the income statement, cash flow, and balance sheet with detailed notes/explanation. In addition, disbursement targets are linked to output & outcomes that are part of PPAF's results framework.

### **Sustainability**

The Unit also contributed to the financial sustainability of the organization by maintaining reserves and establishing a strong financial position by achieving targets for profitability, equity, and reserves. F&A also ensures the sustainability of grant interventions. The grant fund reserve stood at Rs. 5.2 billion on June 30, 2014). Financial projections up until June 30,

2020 were prepared by F&A to assess the impact of spin off on PPAF.

### **Repayments to GoP**

The bulk of PPAF's program funding is provided as part of tripartite arrangements between GoP, donors, and PPAF. The agreement between GoP and donors stipulates the program requirements as well as terms and conditions of financing for the GoP. Terms and conditions of financing (including the loan and grant portions of funding) for PPAF are governed by the Subsidiary Financing Agreement (executed between PPAF and GoP). The repayment of long term loans for PPAF I and PPAF II from the Government of Pakistan are underway since November 2007 and February 2012, respectively, whereas repayment of IFAD's MIOP commenced on June 1, 2014.

PPAF is up-to-date in all of its repayment obligations to GoP (principal and service/ commitment charges). As of June 30, 2014, PPAF has repaid Rs. 1.810 billion as principal repayment. In addition, PPAF has paid Rs. 829 million as service charges and another Rs. 241 million as commitment charges.

### **Monitoring of POs**

The F&A unit's key focus of financial monitoring is to assess the controls that have been put

in place to manage the relevant risks. A Monitoring Framework for the holistic overview of POs is in place. This provides for the following:

#### **Desk Monitoring**

- Grant based POs
  - Statement of Funds Movement
  - Statement of Financial & Physical Progress
- Microcredit POs
  - Sustainability Analysis
  - Portfolio at Risk Analysis
  - Financial Statements Analysis

#### **Field Monitoring**

- Joint field visits with Compliance and Quality Assurance Group for outcome monitoring
- Regular monitoring visits with other program units
- PO appraisal visits with program units
- Triggered field visit based on issues highlighted during desk monitoring
- Triggered field visit based on issues highlighted during review of SOEs

The F&A Unit maintains a database of all observations highlighted during desk and field monitoring. Agreed action plans are shared with POs and responses are obtained as per

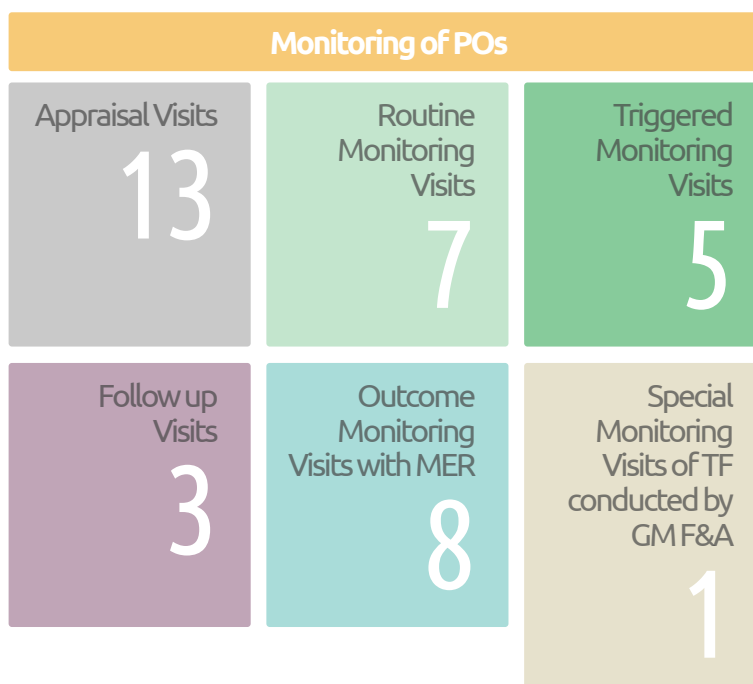
the agreed timeframe. Moreover, follow-up visits are also carried out if required.

A comprehensive mechanism for settlement of observations has been developed, which includes classification of observations into three categories:

- Observation requiring follow-up with POs for compliance
- Observation on technological and human resource requirements of POs (shared with operational units for necessary support)
- Observation regarding financial management capacity building issues of POs and Community Institutions (CIs) (training provided by F&A as per its training strategy)

The role of different units in joint monitoring visits is clearly defined. The portfolio review is conducted quarterly at the Group Head level. A watch list with clearly defined quantitative and qualitative criteria, risk rating, and exit criteria is used to monitor potentially problematic relations with POs.

A total of 37 monitoring and appraisal visits were conducted during FY 2013-14. F&A's role in appraisal is to assess the



financial management capacity of potential POs. Based on field appraisal visits, 13 new organizations were declared as non-satisfactory.

### Training activities

The F&A Unit continues to conduct regular training activities for POs and CIs, i.e., Local Support Organizations (LSOs), Village Organizations (VOs), and Community Organizations (COs). The Unit has developed a comprehensive training strategy covering both POs and CIs. Training for POs covers:

- Financial management and internal control system (for all POs)

The first training of master trainers was conducted from May 5-9, 2014. During the year 8 districts of Balochistan were covered under financial management trainings. In these trainings 7 POs were involved and 25 social organizers were trained (14 men and 11 women).

- Preparation of financial statements and Statement of Expenditures (for medium and small POs)

Training for CIs (LSOs, VOs, and COs) covers:

- Capacity building and creating awareness about processes of registration, audit, PPAF policies and procedures; record keeping and fund management by CI members themselves; imparting of PPAF core values; and preparation of village development plans.

The Finance & Account Unit in coordination with Institutional Development (ID) has adopted a two-pronged approach (direct and indirect) for training CIs on basic financial management and internal control systems.


Under the direct approach, qualified and dedicated staff of F&A provide training to CI members on a pilot basis, while under the indirect approach POs' staff, i.e., two social organizers (one male and one female) per district, per PO, are trained as Certified Master Trainers (CMTs) who are required to train at least one member from each CO. The F&A Unit maintains complete database of all the training events conducted by CMTs.

A comprehensive training manual targeted towards COs and LSOs has been developed in Urdu. It is an excellent, user-friendly document that can easily be replicated as a good practice in the development sector. This manual caters to the needs of both literate and illiterate communities (for whom there is pictorial literature).


Trainings are planned jointly with ID, which is in charge of the capacity building initiative.

Details of trainings conducted during the year can be found in the tables below.

3 trainings of POs were conducted in 2013-14		
Province	No of POs	No of Participants
Balochistan	13	25 (5 women)
KPK	14	36 (7 women)
Sindh	10	20 (5 women)



4 trainings of LSOs were conducted in 2013-14		
Province	No of LSOs	No of Participants
AJK (Rawalakot)	10	21 (4 women)
Sindh (Thatta)	5	20 (8 women)
Sindh (Tharparkar)	7	30 (13 women)
Punjab (Nankana Sahib)	4	20 (4 women)



### **Village Development Plans**

F&A also contributed to building the capacity of third tier institutions in translating village development plans into financial projections. Capacity building of communities was done in collaboration with ID through workshops/trainings on the development of the financial aspect of VDPs. Trainings on VDP preparation are part of F&A/ID joint capacity building strategies for community institutions.

### **Microcredit Spin off**

Given the presence of a huge demand and market for microcredit and the diminishing funding pool of PPAF (due to loan repayment to GoP and the non-availability of new funding for microcredit), the creation of a separate entity became essential for the sustainability of lending operations. PPAF's Board of Directors, in a meeting held on April 3, 2014, approved the creation of a new entity for microfinance.

F&A provided active support

and relevant information/analysis regarding the spin-off project to various stakeholders (Planet Finance, BoD, PPAF management, donors). In this regard, the GH-FMCA participated in meetings with Planet Finance consultants to provide input on the Planet Finance report on the proposed spin-off. He also participated in meetings with PPAF's BoD to discuss the spin-off and with a legal advisor to discuss legal matters relating to the spin-off.

Meetings were held with DFID and KfW representatives to finalize the modalities of the spin-off. After comprehensive elaborations given to BoD, the Board approved the spin-off of a microcredit portfolio.

Information regarding previous practices in microcredit was shared with the KfW consultant. F&A participated in the preparation of the projected financial statements for the new entity and evaluated the impact/implication of spin-off on the parent company.

The F&A Unit was also part of the discussions held on the term sheet with the prospective donors. Meetings with SECP to discuss the legal structure were held successfully. Letter of Intent and ToRs for the consultants working with FSG have also been finalized.

### **Affiliations**

PPAF strives for excellency not only in terms of its processes and procedures, but also excellency in learning from the leading institutions of the sector. While recognizing its multilateral role, the F&A Unit has developed affiliations with national as well as international institutions to adopt the best practices of leading organizations. In this regard, F&A has developed long term relationships with the following institutions:

#### **International affiliations**

*Global Reporting Initiative (GRI)*  
GRI's Sustainability Reporting Framework is a method for measuring and reporting sustainability-related impacts and performance that enables greater organizational transparency and accountability. PPAF joined GRI in 2011. The sustainability report covers PPAF's performance in the areas of corporate sustainability.

#### *UN Global Compact*

In addition to becoming a member of GRI, PPAF also joined the United Nations Global Compact (UNGC) to comply with international standards for progress on social and environmental responsibility. The UN Global Compact is for companies to voluntarily align their operations and strategies with

ten universally accepted principles in the areas of human rights, labour, environment, and anti-corruption, and take actions in support of UN goals, including the Millennium Development Goals.

#### *International Corporate Governance Network (ICGN)*

PPAF joined ICGN in FY 2012-13 in order to become part of the team that aims to assert the effective standards of corporate governance to promote efficient markets and economies around the world.

#### **National affiliation**

##### *Pakistan Institute of Corporate Governance (PICG)*

PPAF voluntarily follows best practices even when it is not required to do so, e.g., in its adherence to the Code of Corporate Governance.

In 2013 PPAF acquired membership to the Pakistan Institute of Corporate Governance (PICG), whose members consist of companies who have served as corporate governance stakeholders.

#### **Corporate Governance**

Recognizing the importance of good corporate governance, PPAF has adopted and become fully compliant with the Code of Corporate Governance. The Group Head of Financial Management and Corporate

Affairs, who also acts as the company secretary, is responsible for ensuring compliance with the requirements of the code. Additionally, F&A completed all statutory reporting to the SECP 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 dedicated 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.

#### **Support provided to other Groups**

In addition to performing its routine activities, the F&A Unit also provides active support to other groups in PPAF in carrying out their tasks smoothly. This year F&A provided support to the following groups/units:

##### **LEED Group**

In consultation with Procurement, F&A facilitated the LEED group in developing a

framework for procurement by COs, finalized all the modalities to initiate the Prime Minister's Interest Free Loan, and facilitated the revision of Sindh Coastal Area Development (SCAD) allocations and targets and secured their approval by BoD.

##### **CQA Group**

F&A facilitated the CQA group in developing standard operating procedures for the PO Watch List (more information available under the MER Unit). F&A also provided financial data for MIS and performed data reconciliation. Moreover, F&A supported the finalization of SOPs of units, facilitated the first Research and Learning Conference, and developed formats for joint outcome monitoring visits.

##### **FS Group**

The F&A Unit retained an active role during the entire process of spinning off the Financial Services Group. To streamline the placement of funds and disbursement of credit funds, F&A conducted fortnightly meetings with the FS group. F&A also provided support in the preparation of a five-year forecast of PPAF. Monthly meetings with FSG take place to discuss critical issues related to POs, including follow-ups for recovery of principal and markup.

**PGS Group**

F&A facilitated the PGS Group in the revision of health and education strategies. F&A also finalized projections for two KfW projects - HRE and LACIP). The F&A Unit also provided full support to PGS through quick and timely disbursement of funds to respond to natural disasters.

**ID Unit**

The F&A Unit plays a vital role in the initial screening and financial appraisals of POs. During the year F&A facilitated the ID Unit in the development of VDPs, providing input on the financial aspect. Joint training sessions of the F&A and ID Unit were conducted for CO staff and to train PO staff as CMTs.

**HR Unit**

During the year F&A provided facilitation to the HR Unit for arranging Board Compensation Committee meetings and provided input for the revised HR manual and staff and training budgets.

**Procurement Unit**

F&A finalized the Independent Procurement Review (IPR) agreed actions with WB and facilitated the Procurement Unit in complying with IPR agreed actions.

# Communications and Media



The core objectives of the  
Communications and Media  
(C&M) Unit are

**raising awareness  
to bring about  
positive behavioral  
changes**

and keeping all stakeholders –  
including the Government of  
Pakistan, PPAF Board of Directors  
and General Body, donors, partner  
organizations, and grassroots  
communities - updated on its  
programs and interventions.



The C&M Unit builds PPAF's image by developing linkages with mainstream national and international media, leveraging their mass outreach to effectively implant PPAF's message to wide-ranging communities in the nooks and corners of the country. From tailor-made talk shows in electronic media to feature articles appearing in leading newspapers, the C&M Unit carefully selects media formats to keep stakeholders abreast of PPAF's efforts to alleviate poverty.

Immersion visits for journalists from mainstream media are a direct extension of the unit's policy to mainstream PPAF's work. Feature articles and coverage on electronic media in the wake of these exposure visits are in fact tributes to PPAF's work, adding to the critical mass of popular acceptance.

During the year under review, C&M facilitated four exposure visits by mainstream journalists, who produced 13 comprehensive feature articles in leading English-language newspapers of the country. Additionally, the Unit issued six press releases during the year, which resulted in more than 40 insertions in mainstream English newspapers of the country.



# communications

The Unit produced 10 video documentaries this year in close collaboration with operations units to document and analyze the socioeconomic impact of PPAF interventions on participating communities. The Unit further facilitated PPAF's agenda for prescriptive research through the regular publication and dissemination of reports, brochures, manuals, flyers, and fact sheets. The Unit also produced 11 issues of *Turning the Tide* – an update on PPAF's response to disasters during the year.

In addition to imparting capacity building trainings, the C&M Unit helps partner organizations improve their communications operations through a host of activities. The Unit has been successful in mainstreaming poor communities through sharing PPAF's experience with a large audience.

The C&M Unit critically supports PPAF in raising awareness on multiple forums. It provides structured solutions for effective public relations with an eye to nurturing committed support behind PPAF's mission through organizing concerted media campaigns, producing documentaries, and publishing important IEC materials on PPAF and its activities for a large and diverse audience, including

development practitioners, academia, partner organizations, donors, and participating communities.

Simultaneously, the C&M Unit effectively compliments the work of other units within PPAF through photography/ videography of events and by developing and producing information, education, and communication materials for all internal/external workshops, seminars, events, and ceremonies.

The C&M Unit, through exploiting the full potential of interactive theatre as a communication tool, arranged eight theatre performances on open defecation free, Millennium Development Goals, polio awareness, flood preparedness and disaster management, and social mobilization campaigns.

The C&M Unit regularly produces *Restoring Hope* and *Umeed-e-Nau* (English and Urdu newsletters, respectively) for varied stakeholders and grassroots communities to inform them of the latest developments and future directions at PPAF. These quarterly publications furnish a comprehensive stream of information on PPAF's growth and programs, keeping all stakeholders abreast of progress

made on past commitments in addition to introducing new developments.

Fortnightly e-sharing – an internal electronic newsletter – is another important information sharing tool which has helped keep Team PPAF aware of important happenings taking place within the organization. C&M produced 13 issues of e-sharing during the year. The Unit also introduced a weekly *Media Vibes* initiative, in which interesting and informative articles published in leading national and international newspapers and magazines are shared with Team PPAF. C&M shared more than 80 informative articles under this activity during the reporting year. It arranged three Learning and Sharing events and produced four episodes titled *Field Kahani* – an audio-visual reporting concept aimed at enabling Team PPAF to share field experiences in a simple, lively, and interesting manner.

C&M produces and airs *Roshan Raahein* – a regular radio program – on PPAF's best interventions identified in close collaboration with operations units. Similarly, C&M produces and airs public service messages to create mass awareness on important issues. These radio programs and campaigns have 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. Additionally, this program has relayed useful information on ways in which communities and aspiring organizations can access PPAF and its network of partner organizations. It has also played role in educating people on how to organize themselves for the common good and participate in the development process.

The C&M Unit organizes the Amtul Raqeeb Award ceremony on the occasion of International Women's Day and confers awards on role models in various communities. Seven female community members were awarded the Amtul Raqeeb Award this year for their outstanding contribution to community-led development in their area. Leading women activists were also invited to speak during the panel discussion titled "Improving Pakistan's Gender Equality Indices."

As PPAF's publishing arm, the Unit designed and published 12 reports on PPAF initiatives, 16 fortnightly reports on the economy, four public awareness posters in English and Sindhi languages, six brochures, and one annual report during the

## بارش / سیلاب سے بچاؤ کے طریقے

بارش / سیلاب کے بارے میں پیشگی اطلاع کے لیے کیونٹی کمیونٹیوں کو مقامی ذرائع مٹھنٹ اتھارٹی سے رابطہ رکھنا چاہیے

**برسات سے پہلے**

---

سیلابی پانی کے اترنے تک گھروں میں واپس نہ آئیں

اپنے موٹیوں اور خود کو پتے پانی کی زد میں آنے سے بچائیں

بچکانی صورت حال میں حاملہ خواتین، بچوں، مطور افراد اور بزرگوں کا خیال رکھیں

**محفوظ مقام پر جانا**

ضلعی انتظامیہ کی جانب سے علاقہ نمائی کرنے کا حکم آئے تو فوراً یہ پتہ نام پتہ نام کے ذریعے دیگر لوگوں تک پہنچائیں

---

گھر پر ہر وقت ایک لہر چینی کت تیار رکھیں جس میں خشک خوراک، قیمتی اشیاء، ادویات، باجس اور راج، تھیر وٹائز ہوں

**گھر اور گردنواح**

سیلابی پانی سے بچیں کیونکہ بعض اوقات اس میں کرنٹ بھی آجاتا ہے

---

بچوں، بزرگوں اور حاملہ خواتین کی صحت اور خوراک کا خاص خیال رکھیں

اسہال، بلیر، ماسقہ، مٹاؤشکی بیماریوں سے بچاؤ کی ادویات اپنے گھروں میں رکھیں

مومن سون سے چیلے اپنے جانوروں کو حفاظتی جگے لگوائیں

بناریوں سے بچاؤ کے لیے پانی ہال کر استعمال کریں

**صاف پانی اور صحت**

---

خشک خوراک، بیج اور کھانا ذخیرہ کریں تاکہ سیلاب کی تباہی کے بعد دوبارہ فیصلہ لگائی جاسکے

**قیمتی چیزیں**

قیمتی اشیاء، ادویات، اسناد، قیمتی گاڑی، پتھروں اور دیگر ضروری کاغذات، پلاسٹک بیگ میں ڈال کر محفوظ مقام پر رکھیں

پاکستان پاورٹی ایلیمینیشن فنڈ

www.pfaf.org.pk

year under review. Moreover, the Unit regularly publishes success stories, case studies, manuals, and flyers, in addition to preparing support materials for seminars, workshops, and ceremonies. Revamping and regular update of PPAF's website is also one of the core duties of the C&M Unit.

# Corporate Relations Management



## International Partnerships

### Muslim Charities Forum

PPAF signed an MoU with MCF with the following salient features:

- MCF and PPAF will assist each other to link with institutions in the UK, Europe, and Pakistan and raise awareness about PPAF in Europe and the Middle East
- MCF will organize at least one joint event in the UK in the shape of an international conference, PPAF will reciprocate this activity at the national level

### 'Looking Beyond 2015: Supporting Pakistan post MDGs'

Conference held in London in December 2013 that focused on challenges to and opportunities for achieving MDGs in Pakistan. Leading academics, international stakeholders, and a diverse range of delegates participated.

New Initiatives  
CRM is looking forward to collaborating with:

- K-electric
- Sindh Engro Coal Mining Company
- Engro Foundation
- Mobilink

## Ongoing Corporate Partnerships

Corporate	Funding	Time Frame	Geographical Coverage	Sectoral Focus
Citi Foundation	USD 75,000	Jul 2014 – Mar 2015	Nationwide	Highlights the contributions of microentrepreneurs and microfinance institutions
Hub Power Company	PKR 6,550,000 HPC 60% PPAF 40%	Jul 2014 – Apr 2017	District Lasbela, Balochistan	Social mobilization & microfinance
Shell Pakistan	Shell - PKR 12M PPAF - PKR 8M for CPI PKR 4.1M for health and education PKR 16.23M for housing	Apr 21, 2010 (open ended for 3 years)	Goth Noor Muhammad, Sindh	Construction of houses (near completion)
Pakistan Petroleum Limited	PKR 71.43 M PPL 70% PPAF 30%	Apr 01, 2012 (open ended for 2 years)	District Kashmore, Sindh	Construction of CPI schemes (under progress)
Engro Foundation	PKR 350M EF 55% PPAF 45%	July 2010 (open ended for four years)	District Ghotki, Sindh	Construction of CPI schemes (under progress)
Engro Foundation	PKR 500M EF 50% PPAF 50%	Jul 24, 2012 (open ended for 3 years)	Nationwide	Disaster preparedness

The Corporate Relations Management (CRM) Unit diversifies PPAF's funding resources and builds synergies to better serve the most marginalized communities by mobilizing the national and international corporate sectors to implement corporate social responsibility and corporate philanthropy initiatives. CRM brings the corporate sector into a shared vision of development through: 1) fundraising and resource mobilization, and 2) project implementation and liaison.

## National Level Partnerships

### PPAF and Citi Foundation

PPAF and the Citi Foundation hold a microentrepreneurship challenge every year, providing a unique opportunity for small businesses to bring out their entrepreneurial side and make a difference. The winners are decided after a thorough assessment of their business models and their impact on communities.

The various award categories include Best National Microentrepreneur (male & female), Best Regional Microentrepreneur (male & female), and Most Innovative MFI (microfinance institution). The ninth Citi-PPAF Microentrepreneurship Award will be held in November 2014. A successful relationship maintained with the Citi Foundation has led to an increase in the amount of the grant from USD \$65,000 in 2012 to USD \$75,000 in 2014.

### PPAF and Hub Power Company

On 25 July 2014, PPAF and the Hub Power Company signed a

memorandum of understanding (MoU) with the purpose of mobilizing communities and undertaking microfinance interventions in district Lasbela. The total budget of the initial phase is Rs. 6,550,000.

### PPAF and Shell Pakistan transform Goth Noor Muhammad into a model village

Goth Noor Muhammad is a settlement near Karachi of around 800 ultra poor households who make a living by scavenging the nearby landfill. Nearly 80% of the work for the PPAF-Shell Pakistan partnership has been completed and soon the model village will be inaugurated. K-electric is facilitating CRM in contacting other organizations for providing renewable energy systems to this off-grid community.

### PPAF and Pakistan Petroleum Limited

PPAF and PPL entered into a partnership in 2012 to implement small-scale community infrastructure projects (CPI) in flood affected UCs of District Kashmore, Sindh. The projects include: safe drinking water supply; construction of drainage, dykes, small protection bunds and culverts; rehabilitation of watercourses and farm to market link roads, etc.

Twenty new projects of irrigation have been approved for which terms of partnership have also been signed with the communities. On the sanitation front, thus far 15 out of 75 villages have attained open defecation free (ODF) status in UC Gublo. For the awareness campaign on ODF, 2 female social organizers have been taken on board by our PO, Sindh Rural Support Organisation.

### PPAF and Fauji Fertilizer Company Limited

PPAF and Fauji Fertilizer Company Limited (FFCL) will be collaborating to support earthquake affected households in District Awaran, Balochistan. Negotiations are underway to undertake further relief and recovery activities in the district. FFCL has broadened the scope of work in the target area to maximize outcomes by constructing 300 basic housing units and providing solar lanterns to 6,000 households. The program will also include WASH sensitization of community members at the village and community levels and the provision of bio-sand/slow sand filters for community drinking water treatment.

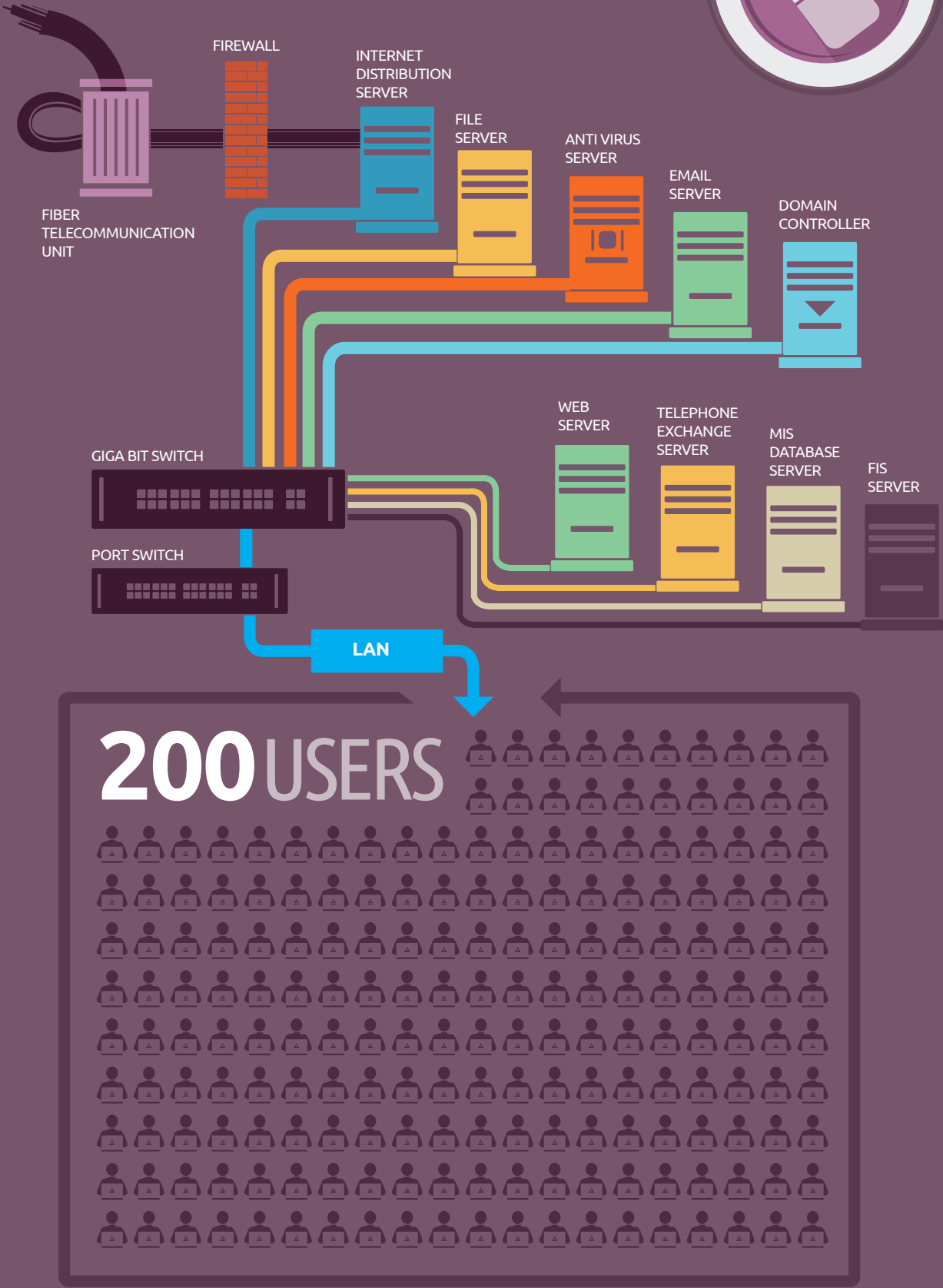
### PPAF and Engro Foundation (PKR 350m partnership)

PPAF and Engro Foundation (EF) are jointly funding interventions of basic infrastructure services, education, health and, livelihoods in districts Ghotki and Sukkur. Thus far the partnership has undertaken work in infrastructure and education.

### PPAF and Engro Foundation (PKR 500m partnership)

The objective of this partnership is to jointly work in selected areas of the country in the field of disaster preparedness, relief, reconstruction and rehabilitation. The duration of this MoU is 3 years which is extendable with mutual consent. Apportionment of funds among various disaster components will be as follows: preparedness (20%), relief and recovery (40%), reconstruction and rehabilitation (40%).

# Information Technology



## The Information Technology Unit enables the functions that drive PPAF's core work. Confidentiality, integrity, and availability of information systems are the core objective of the Unit.

The IT Unit is responsible for providing infrastructure for automation, managing and supervising the use of the network and operating systems, and providing operations units the functionality they need. The IT unit's involvement in each of these areas has allowed a greater level of integration and efficiency in critical business services.

The Unit handles PPAF's networking infrastructure, built on state-of-the-art hardware and software. The IT Unit facilitates PPAF's e-mail system, the primary means of communication with internal and external stakeholders. The IT Unit also hosts PPAF's website, which it updates regularly. PPAF employees are provided with internet facility, Voice over Internet Protocol (VOIP) communication, and centralized data storage. Firewalls are used to keep the organization's information systems secure and the latest virtualization technology techniques facilitate optimized utilization of available resources. The Unit also plans to setup a Disaster Recovery site in Lahore which will be available in case of failure of the primary site in Islamabad.

In May 2014 PPAF moved from Bani Gala to two newly rented buildings in F-6 and F-8, respectively. The IT Unit established the information technology setup in these two buildings and connectivity between them. The IT Unit established the Data Center in the F-8 building and linked the F-6 office with this Data Center. By implementing this strategy, all the servers are placed and maintained in one place. During the move, traditional PTCL telephone lines were also replaced by SIP (Session Initiation Protocol) trunks for voice communications.



# Administration, Procurement & Human Resources



**200** Employees participated in various domestic, international and customized trainings programs

- 38** in domestic trainings
- 50** in international trainings & exposure visits
- 112** in customized training programs



- Organized **Grand Family Gala 2014**
- Shifted PPAF offices from Banigala to F-6 and F-8
- Made arrangements behind Launching Ceremony of Prime Minister's Interest Free Loan Scheme
- Made arrangements for the First International Conference on Research & Learning



## Administration

The Administration Unit is committed to delivering services with excellence so as to facilitate PPAF in achieving its objectives.

We are committed to working with a high degree of integrity, earning the trust of our internal clients, and demonstrating effectiveness and excellence through the delivery of optimum level of facilitation and services.

## Procurement

In order to increase efficiency and transparency in the procurement of goods, works, and services, the Procurement Unit strictly follows PPAF's procurement policy, procedures, as well as donor guidelines (World Bank, KfW, Italian Development Cooperation, and IFAD) where applicable. Another core function of the Procurement Unit is to ensure the smooth functioning of procurements not only at PO level, but at the level of community institutions as well, providing guidance and training to encourage best-fit procurement practices and monitoring their procurement techniques and procedures.

The Procurement Unit has the responsibility of processing cases for outsourced activities. With the rapid increase in the scope and magnitude of PPAF operations, outsourcing of a large number of time-bound activities to credible third-parties has become crucial for ensuring transparency. Additionally, the latter task has to be accomplished without compromising the quality of output. For this purpose, submissions are scrutinized by a committee consisting of representatives from Procurement, the concerned Unit, and senior management. Upon systematic review the contract is awarded to the most suitable candidate/firm. During the financial year, 63 such contracts subsuming a variety of activities, including training, environment studies, as well as baseline and impact studies, were awarded to different organizations and individual consultants. The Procurement Unit also introduced the requirement of reference checks and contract copies of the previous three consultancy assignments/jobs of shortlisted candidates.

"Shopping" is another essential role of the Procurement Unit, encompassing the procurement of goods, equipment, and supplies to cater to staff needs. Requisitions are sent to the

Procurement Unit from across the organization. Obtaining best value for goods without compromising quality is the prime consideration. One hundred and forty purchase orders have been issued this year for capital items. In order to widen the scope of competition, Advertisement for Request for Quotations has started for large scale procurements. During the process of shifting PPAF's office from Banigala to F-6 and F-8 sectors, major procurements were completed within tight deadlines. Environmentally friendly bags were introduced to familiarize PPAF staff with their benefits and to discontinue the use of plastic bags.

Throughout the year, partner organization's procurement plans for capital goods, community demand driven procurements, and consultancy assignments were reviewed and approved, strictly adhering to set procedures. The Procurement Unit disseminated a modified, more comprehensive, and detailed version of Annex-III (Procurement Procedures and Services for Partner Organizations and Community Institutions) of partner organizations' Financing Agreement, taking into account audit observations, World Bank feedback, and suggestions from

operations units. Format of Procurement plan has now become part of PO's financing agreement and it will be duly filled in case of POs capital cost at the time of signing of the agreement. This practice shall avoid delays in the procurement of capital items.

The Procurement Unit conducted a training of trainers session on "Community Procurement" for LSOs in Balochistan, with 17 LSO participants trained as master trainers. The Procurement Unit also conducted orientation and capacity building trainings for POs and integrated and individual field visits. The Procurement Unit regularly monitors existing procurement procedures within POs and provides crucial help to redress identified gaps. In order to empower CIs, the Unit has begun devising a community demand driven procurement manual in collaboration with LEED. After the manual's completion, a training of trainers shall be conducted for all POs and CIs.

## Human Resources

Like past years, Human Resources (HR) maintained its focus on addressing the strategic needs of PPAF and providing an enabling environment for the staff to achieve

organizational objectives. HR is constantly looking for opportunities to nurture the talents of its employees in such a way that they can contribute towards their individual growth and improve performance in their current and future roles.

PPAF aims to translate the values of equity and transparency into all HR operations. PPAF's recruitment policy is distinguished by good faith efforts to broaden diversity and ensure a fair and consistent approach to the recruitment and selection process, which is facilitated by collaborating with leading online job portals and university career offices. The National Testing Service (NTS) has been engaged to integrate performance dimensions into the recruitment and selection process, improving the quality of hiring and measurement of success. The turnover rate for FY 2013-2014 was 5.01% and only 28 additional professional staff members were taken on board (including 13 women and 15 men).

Extensive orientation trainings are provided to equip new employees with the tools necessary for their success and transition into a new organizational culture. Moreover, in order to reward, motivate and retain star new joiners, a "Talent Retention Strategy" was

introduced, rewarding the extraordinary performance of new joiners with a 15% raise in salary after a period of six months.

The challenges associated with the changing nature of work and the workplace environment are as real for PPAF as elsewhere. Rapid change requires skilled, knowledgeable employees who are adaptive, flexible, and focused on the future. HR strives to provide employees with adequate trainings and exposure, exploring new ways of encouraging their development and creating opportunities for growth.

Moreover, The Continued Education Support Program is a new initiative that supports employees' professional development by covering tuition and registration fees at an accredited college or university of their choice as they take coursework during off-duty hours.

The Long Service Reward was also introduced to recognize the long term dedication of team members serving PPAF for 10 years or longer. 13 professional and 9 support staff received the Long Service Reward this year. Various engagement activities, such as Cricket Matches, Retreats, a Christmas party, and New Year celebration, were

organized to create a sense of community and increase employee participation.

To strengthen and enhance the objectivity of the existing Performance Management system at PPAF, the concept of measurable Key Performance Indicators (KPIs) has been introduced. Capacity building and hands-on training for staff was carried out to develop the measurable KPI's for FY -2014-15.

In order to augment equity, justice, and fairness in the existing Compensation and Benefits structure, as well as to align it with the market, a salary survey was conducted through MERCER Mercer, an international human resources consulting firm, which systematically addressed employee's salary and benefits expectations.

Mid-Year Performance Reviews were introduced for all staff, providing an opportunity to give timely feedback and identify any disconnects in expectations, priorities, or performance. In short, the reviews help track an individual's performance during the first half of the year, highlighting accomplishments and providing opportunities for improvement.

A flexible and caring work culture has always been the

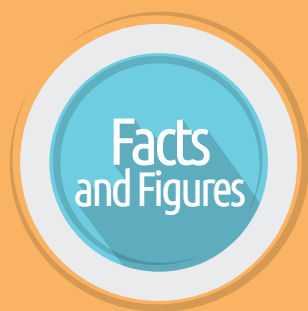
focus of all HR activities. This year an Extended Sick Leave Policy was introduced for those employees who are unable to resume work due to serious or prolonged illness. These employees are now entitled to extended sick leave with pay up to a maximum of ninety (90) calendar days.

The tracking of gender and provincial diversity is an ongoing activity. PPAF's professional staff is currently composed of 32% women and 68 % men.

Procurement

## Achievements

- All procurement of goods and consultancy assignments of PPAF and its POs under the IFAD-PRISM project were completed on time and received a satisfactory rating in Aide Memoire
- The Procurement Unit received a satisfactory rating from the World Bank mission
- The successful completion of World Bank Procurement Post Review (PPR), conducted by M/s Ernst & Young
- The successful completion of World Bank Performance Evaluation Review (PER), conducted by M/s Avais Hyder Liaquat Nauman
- The process of hiring a consulting firm to devise a "Consultant Hiring Policy" has been completed
- The Procurement Complaint Management System (PCMS) has been finalized



<b>Directors' Report</b>	<b>86</b>
<i>Annexures</i>	
1. <i>Intervention Strategies</i>	90
2. <i>Vision 2020</i>	91
3. <i>Assessments and Ratings</i>	94
4. <i>Corporate Governance</i>	95
5. <i>Human Resource Management</i>	97
6. <i>Treasury Management</i>	98
7. <i>Risk Management</i>	98
8. <i>Key Events</i>	99
9. <i>Future Outlook</i>	100
<b>Financial Highlights</b>	<b>103</b>
<b>Financial Statements</b>	<b>104</b>



The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the fourteenth Annual Report along with audited financial statements of the Company for the year ended June 30, 2014.

The outgoing year witnessed global economic recovery as the world economy started picking up in the second half of the year. The economic performance of Pakistan also showed recovery during last year. According to the Economic Survey 2013-14, Pakistan's growth rate during the financial year 2013-14 stood at 4.1 percent which helped in reducing income poverty. Pakistan's development landscape has changed gradually over the past several decades yet the country has a long way to go. Some of the key challenges posing threats to poverty reduction include rising inequalities, widening gap in income, inequality of opportunity, access to public services, conflicts, political instability and natural disaster.

Despite all these challenges, PPAF's interventions are having a positive impact on the lives of the poor. PPAF's commitment towards its goal of poverty reduction is reflected in its policies and is embedded in its overall development strategy. PPAF has maintained its effectiveness by pursuing inclusive and sustainable growth. PPAF's approach in dealing with the development challenges has build-up and matured with time and experience. PPAF, a leading

apex institution, illuminates its vision through bringing together a wide array of social services to cater to the needs of the poor and underprivileged communities. PPAF delivers lending support and linked services to the vulnerable across multiple sectors through microcredit, infrastructure, health, education, livelihood and institutional development interventions. Given the size of the challenges and limited resources, PPAF ensures institutional effectiveness and operational efficiency to better respond to the needs and voices of all stakeholders.

During the year, PPAF continued its drive towards eradication of extreme poverty and pursuing prosperity in an environmentally, socially and economically sustainable manner. PPAF progressively achieved its operative and economic direction by proliferating sustainably and inclusively while seeking new ways to work in collaboration with all stakeholders. Overall emphasis remained on three primary strategic approaches: inclusion, sustainable growth and regional integration. Moreover, through coherent and consistent actions towards achievement of Millennium Development Goals (MDGs), PPAF stayed affirmed and focused to benefit indigent clusters, especially women.

In addition to carrying out its core operations during the year, PPAF

was at the forefront to provide relief and rehabilitation support for people affected by the natural calamities across the country. In response to the earthquake that struck Balochistan in September 2013, PPAF launched an Emergency Relief Program in districts Awaran and Kech benefiting over 40,000 people and 6,000 households. Dry food items, non-food items, hygiene kits, transitional shelters and latrines facilities were provided to the affectees. Medical camps were set up to provide emergency healthcare services through which over 2800 patients were provided with treatments.

PPAF also delivered dry ration packs to over 16,500 families in flood affected districts of Narowal, Rajanpur and Ghotki. PPAF also set up mobile medical camps in these areas and provided healthcare services to over 10,000 patients. Livestock vaccination program was also carried out and over 13,500 animals got vaccinated.

To meet the ever growing demand for assistance PPAF expanded its operations in almost every district of the country. PPAF continued to work with its partners in both the private and public sector, as well as, in civil society to help stimulate the strong links needed to reduce poverty and shared prosperity. PPAF's multidimensional, cost effective and efficient edifice safeguarded the trust and confidence of all stakeholders, including the

Government of Pakistan, international bilateral and multilateral donor agencies, private and corporate sector institutions, partner organizations along with the deprived communities.

### Program Review

During the year PPAF managed steady progress in terms of its operations. Total portfolio managed was Rs 23,819 million as against Rs 22,752 million in FY 2013, an increase of 5%. Loan portfolio increased by 7% to Rs. 17,805 million [FY 2013 - Rs 16,565 million]. This included Rs.13,985 million as loan outstanding with POs (direct exposure) and Rs 3,820 million placed with bank as guarantee facility to facilitate lending (indirect exposure). All the available funds for lending were fully deployed. Disbursements for grants based interventions were Rs. 6,014 million as against Rs. 6,187 million last year, a slender reduction of 3%.

Disbursements for water and infrastructure components remained at the last year level – Rs 1,257 million [FY 2013 - Rs 1,250 million]. Disbursements for livelihood component showed an exponential growth of 70% and were Rs 2,429 million [FY 2013 - Rs 1,427 million]. Livelihood interventions had converged towards one stop shops that offer multiple facilities (Youth Centers, Loan Centers and *Nokari Ya Karobar* Centers) to cater to the needs of different sectors of the deprived communities. This generated a lot of interest and resulted in high demand for livelihood funds.

Disbursements for health and education component declined by 31% to Rs 522 million [FY 2013 - Rs 758 million]. PPAF, in line with its strategy, started handing over the education facilities to Government and communities. This resulted in

reduced operational support for these facilities by PPAF. Social mobilization disbursements were Rs 1,140 million, 56% less compared to FY 2013. PPAF reached its scale in formation of community organizations in FY 2013.

Disbursements during FY 2014 were focused on capacity building and strengthening of existing community institutions. In addition to core operations, Rs 666 million [FY 2013 – Rs 108 million] were spent on relief activities for the affectees of Balochistan earthquake as well as Sindh/Punjab floods [fig. 1]

Cumulative disbursements since inception to June 30, 2014, stood at Rs 144,532 million out of which credit disbursements were 61% followed by relief, rehabilitation and reconstruction activities (15%);

human and institutional development (including social mobilization)/livelihood enhancement and protection (12%); community physical infrastructure (9%) and health & education (3%) [fig. 2]

### Resource Allocation Strategy

Resource allocation strategy of PPAF focuses on regions that have historically lagged behind in socio-economic development and are particularly underserved. PPAF played a significant role with respect to providing provincial coverage to combat poverty. As of June 30, 2014, 53% of the funds were allocated in Punjab, 19% in Sindh, 15% in Khyber Pakhtunkhwa (KPK), 4% in Balochistan; 7% in Azad Jammu and Kashmir (AJK); 1% each in Gilgit Baltistan (GB) and Islamabad Capital Territory (ICT) [Fig 3].

Fig 1: Disbursements

Components	Rs Million		Variance (%)
	Jun 30 2014	Jun 30 2013	
<b>Loan Portfolio</b>			
Loan Outstanding	13,985	13,300	5
Indirect Placement	3,820	3,265	17
<b>Sub-Total</b>	<b>17,805</b>	<b>16,565</b>	<b>7</b>
<b>Grants</b>			
W&I	1,257	1,250	1
LEED	2,429	1,427	70
H&E	522	758	(31)
ID/SM	1,140	2,644	(56)
Project and relief activities	666	108	517
<b>Sub-Total</b>	<b>6,014</b>	<b>6,187</b>	<b>(3)</b>
<b>Grand Total</b>	<b>23,819</b>	<b>22,752</b>	<b>5</b>

Fig 2: Share of funds disbursed

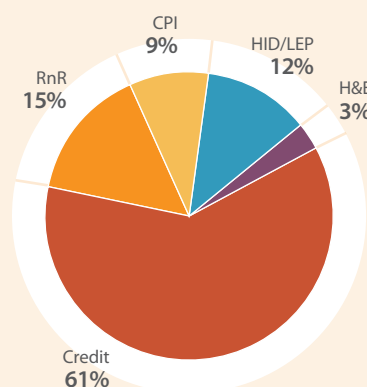
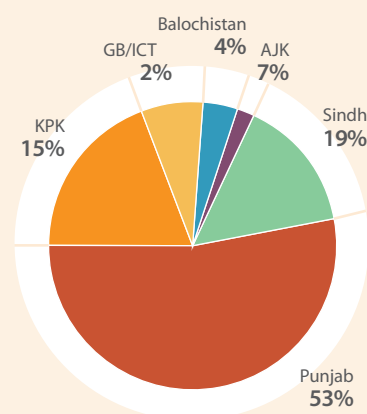


Fig 3: Provincial distribution of funds cumulative since inception to June 30, 2014



Microcredit a major component of income generating activities caters to the needs of the poor people who are already engaged in a business or have a skill to earn a living but are unable to access financial institutions due to lack of collaterals or requiring small amounts as loans. The better off areas in Priority Index rating fall in the provinces of Punjab and Sindh,

rich in fertile lands and rivers creating opportunities for the rural people to make them self-employed through agricultural and non-agricultural business. Accordingly, microcredit funding during the year concentrated primarily in Punjab with 62% of the total share followed by Sindh 27%, KPK 8% and GB 3%. The yearly and cumulative pattern is almost consistent [Fig 4].

Fig 4: Provincial distribution of Microcredit funds

Province	Microcredit	
	2013-14	Cumulative
AJK	0%	1%
Balochistan	0%	2%
KPK	8%	4%
GB	3%	1%
Punjab	62%	70%
Sindh	27%	22%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Fig 5: Provincial distribution of Grant funds

Province	Grant	
	2013-14	Cumulative
AJK	2%	17%
Balochistan	9%	7%
KPK	27%	32%
GB	6%	3%
Punjab	36%	25%
Sindh	20%	16%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The grant based interventions are for the communities which lack in the basic social and infrastructure facilities in the first place. PPAF basic social and infrastructure grants provide help to pro poor communities to uplift and become part of the mainstream. During the year, grant funding was allocated in line with PPAF's strategy which focuses on deprived districts. 36% of the funds were allocated in Punjab, 27% in KPK, 20% in Sindh, 9% in Balochistan, 6% in GB and 2% in AJK. In the aftermath of 2005 earthquake, PPAF was involved in rehabilitation and reconstruction work in KPK and AJK on a massive scale which was reflected in the cumulative allocations. Due to this intervention there was variation in annual and cumulative allocation of funds (Fig 5).

Table 1

Components	Output	FY 2014	Cumulative (since inception to June 2014)
Microcredit	No of Borrowers financed	719,095	6717292
	- Female	570352 (79%)	3952725 (59%)
	- Male	148,743 (21%)	2,764,567 (41%)
	Active Borrowers	1200000	1200000
	Market share of PPAF	30%	30%
Water and Infrastructure	Schemes completed	5,289	32,581
	Beneficiary Households	76,461	1,913,395
	Beneficiary Population	524,799	13,065,421
	- Female	275,779 (53%)	6,334,215 (48%)
	- Male	249,020 (47%)	6,731,206 (52%)
Education	No of schools supported	287	1,228
	Children enrolled	55,740	277,790
	- Girls	27,861 (50%)	127,639 (46%)
	- Boys	27,879 (50%)	150,151 (54%)
Health	No of health facilities supported	221	637
	Beneficiaries	3,504,243	11,877,278
	- Female	1,996,577 (57%)	7,015,584 (59%)
	- Male	1,507,665 (43%)	4,861,693 (41%)
Institutional Development	1st tier organizations formed	5,007	126466
	Members	98531	2488844
	- Female	63,060 (64%)	1,592,860 (64%)
	- Male	35,471 (36%)	895,984 (36%)
	2nd tier organizations formed	1,463	11,731
	Members	15,797	126,691
	- Female	4,897 (31%)	39,274 (31%)
	- Male	10,900 (69%)	87,417 (69%)
	3rd tier organizations formed	108	572
	Members	7,776	41,184
	- Female	2,605 (34%)	13,797 (34%)
- Male	5,171 (66%)	27,387 (66%)	
Market linkages	5,328	16,408	
Livelihood Enhancement and Enterprise Development	Asset transfer	22,675	64,592
	- Female	10,599 (47%)	31,212 (48%)
	- Male	12,076 (53%)	33,380 (52%)
	Livelihood Investment Plans	80,029	246,646
	Common Interest Groups	1,393	8,498
	Trainings	99,963	260,114

By the end of June 2014, PPAF had expanded its partnership with 130 partner organizations which deployed resources in both urban and rural areas of 121 districts of the country. The yearly (2014) and cumulative (since inception to June 30, 2014) outputs are given at Table 1.

In addition, PPAF responded to the natural calamity by facilitating over 1.8 million individuals through provision of relief items followed by rehabilitation and reconstruction. This included 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 Highlights**  
PPAF, as a non-profit institution, capitalized on profits to earn sufficient revenue to smoothly run its financial and development activities.

Total income earned during the year showed a marginal decrease of 1% and was Rs 2,880 [FY 2013 - Rs. 2,896

million]. Income on investments/saving accounts decreased by 6% due to reduction in KIBOR which triggered reduction in average interest rate to 10.11% in FY 2014 from 11.54% in FY 2013. Service charges earned on loan to POs declined by 1%. Despite reduction in KIBOR rate (which formed basis for pricing) income was maintained at last year level due to growth in lending portfolio which enhanced by 7% to Rs 17.8 billion. During the year, grant of Rs 243 million was made available by Government of Pakistan and donor agencies for financing incremental expenses [FY 2013 – Rs 190 million].

In line with the requirement of International Financial Reporting Standard, Loans (payable by PPAF) were carried at present value computed at market based interest rate. The difference between present value and loan proceed was recorded as deferred benefit which would be recognized as income over loan period. Amortized income during the year was Rs 74 million (FY 2013: Rs 61 million).

The general and administrative expenses related to the operations of PPAF increased by 16% to Rs 591 million [FY 2013 – Rs 508 million] due to impact of inflation and expansion in operations. Total portfolio managed during the year increased by 5% to Rs. 23,819 million (2013: 22,752).

The main increases were in traveling and salaries expenses. Travel expenses increased by 38% due to extensive appraisal and monitoring visits in view of high cumulative disbursements and enhanced activities as well as relief operations which required steady field presence. The salaries, wages and other benefits increased by 14% 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. The Company also incurred shifting expense of Rs 9.3 million in connection with movement of its offices to new location on the expiry of lease for previous premises.

Seminar, workshops and training expenses of Rs 40 million (FY 2013 - Rs 38 million) included Rs 17 million (FY 2013 - Rs 16 million) spent on trainings and Rs 23 million (FY 2013 - Rs 23 million) incurred on seminar and workshops. An amount of Rs 156 million (FY 2013 - Rs 103 million) was incurred on technical/other studies. The major increase was due to micro-credit spin-off consultancy

(Rs. 39.5 million), study on POs assessment (Rs. 13.8 million) and assignment on POs perception survey (Rs. 4.5 million).

The loan loss provision of Rs 28 million (FY 2013 - Rs 33 million) was made against loans as per policy, while an amount of Rs. 50 million was provided on account of impairment investment against bank guarantee to a partner organization. The financial charges of Rs 175 million (FY 2013 - Rs 153 million) included service charges on long term loan and bank charges. PPAF spent Rs 666 million (FY 2013 - Rs 108 million) on project and relief activities financed from PPAF own resources.

Fig 6: Total Income (Rs in million)

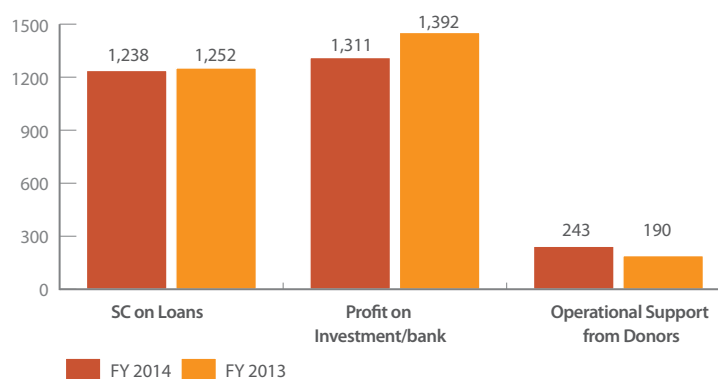


Fig 7: Financial results are summarized as follows:

	Rs in Million	
Service charges on loans to Partner Organizations	1238	1252
Income on investments and saving accounts	1311	1392
Amortization of deferred income - grand fund	243	190
Amortization of deferred benefit of below market rate of interest on long term loan	74	61
Other income	14	1
<b>Total income</b>	<b>2880</b>	<b>2896</b>
General and administrative expenses	591	508
Seminars, workshops and trainings	40	38
Technical and other studies	156	103
Loan loss provision	28	33
Impairment loss	50	-
Financial charges	175	153
<b>Total expenditure</b>	<b>1040</b>	<b>835</b>
<b>SURPLUS BEFORE PROJECT AND RELIEF ACTIVITIES</b>	<b>1840</b>	<b>2061</b>
Project and relief activities	666	108
Actuarial losses recognized	22	-
<b>SURPLUS FOR THE YEAR</b>	<b>1152</b>	<b>1953</b>



During the year Rs. 22 million was recognized as actuary adjustments as per new requirement of accounting standard for staff retirement benefit (gratuity fund). Previously such expenses were recognized over the life of the gratuity fund, however, amendment in accounting standard required immediate recognition.

Total expenditure increased by 25% to Rs 1,040 million (FY 2013 - Rs 835 million). Surplus before project & relief activities and actuarial losses was Rs 1,840 million as against 2,061 million in FY 2013, indicating a decrease of 11%. Financing Agreements signed with the Government of Pakistan (GoP) required repayment of loan amounts along with service and commitments charges from PPAF on the stipulated rates each year. PPAF was current in all its repayments to GoP. During the year, Rs. 615.51 million (FY 2013 - Rs. 467.61 million) was repaid on account of principal amount of loan and Rs 101.56 million (FY 2013 - Rs 98.55 million) as service/ commitment charges to the GoP.

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 was held in investments and interest earned thereon was allowed for deployment in grant based health, education, infrastructure, emergency and any other activities that fell within the overall strategic purview of PPAF objectives. As at June 30, 2014 the reserve increased by 17% to Rs 5,659 million as against Rs 4,854 million as at June 30, 2013.

Total equity and reserves increased by 11% to Rs 12,010 million as at June 30, 2014 from Rs 10,858 million as at June 30, 2013. Total assets of the Company reached Rs. 35,914 million on June 30, 2014 against Rs 31,656 million as at June 30, 2013, an increase

of 13%. Total loan receivables were Rs 13,985 million on June 30, 2014 as against Rs 13,300 million as at June 30, 2013. The debt equity ratio stood at 55:45 (FY 2013 - 58:42).

#### **Auditors**

The present Auditors M/s A. F. Ferguson and Company, Chartered Accountants, have completed their assignment for the financial year ended June 30, 2014 and shall retire at the conclusion of 18th Annual General Meeting. Being eligible, they offered themselves to be re-appointment. The Audit Committee considered and recommended their re-appointment for the financial year ending June 30, 2015. The Board also endorsed the recommendations of the Audit Committee.

#### **Conclusion**

Poverty's inextricable connection with multiple social, economic, and environmental challenges has ushered in a paradigm shift in PPAF's approach to poverty mitigation responses which are now increasingly moving towards integrated but sequenced multi-sectoral plans devised and implemented at local levels.

PPAF believes in building national integration and through all its activities it promotes the effective inclusion of the all regions of Pakistan as part of a unified whole. The focus on inclusion is at the core of all PPAF's work, and is reflected in the approach towards ensuring that marginalized communities across Pakistan can secure their right to participate in the political, social, and economic mainstream.

#### **Acknowledgement**

Board would like to express its appreciation for the efforts and dedication of all employees of PPAF which enabled the management to

run the Company efficiently during the year resulting in attainment of its mission.

The Board of Directors and General Body made extraordinary contributions in guiding the Company in achieving its objectives. We look forward for their continued assistance in the future as well. I would like to thank all the Board members for their corporation, wisdom, support, able guidance and as well as the assistance and co-operation in benefit of the Company at all levels. The incisive, thorough and untiring commitment of the Board Members contributed significantly to the success of the Company. I am confident that this relationship will go a long way to reap fruitful prosperity of the Company.

PPAF also likes to express its gratitude to the Government of Pakistan for extending extraordinary facilitation, support and unconventionality for the trust and confidence shown. PPAF appreciates the faith and reliance of all financing partners – the World Bank, International Fund for Agricultural Development, and Government of the Federal Republic of Germany (through KfW), Government of Italy as well as civil society and private partners for their productive contribution and support.

The Board looks forward towards continues support of all the stakeholders to synchronize the strategic vision of the Company with its activities. The Company continues to add to the stakeholders' value while being a socially responsible entity, bequeathing its corporate roles and responsibilities.

Islamabad  
September 26, 2014

*Dr Suleman Sheikh*  
*Director*

## 1. Intervention Strategies

### Program Level

PPAF believes in delivering results to impact the lives of the poor in real terms. To ensure consistency and effectiveness of its interventions PPAF has developed a set of core values which are the foundations of the way in which PPAF works. These values include a focus on democratic governance, participation, accountability, social inclusion and sustainability. PPAF also promotes a holistic approach to poverty alleviation, aligned closely with Pakistan's commitment to the MDGs and places emphasis on integrated development programs that generate a broad and deep socio-economic impact at the community level. Saturation and deepening are integral strategies of PPAF. These approaches are focused on safeguarding against project interventions being spread too thinly. Accordingly, they support demand-driven interventions which are preferably in the union councils where POs have already intervened during WB supported PPAF-I and PPAF-II. In July 2011, a decision was taken to carry out activities in selected Priority Union Councils for further saturation and deepening, to achieve increased organization and inclusion of the poor, including women, youth, persons with disabilities and ultra-poor households. In addition, PPAF also takes into consideration donors' preference for interventions and geographical areas. PPAF has formulated a Results Framework to track outcomes and impact in a two dimensional framework: (i) Overall Objectives (and associated indicators) align PPAF operational activities, to the extent relevant, with MDGs and core focus on institutions of the poor (ii) Intermediate Outcomes (and associated indicators) break out overall indicators in terms of

### Intervention Strategy (Program Level)

**Our Core Values**  
Inclusion – Participation – Governance – Transparency – Sustainability

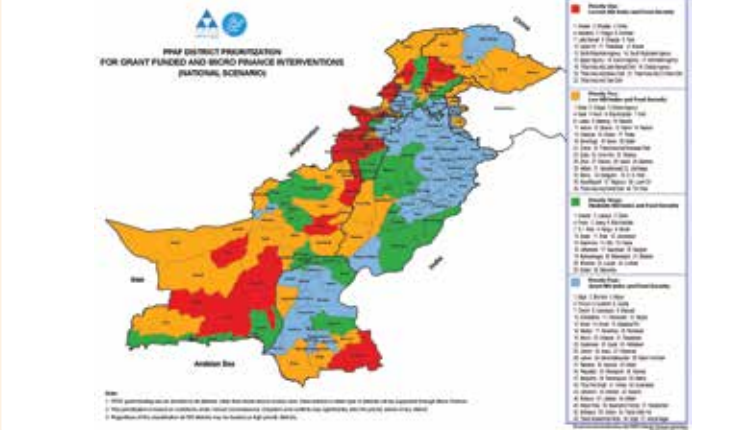
**Our Change Philosophy**  
Social Mobilization + integrated development strategies (social, economic, environment) + private and public investment = **empowered communities and reduced poverty**

### Our Results Framework

The Millennium Development Goals



### Intervention Strategy (Regional Level)



operational components. Both dimensions represent long term objectives and vision of the institution. Time bound project specific indicators have been subsumed in the overall PPAF strategic objectives and framework. All the envisioned outcomes and impact are limited to PPAF interventions, components, communities, households, districts, UCs and locations.

### Regional Level

In the year 2011 PPAF revised its resource allocation policy to enhance the impact of its interventions. The key features of the said policy were:

- Grant funds to be allocated towards those areas/regions of Pakistan that had historically lagged behind in socio-economic development had high food insecurity and were underserved.

- Microcredit to be allocated to better off areas to cater to the needs of the entrepreneurial poor who have skills to earn a living but are unable to access finance due to lack of collateral and size of loans. The very poor are not to be given microcredit but grants for assets so as to facilitate them to initiate livelihoods.

Districts marked in red and orange are highly food insecure and have low HDI ranks. PPAF grant funding can be allocated to all districts other than those shown in blue colour. All regions in the country will continue to benefit from Microfinance. Three country-wide assessments were consulted in order to determine the development status of a district. These included (i) Trends in Regional Human Development Indices (Social Policy Development Center); (ii) Food Insecurity in Pakistan (World Food Programme)

using FAO ranking; (iii) Government's Medium Term Development Framework 2005-2010 which identified the 29 poorest districts of the country. The district prioritization policy was developed after extensive in-house consultation and was duly approved by the Board of Directors of PPAF.

### Household Level

Proper identification of the various target groups is crucial to ensuring an inclusive approach. Poverty scorecard (PSC) developed and introduced by GoP is an effective tool to measure poverty. By ranking clients in accordance with their assets (to determine the extent of household poverty in an objective manner), it helps to target the poor and track changes in poverty. The use of the PSC has improved the service delivery mechanism in PPAF supported operations and caters to the differing needs of households within various bands of the PSC. PPAF's Partner Organizations identify poor and ultra-poor using PSC data to allow for improved inclusion and standardization of targeting approaches in community level organizations. Every community level project components and interventions are proposed to be linked with the poverty scorecard results to provide comprehensive coverage to all PPAF interventions at union council and district level.

## 2. Vision 2020

While continued growth remains essential for poverty reduction, the pattern and quality of growth are equally critical. Vision 2020 emphasizes inclusive growth to help ensure that the poor and disadvantaged are not left behind. In this context, PPAF has established ambitious but achievable goals on which to anchor its work in meeting new challenges.

### Intervention Strategy (Household Level)

2013 Poverty Estimates		
	Poverty Score	Households
No poor	51-100	4.49m
Transitory Non-poor	35-50	9.46m
Transitory Vulnerable	24-34	5.98m
		Rs. 1,959
Transitory Poor	19-23	5.90m
Chronically Poor	12-18	3.05m
Extremely Poor	0-11	0.48m

**PPAF Programs**

Score range > 23: Microfinance

Score range < 23: All PPAF Grants

Score range 0 - 18: PPAF asset transfer beneficiaries

} Institutional Development

**Note:** Based on monetized consumption/caloric intake (Rs. Per capita, per month and calculated by using an average of national household size of 6.3 (Source: CPLPM (Masim QAU))

### Vision

- PPAF expects to reach more than 16 million of the poor and most vulnerable people in the most deprived areas of the country and create the conditions to lift at least 8 million people out of poverty.
  - PPAF has planned to spin-off its microcredit function to cater the target community eligible for microfinance. The new apex would draw funds from financial markets through credit lines from commercial banks, issuance of commercial paper, bonds, time deposits, International Microfinance Vehicles and other investors. PPAF along with the new apex entity for microfinance would serve 6.3 million loans cumulatively by 2020. Out of these the existing pool for microfinance at PPAF would yield 3.3 million loans cumulatively ending with 350,000 active clients with an average loan size of USD 280. The new apex entity would make 3 million loans cumulatively ending with 800,000 active clients with an average loan size of USD 840.
- social capital and enhancing the opportunities for peace and pluralism through strengthening inclusive and accountable institutions of the poor, enhancing the access of poor households and communities to small-scale infrastructure and increasing their productive capacity.
- The second set of objectives is associated with developing the capacity of its partners. These objectives will facilitate to strengthen the capacity of PPAF partner organizations for outreach and program delivery to poor households and communities in a manner which is efficient, cost-effective and has a sustainable impact on the lives and livelihoods of poor households through innovative techniques to meet the broader challenges of poverty alleviation by offering a larger range of services to its target group.
  - The third is developing PPAF's own capacity as an effective, innovative and sustainable catalyst for change, economic growth and rural development.

### Objectives

- The first set of objectives is aimed at its target group. These objectives will work towards the strengthening the capacity of poor households, developing

### Guiding Principles

- PPAF will identify its programmatic areas by careful analysis and research of the most promising pathways out of poverty.

- PPAF will work in geographic areas which have been identified as among the poorest.
- PPAF will ensure coverage of households which have been identified as poor (using the poverty-score card).
- PPAF has a strong commitment to social inclusion and enhancing gender equity.
- PPAF will adopt a participatory approach in all its programs.
- PPAF will offer its services on the basis of an agreed partnership.
- PPAF will implement projects through partner organizations in order to extend its coverage and impact.
- PPAF will build partnerships with the private sector and encourage its participation in its programs.
- PPAF will not take on responsibilities which belong to the Government except in areas where the Government is unable to provide these services.
- PPAF will help to develop and test innovative models of service delivery and poverty alleviation.
- PPAF will encourage different approaches to public-private partnership.
- PPAF will identify its investments with a careful analysis of their impact on poverty reduction and their long-term sustainability.
- PPAF will identify investments in a manner which protects the environment and mitigates against any negative impact.

### **Strategic Directions of the Institutional Development**

Some key areas on which the strategy focuses on are; use of the community participation approach as the basic mechanism through which it engages with communities for identifying community needs and establishing terms of partnership and building ownership and sustainability of its investments.

PPAF's focus on peace and pluralism will be strategically incorporated into its engagement with first, second and third tier community organisations and partners with a view to fostering civic engagement, supportive rights-based approaches, and relevant core messages and outcomes linked to the MDGs. More focus will be given on identifying the transformational aspects of institutional development at the village level by strengthening community capacity for achieving economies of scale, negotiating with markets, engaging more effectively with the private sector and holding public sector institutions accountable. Development of the capacity of the local institutions will be ensured to gradually take over the responsibility of local level development and plan its exit from each of its area of operation, thereafter providing only technical backstopping and facilitate support.

### **Strategic Direction for the Financial Services (FS) Group**

PPAF's strategic direction for its financial outreach for the next six years is based on several critical factors including (i) continued relevance of financial services as an instrument for growth and poverty reduction; (ii) the growing demand for financial services; (iii) the need for a specialized agency to manage the high volume of loan demand projected; (iv) the need for a much wider array of financial products and services; (v) the dwindling credit

pool available to PPAF and (vi) capitalizing on the opportunity to attract new sources of funds for the sector.

During its strategic course, PPAF's core focus will remain on financial inclusion, and ensuring that the poor and marginalized have access to inclusive, transparent and sustainable financial products and services. PPAF will continue to strengthen the institutional capacities of its partners and assist them to develop a range of financial services and products which will address the growing needs of the poor.

The Company plans to from a wholesale entity with additional sources of funds attracted through partners from a range of donor agencies to assist the target group by means of a double bottom line orientation and management systems.

### **Strategic Direction of the Public Goods and Services (PGS) Group**

The strategic direction of the Public Services Group is conversant by its past experience. This has led PPAF to forge a strategy which will focus its investments in a specific geographic area for high impact and provide communities with a package which includes access to critical infrastructure, social sector investments and livelihood, employment and business development opportunities through its integrated union council development plans. Community physical infrastructure schemes will be implemented as a critical input for increasing productivity in the target villages. PPAF will follow its tried and tested approach of implementing community schemes in close partnership with beneficiaries.

Investments in the education sector

will focus on achieving key MDGs such as increasing enrolment, reducing drop-out as well as increasing primary schools completion rates and learning outcomes whereas investments in the health sector will focus on achieving the MDGs such as increasing immunization cover, increase in proportion of births attended by trained health personnel through an approach which will depend on a range of options appropriate for the communities in which it is working. PPAF's interventions in nutrition will focus on improving nutrition status in its intervention communities and influencing stakeholders at the policy level so that making improvements in food and nutrition security becomes a national priority. In addition, PPAF will build capacity of the community to deal with natural disasters and enhance their resilience to the long-term impacts of climate change.

**Strategic Directions of the Livelihood Enhancement and Enterprise Development (LEED) Group**

The expected direction of LEED group will be to target over half a million households with multiple investments to assist in moving them out of poverty. Households in the targeted Union Councils (UCs) will have; developed livelihood plans or received the livelihood grants for their Community Livelihood Fund (CLF); communities that have received CLF will have revolved savings for internal lending and maintain with 95per cent repayment rates; those who have received skills training and/or assets are using them productively; livelihood asset transfer and skills training recipients improved economic opportunities, established linkages with markets, and/or improved quality of life. 50per cent of livelihood grant recipients will be

women. Some of the key strategic directions for this program over the next six year period include expansion of LEED programming to 1020 union councils by 2020 through a strategy which builds on local capacity development, sustainable market linkages and creation of models which will be sustainable within the first 2 to 3 years; strengthening of partner group capacity for management, monitoring and mentoring of its programs and training staff for engagement at the district and community level. The intent is to create a cadre of experts which can be available to further scale up and improve LEED programming across the country; and invest in learning from best practices and developing a series of certified modules and standard operating procedures with a clear focus on outputs and outcomes. This will entail engaging with some of the best public, private and development sector livelihood programs in the country.

**Strategic Directions Financial Management and Corporate Affairs (FMCA) Group**

The FMCA group will continue to (i) ensure improvements in the quality of record keeping, financial statements, develop understanding about relevant local/national reporting standards, sharing of Statement of Expenses (SOEs) formats (ii) impart training for Community Institutions (CIs) using innovative techniques to build their capacity and create awareness among the institutions at various tiers about the processes of registration; audit; record keeping; funds management; inculcating PPAF core values; (iii) undertake financial monitoring through desk reviews and field visits will be used to get assurance on adequacy of controls to ensure financial discipline, progress on project implementation, funds

management, identification of weak areas, guidelines for course correction and capacity building through training. The group will also commission mandatory annual external audits through recognized Chartered Accountant Firm and facilitate audits by donors as well as the Auditor General of Pakistan as and when required; collaborate with regulators such as the State Bank of Pakistan, Securities Exchange Commission of Pakistan, ICAP and ICMAP on matters related to regulations and reporting standards etc.

**Strategic Directions of the Compliance and Quality Assurance (CQA) Group**

Strategic direction of CQA will be positioned to become the lead and apex for reliable strategic planning, information collection and evidence provision. PPAF strategizes to assist government, both at federal and provincial levels and international donors, in providing policy analysis and advice for poverty alleviation in its broadest sense. PPAF will also work with partner organizations, research institutes, academia, and other stakeholders in ensuring consolidation and deepening of effective programs that are proven to bring about sustainable impact on the lives of impoverished communities. It will become the repository of all PPAF data as a one-stop source of reliable and easy to obtain information on all aspects of PPAF operations.

An integrated MIS has been developed which includes financial, physical and outcome level data for all projects and programs, with a view to moving towards a full Enterprise Resource Planning (ERP) by 2020 to provide quality reporting and timely evidence-based learning and strategic analysis based on research and impact assessment provided to PPAF management,

Board, donors, Government of Pakistan, and other stakeholders.

### Financing Strategy

PPAFs financing strategy for the future is based on several critical factors which include; targets for poverty alleviation over the next six years; commitments to the Government and donors; capitalizing on strategic opportunities to leverage its resource base; and long-term institutional sustainability.

PPAF will pursue its traditional financing agencies which include mainly the public sector and multilateral and bilateral donor agencies. Opportunities will be identified through its partners to identify ventures to create value for its clients for whom they would be willing to pay a service fee which can become a source of revenue for the organization as well as enable its clients to move out of poverty by the improved level of services. PPAF will negotiate with the Government to convert the credit pool to a revolving fund to enable it to continue to provide small loans to its target group.

PPAF will form a new commercial-for-profit-entity for providing wholesale financial services and financing loans above Rs 30,000 as part of its project agreement with International Development Association (IDA) which committed it to spin off its micro-finance operations. The new commercial-for-profit entity will be used as a vehicle for attracting new funds from diverse sources including donors, the private sector and equity funds.

## 3. Assessments and Ratings

### Third Parties Assessments

Key findings of third party independent assessments on PPAF operations are as follows:

- The study of Assessment of Outcomes of PPAF Micro-Credit by Gallup (2013) has revealed that borrowing households were able to increase their incomes on average by 29% and consumption expenditure by 19%.
- The study by World Bank's Development Economic Research Group (2014) on Participation and the Provision of Local Public Goods concluded that PPAF financed infrastructure projects are pro-poor, less exclusionary, well maintained and better documented than those delivered by other channels.
- Yale University's assessments (2014) of PPAF's livelihood programme have indicated that beneficiaries of asset transfers on average earn more, spend more, and are wealthier in terms of the assets they own than non-beneficiaries.
- The programme completion report of the World Bank (2010) concluded that PPAF proved to be a flexible, vibrant and inventive institution that was able to disburse funds quickly, and, more importantly, those funds reached the intended beneficiaries.
- Microfinance Innovation and Outreach Program was effective with a measurable impact on expanding outreach and improving access for the poor" – Program Completion Report IFAD/FAO (2012)
- Overall, the project has achieved (and in many dimensions exceeded) most of its targets. This is a highly

commendable achievement – Program Completion Report IFAD/FAO (2013)

- Pakistan Poverty Alleviation Fund (PPAF) is also contributing a large amount of funds and different interventions are being made for reducing poverty and hunger, enhancing gender equality and women empowerment, improving maternal health and child mortality and increasing community participation. PPAF's role in microcredit, water and infrastructure, drought mitigation, education, health, and emergency response interventions has been widely appraised – Economic Survey (2014)

### Donor Ratings

The Supervision Missions of donors carry out regular visits of PPAF to access, monitor and evaluate progress of project implementation and achievements of development outcomes. The ratings of the recent supervision missions were:

**World Bank** - The World Bank conducted "Implementation Supervision Mission" from April 4-18, 2014 and rated the overall implementation progress as "Satisfactory".

**IFAD** – Successfully completed US\$ 36 million IFAD – PRISM Project. The Programme Completion Mission rated project performance as "Highly Satisfactory" (January 2014).

**KfW** – The supervision mission of KfW rated performance of Livelihood and Community Infrastructure Project as "Satisfactory" (September 2013).

## 4. Corporate Governance

PPAF realizes that good corporate governance is fundamental to its operational success as it enhances organizational efficiency and maximizes effectiveness for all concerned parties including stakeholders as well as society as a whole.

### Governance Framework

With a strong corporate system spanning over a decade, PPAF continues to optimize its governance framework by institutionalizing its core values, policies and principals across the board. Translating these principals into practice, PPAF is committed to undertake its professional activities with prudence, fairness, honesty and integrity.

### Best Corporate Practices

PPAF pursues perfection by encouraging adherence to best corporate and ethical practices, as a model corporate citizen. The Board is fully aware of the importance in adhering to the international and local principals of best corporate governance. PPAF emphasizes having structures and procedures of good relationship among the Board of Directors, its management and its stakeholders in order to maintain confidence of its stakeholders and all concerned parties.

The Management places high priority on true and fair presentation 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.

All periodic financial statements,

annual audited financial statements alongwith Directors' Report as well as quarterly and half yearly and nine monthly un-audited financial statements alongwith Management Reviews, of the Company were endorsed and circulated to the stakeholders. These statements were also made available on the Company website. Other non-financial information to be circulated to governing bodies and other stakeholders were also delivered in an accurate and timely manner.

### Corporate Governance

At PPAF, corporate governance is a system of structuring, operating and controlling the Company, with a view to achieving long term strategic goals, aimed at satisfying the stakeholders. Compliance with applicable legal and regulatory requirements, in a manner that is environmentally friendly and supports local community needs have also been prioritized.

The Company throughout the year endured dedication to conduct its business in line with the listing regulations. Significant policies required under the Code of Corporate Governance have been framed and implemented. Specific statements to comply with the Code of Corporate Governance are as follows:

- 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

The Board exercises the powers conferred to it by the Code of Corporate Governance, the Companies Ordinance, 1984 and the Memorandum and Articles of Association of the Company, through Board meetings.

### 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 present Board comprises of twelve Members including the Chairman and the Chief Executive Officer. Of these, three were nominated by the Government; eight 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**

Board's prime role is to protect and enhance long term stakeholders' value. 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 three Board meetings were held, 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 places on record its appreciation for the valuable contributions made by the outgoing Directors Dr. Shujat Ali, Dr. Nuzhat Ahmad, Mr. Muhammad Asif and Dr. Aisha Ghaus Pasha towards progress of the Company. The Board also welcomes the new Directors, Mr. Amjad Mahmood, Mr. Zafar Nasrullah, Mr. Sarfaraz Rehman, Dr. Saba Gul Khattak, Dr. Zeba Sathar and Dr. Fareeha Zafar. We look forward to working in partnership with them to benefit from their vision and valued experience which we are confident will go a long way in the future growth and prosperity of the Company.

#### **Board Committees**

##### **Board Audit Committee**

The Committee oversees managements' monitoring and assists the Board in oversighting of Company's financial controls and audits, including internal controls and financial reporting; qualification and independence of Company's

external auditors; and performance of the Company's internal and external auditors.

The Audit Committee comprises of four non-executive members of the Board. The Chairman is an independent non-executive Director. The Chief Internal Auditor acts as Secretary of the Committee. The Committee reviews and discusses 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 holds 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. The Committee reviews and recommends for Board's approval: annual increment for the employees; appointment of group heads; and revised organogram etc. The Chief Executive Officer and other management employees are invited to attend meetings for discussion and suggestions.



### **Risk Oversight Committee**

The Risk Oversight Committee comprises of four 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. The Committee reviews and recommends for Board's approval: pricing policy for the microfinance loan portfolio; per party exposure limits; new clauses of financing agreements for for-profit institutions etc.

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

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 accord-

ance 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.

## **5. Human Resource Management**

As a national company, PPAF is open to a wide diversity of ideas and people in order to succeed. Understanding different cultures is a key to our creativity, to our ability to foresee our stakeholders' needs, to offering them the best possible solutions, and to forging stronger working relationships. PPAF promotes an agile workforce through open collaboration, training and development, and internal mobility. This has led to innovation throughout the company and how we serve our stakeholder' needs today and in the future.

PPAF believes in more proactive, result oriented and visible Human Capital initiatives through delivery of innovative and quality human resource programs, services and systems. PPAF's underlying HR philosophy is to perceive people as assets (human capital). HR management at PPAF is focused on interventions that link commitment from the employees towards organizational goals and at the same time build organizational loyalty.

HR unit focuses on providing employees with clearly defined and consistently communicated performance expectations, aligned with the overall company strategy. HR strives towards implementing an effective performance management system, employing efficient compensation and benefits system, fostering innovation and continuous improvement. At PPAF, opportuni-

ties are provided for focused training and participation in development programs across the board for enhancing technical and managerial expertise of the Human Capital. At the same time, PPAF supports employees as their careers unfold. Our HR programs and processes help us detect talent, and then help it develop through appropriate career opportunities. Our performance management system provides employees with practical, constructive feedback regarding their individual performance, enabling them to design their own professional development plan around their needs and ambitions.

Promoting gender diversity within the workplace is a priority for PPAF where needs of female employees are specially catered to ensure the continued growth of female workplace.

To deliver on our commitment, PPAF has developed and implemented a comprehensive Ethics and Compliance System. This system is designed to promote compliance and ethical behavior consistent with the highest standards of our stakeholders and employees, and to contribute to our long-term success. Specifically, it aims to prevent and detect violations of law, regulation and company policy, and to cultivate an ethical business culture throughout the company.

As an employer PPAF adhere to a set of principles defined in the PPAF Code of Conduct that helps to ensure we operate with the highest level of integrity, prohibit discrimination against any employee or job applicant, treats everyone with dignity and with full respect for their private lives.

## 6. Treasury Management

Treasury operation at PPAF continues to expand, and the function is increasingly playing a more central role in corporate decision-making. The role of Treasury has fundamentally and irrevocably transformed significantly into a more visible and highly strategic way. At PPAF treasury management provides the Company with strategic financial and economic policy advice with the aim of promoting and investing its resources which are available after financing of its operations. The treasury activities are controlled and carried out in accordance with the policies approved by the Board. The purpose of the treasury policies is to ensure that adequate cost-effective funding is available at all times and that exposure to financial risk is minimized. A portfolio of long term and short term investments is maintained after thorough financial evaluation of available investment opportunities. The credit risk in short term investments is controlled through diversification in investments among top ranking financial institutions.

## 7. Risk Management

The management of the Company is primarily responsible for risk management, but the Board of Directors, internal auditor and external auditors also play critical roles. Risk management is the process of identifying, and managing the risks that an organization faces.

### Core Risks

These are the prime risk factors that may affect the operational and financial conditions directly of the Company.

#### 1. Business Risks and Challenges

PPAF's risk management framework

focuses on identification, assessment, and prioritization of risks, followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unforeseen events, or to maximize the realization of opportunities. At PPAF the management and the Board of Directors are cognizant of their responsibilities and ensure that the Company's risk management system properly identifies and provides timely response to the emerging risks. In the uncertain financial and economic environment, PPAF is exposed to various risks which may have potential impact on the operational and financial performance of the Company carrying out its development mandate.

Key operational and non-operational risks including strategic risks are outlined below:

#### 2. Strategic Risks

Strategic risk is the risk linked to undertaking current and prospective impact on overall Company's returns arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. The challenges are growing due to increasing competition for access to opportunities and heightened political and security situations in the country. To counter the risk of the strategic failure the Company has well equipped strategic plan in hand which is developed on a five year basis and updated/revised on yearly basis.

#### 3. Operational Risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes. These include the risks relating to people, systems, or external events and legal risks. By adopting an integrated approach, PPAF ensures that all operational risk

management initiatives are sustainable processes aligned with the corporate strategy, and not unrelated tactical developments.

#### 4. Financial Risks

Financial Risks are divided in the following categories:

##### *Credit risk*

Credit risk involves the potential financial loss resulting in from failure of one or more debtors. Credit risk is the largest 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 appears resulting from insufficient funds to meet cash flow as it falls due. PPAF's approach to manage liquidity risk is to ensure it will always hold sufficient liquid resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. 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 related to 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 assessment of compensation programs to ensure they do not escalate corporate risk.

#### **Policies & Procedures**

Board and its committees adopt a set of policies and procedures, promote a culture of ethics and values and delegate the authority to senior management for implementation of approved policies and procedures.

The senior management assesses the risks and place appropriate controls to mitigate these risks.

#### **Performance Management**

Through the continuous cycle of monitoring performance of the implemented controls to identify weaknesses and devising strategic plans for improvement, majority of risks are averted.

#### **Internal Audit**

Provides independent and objective evaluations and reports directly 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.

## **8. Key Events**

PPAF is privileged to be among the members of the Economic Advisory Council approved by the Minister for Finance, Revenue, Economic Affairs, Statistics and Privatization, Mr. Ishaq Dar. The council comprises of 19 members from different walks of life.

The Government of Pakistan (GoP) approved Rs. 3.5 billion for Prime Minister's Interest Free Loan (PMIFL) Scheme to support productive micro enterprise activities for the poor in rural and urban areas of Pakistan. The GoP assigned PPAF the responsibility for implementing this scheme. The objective of the schemes is to provide interest free loans and relevant capacity building, training and market linkages to the unbanked and/or those lacking access to financial services in urban and rural areas, and small towns and large villages. MoU between Ministry of Finance and PPAF was signed for a period of four years. It is mandated that 50% of the loans shall be disbursed to women and youth. Through this program, it is anticipated that one million loans will be disbursed over a period of 4 years.

In collaboration with Pakistan Microfinance Network PPAF organized a two-day Microfinance Summit in July 2013 which provided an insight into Pakistan's micro-finance market to the local and international audience. Minister for Finance, Revenue, Economic Affairs, Statistics and Privatization was the chief guest of the event. The summit included different sessions focusing on microfinance, linkages development, financial inclusion, new frontiers for microfinance, opportunities for microfinance in branchless banking, micro-insurance, importance of flexibility for innovation, microfinance growth.

PPAF organized a two-day "International Conference on Research and Learning" at Pak-China Friendship Centre, Islamabad. Addressing the occasion, Advisor to Prime Minister on National Security and Foreign Affairs Mr. Sartaj Aziz said that concerted efforts complemented by the government and private sector are the need of

the hour to eradicate poverty from the country. Country Director, The World Bank, Pakistan, Mr. Rachid Benmessaoud, also appreciated events focused at sharing and learning from research work in order to refine policies and programmes aimed at community empowerment and poverty reduction.

An international conference was jointly organized in United Kingdom by Muslim Charity Fund (MCF), a representative body/ network of UK based civil society institutions, and PPAF. Through its declaration, MCF and PPAF requested the Conference participants to commit a leading role to way forward in coherent and consistent actions that contribute towards the MDGs through a value driven approach that can reflect the core values of inclusion, participation, good governance, transparency, accountability and sustainability.

PPAF launched its Disaster Management Strategy, which focuses on integrated Disaster Risk Reduction in its multi-sector development and building response capacities of communities against disasters. The launching ceremony was chaired by Senator Dr. Saeeda Iqbal, Chairperson Senate Standing Committee on Climate Change. PPAF Disaster Management Strategy will help to mitigate the occurrence of these disasters in future and communities would be better prepared to help themselves and put an end to erosion of interventions by these disasters.

PPAF joined hands with Telenor Pakistan and Tameer Microfinance Bank to provide financial services to poor and un-banked communities of Baluchistan, Sindh, Khyber Pakhtunkhwa, Skardu (GB), Punjab and Chirah (ICT). A Memorandum of Understanding (MoU) to this effect was signed by CEO PPAF Qazi Azmat

Isa and CEO Telenor Pakistan Lars Christian Luel. Through this pilot project, financial services will be provided to select communities in the regions by establishing easypaisa shops, which will provide services that include bill payments, money transfers, donations, international home transfers, withdrawals and deposits through mobile accounts.

Provincial Assembly of KPK has unanimously passed a resolution acknowledging the work of PPAF under KfW - Livelihood and Small Scale Infrastructure Project. Through this resolution, the Government was also requested to extend the scope of the project to other under developed areas.

PPAF organized District Development Forum meeting in Dera Ismail Khan to highlight multi-sectoral initiatives taken by PPAF in community development and poverty alleviation. The meeting was chaired by Mr. Irfanullah Mehsud, Assistant Commissioner, D.I. Khan. Mr. Irfanullah Mehsud appreciated the development work being carried out by PPAF in various parts of the city and ensured sustained government support in continuation and execution of new programs. He has further agreed to conduct monthly meetings and subsequent discussions with the Additional Secretary KPK and Commissioners of KPK.

A team of PPAF visited Bannu, KPK, for rapid need assessment of Internally Displaced Persons (IDPs) from North Waziristan. The team members conducted meetings with Assistant Commissioner, Bannu, and concerned Pakistan Army officials for ground situation analysis and immediate needs of IDPs. They also visited reception camp at Saidgai Post to witness registration process of IDPs.

## 9. Future Outlook

Looking ahead, the Country still has huge development investment needs. Most of this will have to come from the private sector. PPAF realized the emerging needs of time, resulting in development of new strategies and exploring new dimensions to achieve its main objective – decline in absolute poverty. Change is at the heart of PPAF however readiness to address to new challenges, accept new opportunities, and move in new directions has become more relevant right now than in the past decade.

PPAF has more clearly defined its role in its vision 2020, seeking to leverage resources with greater efficiency through public-private partnerships and private sector involvement. Moreover we have increased the effectiveness of the financial instruments at our disposal by linking them to the dissemination of knowledge. By continuing to grow sustainably and inclusively while seeking new ways to work in collaboration PPAF can reduce poverty and contribute to worldwide prosperity and stability. Being the apex institution and leader of the development sector in the country, PPAF is endeavoring to shoulder the responsibility of meeting the growing needs and demands of the sector. Poverty reduction has been PPAF's overarching goal since its inception. PPAF reaffirms its commitment by focusing its support on three distinct but complementary development agendas: integration, inclusive economic and environmentally sustainable growth.

### Microcredit Spin off

The microfinance sector in Pakistan has evolved significantly over the past decade. Major modifications taken place in the microfinance

operations during the last few years include: demand of larger loan size from the borrowers; individual lending instead of group lending; diversified products both at the wholesale and retail level (Microfinance institutions). These changes necessitated increasing operational sophistication at PPAF which would not be possible with a not-for-profit status. A stronger, more specialized structure was required to meet these needs for the wholesaling operations to remain relevant to the sector's growth.

To address the demands of a transforming microfinance sector, PPAF's third agreement with the World Bank (PPAF-III) in 2009 noted that "PPAF faces the challenge of managing the diversity and complexity of its operations in a rapidly changing and fast evolving microfinance sector" and that "PPAF needs to complete its institutional reforms so that its micro-finance operations are managed in an autonomous manner to its grant based poverty interventions".

As a result, in its Project Agreement with World Bank, Government of Pakistan and PPAF committed that PPAF shall have approved a framework to spin off its micro-finance operations.

PPAF's leadership, as a result, intends to make a green-field investment in a national wholesale microfinance bank. The benefits to the sector through the creation of a new entity would be as follows:

- Enhanced penetration/financial inclusion
- Evolving institution providing appropriate loan sizes for micro and small enterprises
- Impact on poverty alleviation through job creation
- Offer wide range of financial services

- Attract foreign exchange for the country
- Sustainable financing source/institution, less dependent on subsidized donor funding
- catering to the changing needs of client
- Sector development

PPAF Board of Directors has approved creation of a new entity for microfinance and authorized the Chief Executive Officer to take necessary steps in this respect. The management is working out the legal and operational modalities in consultation with other stakeholders. The process for formation of new entity will be completed on getting the approvals of the Board of Directors, General Body of the Company and Securities and Exchange of Pakistan.

#### New Projects in pipeline

- **PPAF IV** – The World Bank has started developing concept note for follow-on project (PPAF IV) in consultation with PPAF management. The project size would be around US\$ 300 million and is expected to be of 4-5 year and will involve a new instrument of the Bank, P4R (program for Results) which entails progress based release of funding tranches.
- **IFAD Follow on project** - IFAD has written letter to Economic Affairs Division communicating its willingness to allocate US\$ 30 million for PPAF. In this regard a concept note is being prepared which focuses on rural finance, integrated farming systems, value chains and remittances. The partnership will contribute in the development of integrated value chains to promote access to inputs,

information, finance and markets raising productivity, efficiency and augment the livelihood of poor farmers across the country.

- **KfW Follow on project** - The Government of KPK has requested the Economic Affairs Division for the follow-on project of Livelihood and Community Infrastructure Project financed by KfW.
- South Asia Food and Nutrition Security Initiative (US\$ 700,000) of World Bank. The objective of this project is to improved knowledge, attitudes, and consequently, behaviors related to nutrition for a targeted group amongst the lowest strata of the poor; and support nutrition-related policy and programming through the creation of a national civil society nutrition network.

#### Developing Linkages

PPAF has realized that developing linkages serves as an indispensable resource for institutions that wish to build or expand linkages with prominent institutions within the country or in other countries.

Keeping in view the significance of networking with institutions at national and international collaboration has become integral part of PPAF strategy and perhaps this is more apparent than in the recent proliferation of international partnerships. As part of this strategy, we are focusing on:

- Creating linkages with Corporate Social Responsibility units of local corporations and multinationals, bringing them into a shared vision of development in the country.
- Joint interventions with companies to co-finance particular projects that link in to

expanding trade opportunities and value addition to traditional occupations (livestock, farming, etc.)

- Approach international trusts and foundations, and donor governments from across Europe, UK, Middle East and Asia, to raise funds and mobilize resources with a view to encouraging philanthropic investment for the Pakistan.

Pakistan's potential for social entrepreneurship and the wider social economy. In this regard, a Commission will be made up of social entrepreneurs, academics, NGO, think tank and media personalities from the UK and internationally.

The PPAF and WDD (Women Development Department Government of the Punjab & Literacy & NFBE Department) collaborated on 15th July, 2014 in piloting policy-grass root linkages through supporting networks of women and youth organisations to interact more closely with WDD and Literacy Department and other government entities; documenting lessons and sharing on areas such as social mobilisation strategies, gender mainstreaming strategies, development of networks and information awareness raising campaigns to better implement provincial laws and policies pertaining to improved gender equality

PPAF and SDPI, coordinated to conduct research on the issues of poverty, inequality and social protection in Pakistan, informing national policies and poverty reduction programmes. Collaborative programs and projects implemented under the framework of this Memorandum of Understanding signed in 2014. In this regard, a district level estimation of multidimensional poverty using the latest household survey data is underway.

A MOU between PPAF and i-genius signed in December, 2013 to better understand the rapid changes taking place in Pakistan and produce a report supported by concrete Initiatives to help boost



	2014	2013	2012	2011	2010
<b>Outreach - Numbers (Cumulative)</b>					
Partner Organizations	130	127	116	100	87
Districts	129	129	129	128	127
Loans ('000)	6717	5,900	5,167	5,000	3,600
Water & Infrastructure Projects	32,581	28,528	26,933	25,500	21,000
<b>Funds deployment - Rs. in million</b>					
<b>Microcredit</b>					
Loans receivable from POs (Gross)	13,985	13,300	13,434	11,755	11,202
Guarantee facility	3,820	3,265	1,845	1,445	600
	<b>17,805</b>	<b>16,565</b>	<b>15,279</b>	<b>13,200</b>	<b>11,802</b>
<b>Grant</b>					
Core Operations	5,349	6,079	6,437	4,580	4,798
Relief & Reconstruction Operations	665	108	202	208	9
	<b>6,014</b>	<b>6,187</b>	<b>6,639</b>	<b>4,788</b>	<b>4,807</b>
<b>Total funds deployed</b>	<b>23,819</b>	<b>22,752</b>	<b>21,918</b>	<b>17,988</b>	<b>16,609</b>
<b>Balance Sheet - Rs. in million</b>					
Total assets	35,914	31,656	27,090	24,565	23,629
Endowment Fund	1,000	1,000	1,000	1,000	1,000
Reserves					
Capital adequacy reserve	2,098	1,995	2,015	2,351	2,240
Grant fund	5,659	4,853	3,804	2,572	1,763
Reserved for lending activities	2,671	2,256	1,686	1,385	950
Income and grant fund	582	754	400	222	161
	<b>11,010</b>	<b>9,858</b>	<b>7,905</b>	<b>6,530</b>	<b>5,114</b>
Total Equity (endowment + reserves)	<b>12,010</b>	<b>10,858</b>	<b>8,905</b>	<b>7,530</b>	<b>6,114</b>
Long term loans	14,801	15,003	15,355	13,761	12,246
<b>Operational Results - Rs. in million</b>					
Total income	2,880	2,896	2,794	2,485	2,070
General and admin expenses	591	509	435	349	358
Surplus before loan prov. and relief work	1,845	2,094	2,070	1,444	1,404
Net Surplus	1,152	1,953	1,375	1,416	1,329
<b>Financial Ratios - Percentage</b>					
Surplus before provision for loan loss / total income	64%	71%	74%	58%	68%
Return on equity	18%	23%	26%	22%	26%
Return on assets	6%	7%	8%	6%	7%
General and admin expenses funds deployed	2%	2%	2%	2%	2%
<b>Debt/equity</b>	<b>55 : 45</b>	<b>58 : 42</b>	<b>67 : 37</b>	<b>65 : 35</b>	<b>67 : 33</b>

**Pakistan Poverty Alleviation Fund**



for the year ended  
June 30, 2014





**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, 2014 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 change as stated in note 4.2 to the annexed financial statements with 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 state of the Company's affairs as at June 30, 2014 and of the total comprehensive income, its cash flows and changes in fund and reserves for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

*A. F. Ferguson & Co.*

Chartered Accountants

Islamabad

Date: September 26, 2014

Engagement partner: Asim Masood Iqbal

*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
PLA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan  
Tel: +92 (51) 2273457-60/2604934-37; Fax: +92 (51) 2277924; < www.pwc.com/pk >*

*Karachi: State Life Building No. 1-C, I. I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan; Tel: +92 (21) 32426682-5/32426711-5; Fax: +92 (21) 32415007  
Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Lahore-54660, Pakistan; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872  
Kabul: Apartment No 3, 3rd Floor, Doost Tower, Haji Yaqub Square, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320*

**PAKISTAN POVERTY ALLEVIATION FUND  
BALANCE SHEET AS AT JUNE 30, 2014**

	Note	2014	2013
(Rupees in '000)			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	5	75,802	78,710
Intangible assets	6	8,283	7,484
Long term investments	7	1,586,400	886,400
Long term loans to Partner Organizations	8	1,919,650	3,851,229
		3,590,135	4,823,823
<b>CURRENT ASSETS</b>			
Current maturity of long term investments	7	-	594,000
Current maturity of loans to Partner Organizations	8	11,169,061	8,579,876
Short term investments	9	11,380,705	11,435,995
Advances, deposits, prepayments and other receivables	10	251,152	83,753
Profit/service charges receivable	11	895,193	848,434
Bank balances - specific to projects	12	8,446,212	5,196,814
Cash and bank balances	13	181,942	93,603
		32,324,265	26,832,475
		35,914,400	31,656,298
<b>FUND AND RESERVES</b>			
Endowment fund	14	1,000,000	1,000,000
Grant fund		5,659,138	4,853,675
Reserve for grant based activities		582,216	754,136
Accumulated surplus		4,768,466	4,250,432
		12,009,820	10,858,243
<b>LONG TERM LOANS</b>			
	15	12,726,964	13,173,002
<b>DEFERRED BENEFIT OF BELOW MARKET RATE OF INTEREST ON LONG TERM LOAN</b>			
	15.5.1	2,073,650	1,830,404
<b>CURRENT LIABILITIES</b>			
Deferred liabilities - grant fund	16	8,304,497	5,057,363
Deferred income - grant fund	17	8,474	5,856
Current portion of long term loans	15	653,734	615,431
Service charges payable	18	28,355	28,655
Accrued and other liabilities	19	108,906	87,344
		9,103,966	5,794,649
<b>CONTINGENCIES AND COMMITMENTS</b>			
	21		
		35,914,400	31,656,298

The annexed notes 1 to 38 form an integral part of these financial statements.

*Alfalo*

  
Director

  
Chief Executive Officer

**PAKISTAN POVERTY ALLEVIATION FUND  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Note</u>	<u>2014</u>	<u>2013</u>
		(Rupees in '000)	
<b>INCOME</b>			
Service charges on loans to Partner Organizations	22	1,238,493	1,252,014
Income on investments and saving accounts	23	1,311,422	1,392,164
Amortization of deferred income - grant fund	17	242,921	190,314
Amortization of deferred benefit of below market rate of interest on long term loan	15.5.1	73,860	61,487
Other income	24	<u>13,462</u>	<u>410</u>
		2,880,158	2,896,389
<b>EXPENDITURE</b>			
General and administrative expenses	25	590,818	508,426
Seminars, workshops and trainings	26	40,317	38,099
Technical and other studies	27	155,845	102,897
Project and relief activities	28	666,025	108,003
Provision against loans/service charges	29	27,524	33,021
Provision for impairment loss on short term investments	9.1	50,000	-
Financial charges	30	<u>175,122</u>	<u>153,170</u>
		1,705,651	943,616
<b>SURPLUS FOR THE YEAR</b>		1,174,507	1,952,773
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>			
Items that will not be reclassified to surplus			
Remeasurement loss on employees' retirement defined benefit plan	20	22,930	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>1,151,577</u>	<u>1,952,773</u>

The annexed notes 1 to 38 form an integral part of these financial statements.

*Affix*

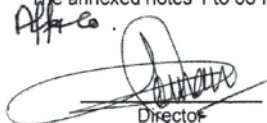
  
Director

  
Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2014

Note	2014	2013
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus for the year	1,174,507	1,952,773
Adjustment for non cash items:		
Depreciation	30,552	29,456
Amortization of intangible assets	3,860	3,202
Amortization of deferred income - grant fund	(242,921)	(190,314)
Amortization of deferred benefit of below market rate of interest on long term loan	(73,860)	(61,487)
Provision against loans/service charges	27,524	33,021
Provision for impairment loss on short term investments	50,000	-
Gain on disposal of property, plant and equipment	(12,981)	-
Remeasurement loss on employees' retirement defined benefit plan	(22,930)	-
Financial charges	175,122	153,170
	<u>(65,634)</u>	<u>(32,952)</u>
	1,108,873	1,919,821
Working capital changes		
(Increase) / decrease in current assets:		
Advances, deposits and other receivables	(167,399)	(10,337)
Profit/service charges receivable	(46,759)	(125,861)
Increase / (decrease) in current liabilities:		
Accrued and other liabilities	21,562	15,004
	<u>(192,596)</u>	<u>(121,194)</u>
Cash generated from operations	916,277	1,798,627
Disbursements to Partner Organizations:		
Loans	(9,199,685)	(10,168,655)
Grants	(5,348,685)	(6,079,123)
Recoveries of loans from Partner Organizations	8,514,555	10,302,307
Financial charges paid	(101,562)	(98,550)
	<u>(6,135,377)</u>	<u>(6,044,021)</u>
Cash flows from operating activities	(5,219,100)	(4,245,394)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments - net purchases	(100,710)	(1,708,930)
Capital expenditure incurred	(34,517)	(35,042)
Proceeds from disposal of property, plant and equipment	15,195	410
Cash flows from investing activities	(120,032)	(1,743,562)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long term loans - received	451,018	263,536
Long term loans - repaid	(615,507)	(467,610)
Deferred liabilities - grant fund receipts	8,995,559	8,894,095
Deferred liabilities - grant fund repaid to donor	(399,740)	-
Deferred income - grant fund receipts	245,539	184,057
Cash flows from financing activities	8,676,869	8,874,078
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	3,337,737	2,885,122
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	5,290,417	2,405,295
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u><b>8,628,154</b></u>	<u><b>5,290,417</b></u>
<b>Cash and cash equivalents comprise of:</b>		
Bank balances - specific to projects	12 8,446,212	5,196,814
Cash and bank balances	13 181,942	93,603
	<u><b>8,628,154</b></u>	<u><b>5,290,417</b></u>

The annexed notes 1 to 38 form an integral part of these financial statements.

  
Director

  
Chief Executive Officer


**PAKISTAN POVERTY ALLEVIATION FUND  
STATEMENT OF CHANGES IN FUND AND RESERVES  
FOR THE YEAR ENDED JUNE 30, 2014**

	Note	Endowment Fund	Grant fund	Reserve for grant based activities	Accumulated Surplus	Total
(Rupees in '000)						
<b>Balance as at July 1, 2012</b>		1,000,000	3,803,563	400,467	3,701,440	8,905,470
Total comprehensive income for the year		-	-	-	1,952,773	1,952,773
Surplus for the year		-	-	-	-	-
Other comprehensive income		-	-	-	1,952,773	1,952,773
Transfer from accumulated surplus to grant fund	4.8	-	1,050,112	-	(1,050,112)	-
Transfer from accumulated surplus to reserve for grant based activities	31	-	-	353,669	(353,669)	-
<b>Balance as at June 30, 2013</b>		1,000,000	4,853,675	754,136	4,250,432	10,858,243
Total comprehensive income for the year		-	-	-	1,174,507	1,174,507
Surplus for the year		-	-	-	(22,930)	(22,930)
Other comprehensive income/(loss)		-	-	-	1,151,577	1,151,577
Transfer from accumulated surplus to grant fund	4.8	-	805,463	-	(805,463)	-
Transfer to accumulated surplus from reserve for grant based activities	31	-	-	(171,920)	171,920	-
<b>Balance as at June 30, 2014</b>		1,000,000	5,659,138	582,216	4,768,466	12,009,820

The annexed notes 1 to 38 form an integral part of these financial statements.

*Offco.*

  
Director

  
Chief Executive Officer

**PAKISTAN POVERTY ALLEVIATION FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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.

During the year, the Board of Directors (BoD) of the Company has approved creation of a new entity for microfinance and authorized the Chief Executive Officer to take necessary steps in this respect. The management of the Company is working out the legal and operational modalities in consultation with other stakeholders of the Company. The process for formation of new entity will be completed on getting the specific approvals of the BoD, General Body of the Company and Securities and Exchange Commission of Pakistan.

**2. STATEMENT OF COMPLIANCE**

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

**3. 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.

	Effective date (annual periods beginning on or after)
IFRS 2	July 1, 2014
IFRS 3	July 1, 2014
IFRS 8	July 1, 2014
IFRS 14	January 1, 2017
IFRS 15	July 1, 2014 & January 1, 2016
IAS 16	July 1, 2014
IAS 19	July 1, 2014
IAS 24	July 1, 2014

*Officer*

-2-

Effective date (annual periods beginning on or after)

IAS 32	Financial Instruments: Presentation (Amendments)	January 1, 2014
IAS 36	Impairment of assets (Amendments)	January 1, 2014
IAS 38	Intangible assets (Amendments)	July 1, 2014 & January 1, 2016
IAS 39	Financial Instruments: Recognition and measurement (Amendments)	January 1, 2014
IAS 40	Investment Property (Amendments)	July 1, 2014
IAS 41	Agriculture (Amendments)	January 1, 2014
IFRIC 21	Leases	January 1, 2014

The management anticipates that the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the financial statements other than in presentation/disclosures.

Further, the following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which have not been notified upto June 30, 2014 by the Securities and Exchange Commission of Pakistan, for the purpose of their applicability in Pakistan:

IFRS 1	First-time adoption of International Financial Reporting standards
IFRS 9	Financial instruments
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurement

The following interpretations issued by the IASB have been waived off by SECP effective January 16, 2012:

IFRIC 4	Determining whether an arrangement contains lease
IFRIC 12	Service concession arrangements

**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 and fair value of deferred benefit of below market rate of interest on long term loan.

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

*Officer*

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 areas involving a higher degree of judgment or complexity or area where assumptions and estimates are significant to the financial statements are loan loss provision (note 8), deferred benefit of below market rate of interest on long term loans (note 13.5.1) and staff gratuity scheme (note 20).

#### 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. The latest Actuarial valuation of the gratuity fund was carried out as at June 30, 2014, related details of which are given in note 20 to the financial statements.

Consequent to revision of IAS 19 " Employee Benefits" which is effective for annual periods beginning on or after January 01, 2013, the Company has changed its accounting policy wherein, the actuarial gains and losses on employees' retirement benefit plans are recognized immediately in other comprehensive income. Previously, the actuarial gains/losses in excess of the corridor limit were recognized in surplus for the year over the remaining service life of the employees. The comparative figures have not been restated for change in accounting policy due to immaterial impact. Remeasurement loss as at June 30, 2013 of Rs 13,763 thousand has been accounted for as other comprehensive loss in the statement of comprehensive income for the year ended June 30, 2014.

- (ii) The Company operates an approved contributory provident fund for all employees for which contributions of Rs 17,998 thousand (2013: Rs 19,464 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 (5b) 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 legal or constructive 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.



#### 4.5 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 surplus/(loss).

#### 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% (2013: 15%) of total loan receivable from Partner Organizations is held in investments, 35% of the surplus funds of the Company, in excess of above investments, are employed for lending activities (micro-credit 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 Organizations 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% (2013: 5%) of the gross outstanding balances of loans to POs at the year end, provided that provision once made will not be reduced with the reduction of outstanding balances of loan in subsequent years.

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

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



#### 4.10 Revenue recognition

Income is recognized on accrual basis. Service charges on loans and profit/markup on investments and bank accounts are recognized using the effective yield method.

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

#### 4.11 Receipts - loans and grants

Receipts from the Government of Pakistan (GoP) on account of donors' (International Development Association (IDA), International Fund for Agricultural Development (IFAD), German Financial Cooperation - KfW and Government of Italy) projects and Prime Minister's Interest Free Loan Scheme (PMIFL) are recorded on the basis of Financial Monitoring Reports, advance request and Statement of Expenses, raised on periodic basis, under relevant categories as specified in the Financing Schedules of the respective Financing Agreements.

#### 4.12 Long term loans

Long term loans whose disbursement commenced before June 30, 2009 are measured at amortized cost. In accordance with IAS 20, 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, and deferred as a liability. The benefit is recognized 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.

#### 4.13 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. These 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.

#### 4.15 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.

*AffCo*

#### 4.16 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 whenever 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.

#### 4.17 Financial assets

##### 4.17.1 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 Organizations", "Advances, deposits, prepayments and other receivables", "Profit/service charges receivable", "Bank balances - specific to projects" and "Cash and bank balances".

An allowance for uncollectible amount is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. Significant financial difficulties of counter party, probability that counter party will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than the credit period specified in agreements) are considered indicators that the amount is uncollectible. When the amount is uncollectible, it is written off against the allowance

##### (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.

*AffCo*



## 5. PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fixtures	Vehicles	Office Equipment Rupees in '000	Computer equipment	Total
<b>At July 1, 2012</b>					
Cost	22,924	85,465	46,999	62,559	217,947
Accumulated depreciation	(12,134)	(49,338)	(31,912)	(47,213)	(140,597)
<b>Net book amount</b>	<b>10,790</b>	<b>36,127</b>	<b>15,087</b>	<b>15,346</b>	<b>77,350</b>
<b>Year ended June 30, 2013</b>					
Opening net book amount	10,790	36,127	15,087	15,346	77,350
Additions	987	19,916	1,294	9,029	31,226
Disposals					
Cost	(2,768)	-	(2,303)	(4,274)	(9,345)
Accumulated depreciation	2,578	-	2,267	4,090	8,935
	(190)	-	(36)	(184)	(410)
Depreciation charge	(2,789)	(12,794)	(5,159)	(8,714)	(29,456)
<b>Closing net book amount</b>	<b>8,798</b>	<b>43,249</b>	<b>11,186</b>	<b>15,477</b>	<b>78,710</b>
<b>At June 30, 2013</b>					
Cost	21,143	105,381	45,990	67,314	239,828
Accumulated Depreciation	(12,345)	(62,132)	(34,804)	(51,837)	(161,118)
<b>Net book amount</b>	<b>8,798</b>	<b>43,249</b>	<b>11,186</b>	<b>15,477</b>	<b>78,710</b>
<b>Year ended June 30, 2014</b>					
Opening net book amount	8,798	43,249	11,186	15,477	78,710
Additions	447	10,450	9,992	8,969	29,858
Disposals					
Cost	-	(18,060)	-	-	(18,060)
Accumulated depreciation	-	15,845	-	-	15,845
	-	(2,214)	-	-	(2,214)
Depreciation charge	(2,379)	(14,203)	(5,333)	(8,637)	(30,552)
<b>Closing net book amount</b>	<b>6,866</b>	<b>37,282</b>	<b>15,845</b>	<b>15,809</b>	<b>75,802</b>
<b>At June 30, 2014</b>					
Cost	21,590	97,771	55,982	76,283	251,626
Accumulated depreciation	(14,724)	(60,489)	(40,137)	(60,474)	(175,824)
<b>Net book amount</b>	<b>6,866</b>	<b>37,282</b>	<b>15,845</b>	<b>15,809</b>	<b>75,802</b>
Annual rate of depreciation (%)	20	20	20	25	

*APPC*

(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.

## 4.17.2 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 surplus for the year in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the surplus for the year as part of other income when the Company's right to receive payment is established.

## 4.17.3 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.

## 4.18 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.

## 4.19 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 deposit accounts.

*APPC*

	2014	2013
	(Rupees '000)	
<b>7. LONG TERM INVESTMENTS - held to maturity</b>		
Specific to Endowment fund		
Pakistani Investment Bonds (PIBs)	1,000,000	1,000,000
Specific to grant fund		
Pakistani Investment Bonds (PIBs)	236,400	236,400
Term Deposit Receipts (TDRs)	50,000	50,000
Specific to others		
Pakistani Investment Bonds (PIBs)	300,000	194,000
	1,586,400	1,480,400
Less: Long term investments maturing within next twelve months shown as current asset	-	(594,000)
	1,586,400	886,400
<b>7.1</b> Represents investments in PIBs as follows:		
	Principal Rupees '000	Maturity date
	Coupon rate % per annum	Payment terms
	400,000	22-07-2010
	200,000	18-08-2011
	400,000	19-07-2012
	12.00	Semi annually
	12.00	Semi annually
	12.00	Semi annually
<b>7.2</b> Represents investments in PIBs as follows:		
	Principal Rupees '000	Maturity date
	Coupon rate % per annum	Payment terms
	236,400	19-07-2012
	11.25	Semi annually
<b>7.3</b> These investments include Term Deposit Receipts of commercial banks at markup rate of 10.2% p.a. (2013: 10.2% p.a.)		
<b>7.4</b> Represents investments in PIBs as follows:		
	Principal Rupees '000	Maturity date
	Coupon rate % per annum	Payment terms
	300,000	18-07-2013
	11.25	Semi annually
<b>7.4.1</b> These funds are available for lending activities.		
<b>8. LONG TERM LOANS TO PARTNER ORGANIZATIONS - secured</b>		
Considered good	13,787,965	13,102,785
Considered doubtful	197,096	197,140
Less: Loan loss provision	(8,395,061)	(8,299,931)
Less: Amount receivable within next twelve months shown as current asset	(13,088,711)	(868,525)
	(11,169,061)	(8,579,876)
	1,919,650	3,851,229

**6. INTANGIBLE ASSETS**

	Satellite Imageries	Computer Software	Total
	Rupees in '000		
<b>At July 1, 2012</b>			
Cost	19,078	10,662	29,740
Accumulated amortization	(17,929)	(4,941)	(22,870)
<b>Net book amount</b>	1,149	5,721	6,870
<b>Year ended June 30, 2013</b>			
Opening net book amount	1,149	5,721	6,870
Additions	-	3,816	3,816
Amortization charge	(883)	(2,319)	(3,202)
<b>Closing net book amount</b>	266	7,218	7,484
<b>At June 30, 2013</b>			
Cost	19,078	14,478	33,556
Accumulated amortization	(18,812)	(7,260)	(26,072)
<b>Net book amount</b>	266	7,218	7,484
<b>Year ended June 30, 2014</b>			
Opening net book amount	266	7,218	7,484
Additions	-	4,659	4,659
Amortization charge	(133)	(3,727)	(3,860)
<b>Closing net book amount</b>	133	8,150	8,283
<b>At June 30, 2014</b>			
Cost	19,078	19,137	38,215
Accumulated amortization	(18,945)	(10,987)	(29,932)
<b>Net book amount</b>	133	8,150	8,283
<b>Annual rate of amortization (%)</b>	25	25	

*Aff Co.*

	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>8.1 Break up of loans to Partner Organizations:</b>		
Association for Gender Awareness and Human Empowerment	57,733	42,083
Al-Mehran Rural Development and Welfare Organization	164,077	120,272
ASA Pakistan Limited	304,707	103,115
Asabah	197,096	197,146
Babbaan Enterprise Development Forum	30,704	21,353
Baldarie	85,529	57,321
BRAC Pakistan	572,845	573,360
Buksh Foundation	67,275	31,425
Bunyad Literacy Community Council	25,275	24,817
Centre for Women Cooperative Development	296,802	312,771
Community Support Concern	394,727	328,545
Development Action for Mobilization and Emancipation	1,017,636	903,165
Dia Welfare Organization	79,160	61,275
Farmers Friend Organization	283,737	185,650
Ghazi Brotha Taraqiatee Idara	34,821	28,464
Jinnah Welfare Society	366,313	381,915
Kayvan Community Development Organization	14,045	11,855
Kasht Foundation	2,180,000	2,330,000
Khajji Cooperative Society	10,920	11,420
Khushtai Bank	600,000	
Khwendo Kor Women and Children Development Programme	12,618	10,338
Kiran Welfare Organization	100	100
Mashal Development Organization	550	609
Mehran Education Society	41,900	39,900
Mojaz Foundation	175,007	130,160
Narawal Rural Development Programme	145,581	115,532
National Rural Support Programme	2,292,390	2,128,748
NRSP Microfinance Bank	575,000	1,500,000
Orangi Charitable Trust	170,333	91,600
Organization for Participatory Development	97,608	82,128
Orix Leasing Pakistan Limited	241,363	189,116
Poverty Eradication Network	1,827	1,827
Punjab Rural Support Programme	308,949	346,206
Rural Community Development Society	523,052	492,785
SAATH Development Society	35,100	34,782
Sarhad Rural Support Programme	43,500	17,000
Save The Poor	13,322	13,373
Sayya Foundation	23,500	11,300
Shaddab Rural Development Organization	64,229	47,250
Shah Sachai Sami Welfare Association	79,150	46,825
Sindh Agricultural & Forestry Workers Coordinating Organization	400,973	487,953
Sindh Rural Support Organization	817,500	583,600
Soon Valley Development Programme	91,867	96,725
Swabi Women Welfare Society	24,500	43,687
Thardeep Rural Development Programme	974,667	976,033
Villagers Development Organization	19,167	48,450
Women Social Organization	20,256	30,211
Young Pioneers Society	6,650	7,150
	<b>13,985,061</b>	<b>13,299,931</b>

*Office*

8.2 The Company disburses 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. Rates for service charges are on the basis of classification of POs into "for-profit" and "not-for-profit" and further sub categories into geographical areas. During the year the loans were disbursed at a service charge ranging from 4.06% to 11.61% (2013: 4.09% to 10.59%).

	2014 (Rupees in '000)		2013 (Rupees in '000)	
	Specific	General	Total	Total
<b>8.3 Movement of loan loss provision</b>				
Opening balance	197,147	671,679	868,826	881,226
Provision/(reversal) during the year	(51)	27,575	27,524	(12,400)
Closing balance	<u>197,095</u>	<u>699,254</u>	<u>896,350</u>	<u>868,826</u>
		<b>Note</b>	<b>2014</b>	<b>2013</b>
			(Rupees in '000)	(Rupees in '000)
<b>8.4 Movement of loans to POs</b>				
Opening balance			13,299,931	13,433,583
Disbursements during the year			9,199,665	10,169,555
Recoveries during the year			22,499,616	23,602,236
Less: Loan loss provision			(6,514,555)	(10,302,307)
			<u>13,985,061</u>	<u>13,299,931</u>
			(896,350)	(868,826)
			<u>13,088,711</u>	<u>12,431,105</u>
<b>9. SHORT TERM INVESTMENTS</b>				
Specific to projects	9.1		3,770,000	3,265,000
Specific to grant fund	9.2		5,372,738	4,567,275
Specific to others	9.3		2,237,967	3,603,720
			<u>11,380,705</u>	<u>11,435,995</u>

*Office*

9.1 These represent investments in term deposit receipts maturing within one year from the date of investment at mark up rates ranging from 7.75% p.a. (2013: 8.50% p.a. to 10.50% p.a.) to 10.50% p.a. (2013: 8.50% p.a. to 10.50% p.a.). These funds were placed with commercial banks as cash collaterals for providing a partial guarantee to those Banks to facilitate lending to following Microfinance institutions. These deposits include Rs 2,002,288 thousand (2013: Rs 1,999,036 thousand) invested out of funds received from IFAD in respect of Programme for Increasing Sustainable Microfinance (PRISM) activities.

Microfinance Institutions	Investment amount		Finance facility limit	
	2014	2013	2014	2013
	Rupees '000		Rupees '000	
Kashf Foundation	1,000,000	1,000,000	1,500,000	1,500,000
National Rural Support Programme	830,000	1,250,000	1,720,000	1,650,000
National Rural Support Programme - Microfinance Bank	1,000,000	-	1,600,000	-
Orangi Charitable Trust	150,000	150,000	150,000	150,000
BRAC Pakistan	250,000	275,000	275,000	425,000
Asasah	50,000	50,000	55,000	50,000
Jinnah Welfare Society	40,000	40,000	60,000	60,000
Rural Community Development Society	100,000	125,000	160,000	188,000
Development Action for Mobilization and Emancipation	150,000	150,000	225,000	225,000
Community Support Concern	50,000	50,000	75,000	75,000
Thardeep Rural Development Program	100,000	100,000	150,000	150,000
Punjab Rural Support Program	100,000	100,000	150,000	150,000
	3,820,000	3,265,000	6,120,000	4,623,000
Less: Provision for impairment loss - note 9.1.1	(50,000)	-	-	-
Total	3,770,000	3,265,000	6,120,000	4,623,000

9.1.1 This represents provision for impairment of investment placed as cash collateral with a commercial bank against finance facility to a PO in potential default of its obligation.

9.2 These funds are invested in term deposit receipts maturing within one year from the date of investment, at mark up rates ranging from 8.50% p.a. to 10.35% p.a. (2013: 8.90% p.a. to 10.25% p.a.).

Specific to others	Note	2014		2013	
		Rupees in '000		Rupees in '000	
Term Deposit Receipts (TDR)	9.3.1	1,039,090	1,611,557		
Government Treasury Bills	9.3.2	1,198,877	1,982,163		
	9.3.3	2,237,967	3,603,720		

9.3.1 These funds are invested in Term Deposit Receipts maturing within one year from the date of investment, at mark up rates ranging from 8.67% p.a. to 10.35% p.a. (2013: 8.7% p.a. to 12.0% p.a.).

9.3.2 These funds are invested in Government Treasury Bills maturing within one year from the date of investment, at mark up rates ranging from 8.90% p.a. to 9.99% p.a. (2013: 8.92% p.a. to 9.44% p.a.).

9.3.3 Specific to others include investments of Rs 2,097,759 thousand (2013: Rs 1,994,969 thousand) (equivalent to 15% (2013: 15%) of the loan receivable from POs) to safeguard against any major default on loan receivable and provide capital adequacy; and Rs 140,208 thousand (2013: Rs 1,608,731 thousand) available for lending activities.

ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	Note	2014		2013	
		(Rupees in '000)		(Rupees in '000)	
Loans and advances - considered good	10.1	21,577	19,181		
Employees/consultants		1,447	2,673		
Suppliers		23,024	21,864		
Deposits		4,228	1,155		
Prepayments		77,850	-		
Income tax refundable		125,601	59,273		
Receivable from PPAF Employees' Provident Fund		19,696	-		
Other receivables		753	1,471		
		251,152	83,753		

10.1 This includes advance salary loans and car loans given to the employees of the Company, carrying mark up of 3% p.a. (2013: 3% p.a.) and 8% p.a. (2013: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly instalments.

PROFIT / SERVICE CHARGES RECEIVABLE	Note	2014		2013	
		(Rupees in '000)		(Rupees in '000)	
Profit receivable on					
Endowment fund investments		39,751	35,356		
Term Deposit Receipts / saving accounts		66,207	168,540		
Short term investments specific to grant based activities		149,489	183,427		
Project bank accounts/investments		109,268	101,444		
		364,716	488,767		
Service charge receivable on loans to POs - net of provision for doubtful receivable of Rs 45,421 thousand (2013: Rs 45,521)		530,477	359,667		
		895,193	848,434		

BANK BALANCES - SPECIFIC TO PROJECTS	Note	2014		2013	
		(Rupees in '000)		(Rupees in '000)	
Cash at banks - current accounts		5,010,382	4,671,659		
Specific to IDA III		-	1,062		
Specific to IFAD - PRISM		-	1,999		
Specific to KW - Livelihood and Community Infrastructure		3,654	18,180		
Specific to KW - Renewable Energy		88,781	-		
Specific to Italian Project - Poverty Reduction Through Rural Development Activities in Balochistan, KPK and FATA		1,388,169	-		
Specific to Benazir Income Support Program - Waseela-e-Haq (Sindh)		84,374	80,037		
Specific to Prime Minister's Interest Free Loan Scheme (PMIFL)		1,750,000	-		
		6,325,360	4,772,937		

Cash at banks - deposit accounts		102,319	96,286
Specific to USDA grant		16,553	327,591
Specific to Benazir Income Support Program - Waseela-e-Haq		120,852	423,877
		8,446,212	5,198,814

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.

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>13. CASH AND BANK BALANCES</b>			
Cash in hand	19	10,287	6,330
Cash at banks - current accounts		171,636	87,266
Cash at banks - deposit accounts	13.1	181,923	95,566
		181,942	95,603

13.1 The balances in deposit accounts carry average mark up of 8.85% p.a. (2013: 8% p.a.).

#### 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.

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>15. LONG TERM LOANS - Unsecured</b>			
Government of Pakistan - PPAF - I (IDA financing)	15.1	1,754,248	1,873,535
Government of Pakistan - PPAF - II (IDA financing)	15.2	7,688,213	8,056,206
Government of Pakistan - (IFAD financing-MIOP)	15.3	1,108,583	1,144,527
Government of Pakistan - (IFAD financing-PRISM)	15.4	2,007,264	1,999,036
Government of Pakistan - PPAF - III (IDA financing)	15.5	2,886,040	2,445,533
		15,454,348	15,618,837
Less: Amount payable within next twelve months shown as current liability		(653,734)	(615,431)
		14,800,614	15,003,406
Deferred benefit of below market rate of interest on Government of Pakistan - PPAF III (IDA financing)	15.5.1	(2,073,650)	(1,830,404)
		12,726,964	13,173,002

15.1 Government of Pakistan - PPAF - I (IDA financing)			
Opening balance		1,973,555	2,083,152
Amount repaid		(219,287)	(109,617)
		1,754,248	1,973,535

A Development Credit Agreement (DCA) was signed between International Development Association (IDA) and the Government of Pakistan (GoP) on July 7, 1999. IDA made available to GoP a sum of Special Drawing Rights (SDR) of 66.5 million over a period of five years to be utilized by GoP through the Company.

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

	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>15.2 Government of Pakistan- PPAF - II (IDA financing)</b>		
Opening balance	8,056,206	8,414,199
Amount repaid	(357,993)	(357,993)
	7,688,213	8,056,206

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

Under SFA dated March 24, 2004 executed between GoP and the Company, the GoP agreed to provide 56% of the amount as loan to the Company and the balance as grant on non reimbursable basis. The principal 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.

	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>15.3 Government of Pakistan - (IFAD financing MIOP)</b>		
Opening balance	1,144,527	1,144,527
Amount repaid	(38,227)	-
Adjustment on finalization of repayment schedule with GoP-note 28	2,283	-
	1,108,583	1,144,527

Programme Loan Agreement was signed between International Fund for Agricultural Development (IFAD) and GoP on January 16, 2006, in respect of Microfinance Innovation and Outreach Programme (MIOP). As per agreement IFAD shall make available to GoP a sum of SDR of 18.30 million over a period of five years to be utilized by GoP through the Company.

Under Subsidiary Loan and Grant Agreement (SLGA) dated April 18, 2006 executed between GoP and the Company, the GoP agreed to provide 50% of the amount as loan to the Company and the balance as grant on non reimbursable basis on account of capacity 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.

16. DEFERRED LIABILITIES - GRANT FUND	Note	2014	2013
		(Rupees in '000)	
Government of Pakistan - IDA III	16.2	4,733,366	4,567,598
US Agency for International Development (USAID)/Pakistan	16.3	115,984	115,984
Government of Pakistan - USDA	16.4	90,294	90,294
Government of Pakistan - IFAD (PRISM)	16.5	-	(82,284)
Government of Pakistan - KIW Renewable Energy (RE)	16.6	86,201	18,180
Government of Pakistan - KIW Livelihood Support & Promotion of Small Community Infrastructure (LACIP)	16.7	(55,981)	(150,130)
Committee Encouraging Corporate Philanthropy (CECP)	16.8	21,668	21,668
Benazir Income Support Program (BISP)	16.9	157,312	453,661
Government of Pakistan - Poverty Reduction Through Rural Development Activities in Balochistan, KPK and FATA (Italian Project)	16.10	1,372,642	-
Government of Pakistan - Prime Minister's Interest Free Loan Scheme (PMIFL)	16.11	1,750,000	-
Others		33,011	22,392
		<u>8,304,497</u>	<u>5,057,363</u>

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

16.1 Movement during the year

Note	IDA III	USAID	USDA	IFAD PRISM	KIW RE	KIW LACIP	CECP	BISP	Italian Project	PMIFL	Others	Total
	(Rupees in '000)											
Opening balance	4,567,598	115,984	90,294	(82,284)	18,180	(150,130)	21,668	453,661	-	-	22,392	5,057,363
Amount received during the year	4,125,787	-	-	366,507	130,409	1,229,502	-	4,712	1,372,642	1,750,000	16,000	8,995,559
Amount repaid to donor during the year	-	-	-	-	-	-	-	(399,740)	-	-	-	(399,740)
	8,693,385	115,984	90,294	284,223	148,589	1,079,372	21,668	58,633	1,372,642	1,750,000	38,392	13,653,182
Less: Disbursements for												
Water and infrastructure	433,441	-	-	-	56,363	762,481	-	-	-	-	-	1,252,285
Social sector development	412,450	-	-	-	-	109,049	-	-	-	-	-	521,499
Capacity/institutional building	94,589	-	-	284,223	6,025	81,018	-	-	-	-	-	465,355
Social mobilization	632,817	-	-	-	-	-	-	-	-	-	-	632,817
Livelihood enhancement and protection	2,246,550	-	-	-	-	182,805	-	-	-	-	-	2,429,355
Waseel-e-Haq Program	-	-	-	-	-	-	-	(98,679)	-	-	-	(98,679)
Micro credit access	140,672	-	-	-	-	-	-	-	-	-	-	140,672
Projects	-	-	-	-	-	-	-	-	-	-	5,381	5,381
	3,960,019	-	-	284,223	62,388	1,135,353	-	(98,679)	-	-	5,381	5,348,685
	<u>4,733,366</u>	<u>115,984</u>	<u>90,294</u>	<u>-</u>	<u>86,201</u>	<u>(55,981)</u>	<u>21,668</u>	<u>157,312</u>	<u>1,372,642</u>	<u>1,750,000</u>	<u>33,011</u>	<u>8,304,497</u>

*Affco*

15.4 Government of Pakistan - (IFAD financing - PRISM)	2014	2013
	(Rupees in '000)	
Opening balance	1,999,036	1,885,000
Amount received	3,250	114,036
Transferred from deferred liabilities-grant fund	4,978	-
	<u>2,007,264</u>	<u>1,999,036</u>

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

Under Subsidiary Financing Agreement (SFA) dated January 12, 2008 executed between GoP and the Company, the GoP agreed to provide 65% of the amount as loan to the Company and the balance as grant on non reimbursable basis on account of capacity building. The principal amount of loan is repayable over a period of twenty three years, including a grace period of eight years, in thirty equal semi-annual instalments 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.

15.5 Government of Pakistan- PPAF - III (IDA financing)	2014	2013
	(Rupees in '000)	
Opening balance	2,445,533	2,296,033
Amount received	440,507	149,500
	<u>2,886,040</u>	<u>2,445,533</u>
Less: Deferred benefit of below market rate of interest on long term loan	15.5.1	(1,830,004)
	<u>812,390</u>	<u>615,129</u>

The Financing Agreement was signed between IDA and the GoP on June 9, 2009, in respect of PPAF III. As per agreement IDA shall make available to GoP a sum of Special Drawing Rights (SDR) of 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 instalments, payable on each June 15, and December 15 commencing from June 15, 2017 and ending on December 15, 2031. Each instalment upto and including the instalment payable on December 15, 2022 shall be equal to 2.083% of such principal amounts and each instalment 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.

15.5.1 The loan is carried at present value computed at market based interest rate. The difference between present value and loan proceeds is recognized 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:

15.5.1	2014	2013
	(Rupees in '000)	
Deferred benefit as at July 1	1,830,404	1,779,819
Additions during the year	317,106	112,072
Amortization during the year	(73,860)	(61,487)
Balance as at June 30	<u>2,073,650</u>	<u>1,830,404</u>

*Affco*

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

Financing Agreement was signed between GoP and IDA on June 9, 2009 and Subsidiary 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**

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 and sustainable agriculture development programmes.

**16.5 Grants from Government of Pakistan - IFAD (PRISM)**

Programme Loan Agreement was signed between GoP and IFAD on November 22, 2007 and Subsidiary Financing Agreement between GoP and the Company 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.

**16.6 Grants from Government of Pakistan - KfW Renewable Energy**

On June 22, 2012 PPAF and German Financial Cooperation - KfW signed Financing and Project Agreement under which KfW has agreed to make available an amount of EUR 10 million to the Company as grant on non-reimbursable basis for the development of mini/micro hydro power plants, solar lighting systems, integrated water efficient solar irrigation systems and pilot projects in Renewable Energy in Khyber Pakhtunkhwa. The agreement will expire on December 30, 2017.

**16.7 Grants from Government of Pakistan - KfW Livelihood Support & Promotion of Small Community Infrastructure (LACIP)**

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. The agreement will expire on December 31, 2015.

*Alfaro*

**16.8 Grants from Committee Encouraging Corporate Philanthropy (CECP)**

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.

**16.9 Benazir Income Support Program (BISP)**

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 Waseela-e-Haq program. The project had a total cost of Rs 884.4 million 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 Waseela-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.

**16.9.1** During the year an amount of Rs 359,740 thousand was repaid to BISP representing demand drafts/pay orders in respect of 2,657 beneficiaries, which were cancelled on the instructions of BISP.

**16.9.2** This represents demand drafts/pay orders of Rs 301,500 thousand issued to beneficiaries netted off by demand drafts/pay orders of Rs 403,179 thousand cancelled during the year on the instructions of BISP.

**16.10 Poverty Reduction Through Rural Development Activities in Balochistan, KPK and FATA (Italian Project)**

On January 14, 2011 the Government of Italy and GoP signed Program Agreement for the Project. Financing Agreement was signed between GoP and Artigiancassa S.p.A. (on behalf of Government of Italy) on March 21, 2011 under which the Government of Italy has agreed to make available an amount of EUR 40 million to the Company on non-reimbursable basis. Subsidiary Financing Agreement was signed between GoP and PPAF on December 2, 2011. The Project focuses on poverty reduction through rural development in Balochistan, Khyber-Pakhtunkhwa, Federally Administered Tribal Areas and neighbouring areas.

**16.11 GoP-Prime Minister's Interest Free Loan Scheme**

On May 14, 2014, the GoP has agreed to provide non-repayable grant of Rs 3,500 million for provision of interest free loans to the poor and marginalized communities and those lacking access to financial services. The objective of the scheme is to reach marginalized men, women and youth not tapped by microfinance sector, support female participation by disbursing 50% of the loans, encourage behavioral change of beneficiaries and strengthen community-based institutions.

*Alfaro*





## 17. DEFERRED INCOME - GRANT FUND

	As at July 01, 2013	Amount Received	Expenditure from grant recognized as income	As at June 30, 2014
	(Rupees in '000)			
Government of Pakistan (GoP)	29	-	29	-
Capacity Building - IDA II	-	168,570	168,570	-
Capacity Building - IDA III	3	-	3	-
Capacity Building - IDA (RNR)	2,072	-	1,577	495
Capacity Building - IDA (Social mobilization)	556	-	556	-
Capacity Building - IDA (Disability)	517	-	259	258
Capacity Building - IFAD (MIOF)	-	21,978	20,322	1,656
Capacity Building - IFAD (PRISM)	962	35,408	31,050	5,320
Capacity Building - KfW (LACIP)	-	4,056	3,710	346
Capacity Building - KfW (RE)	1,717	-	1,318	399
Capacity Building - USDA	-	15,527	15,527	-
Capacity Building - Italian Project	5,856	245,539	242,921	8,474
<b>2014</b>	<b>12,113</b>	<b>184,057</b>	<b>190,314</b>	<b>5,856</b>
<b>2013</b>				

## 18. SERVICE CHARGES PAYABLE

These represent service charges payable to GoP at the rate of 0.75% p.a. (2013: 0.75% p.a.) on the principal amount of long term loan outstanding withdrawn from time to time.

	Note	2014	2013
		(Rupees in '000)	
Consistency fee payable		9,661	5,990
Accrued expenses and other liabilities		40,068	27,045
Payable to Staff Gratuity Fund	20	-	10,090
Unamortized discount on purchase of PIBs	19.1	59,177	44,219
		<u>108,906</u>	<u>87,344</u>

19.1. Amortization of discount for the year amounts to Rs 5,149 thousand (2013: Rs 5,757 thousand).

## 20. DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY FUND

20.1 The movement in liability is as follows:

	2014 (Rupees in '000)	2013 (Rupees in '000)
Opening net (asset)/liability	10,090	(855)
Expense recognized in surplus for the year	17,272	13,816
Remeasurement loss recognized in other comprehensive income	22,930	-
Contribution made directly to the Fund	(43,125)	-
Benefit payment on behalf of Fund	(7,167)	(2,871)
Closing net (asset)/liability	-	<u>10,090</u>

20.2 The details of actuarial valuation carried out as at June 30, 2014 and June 30, 2013 are as follows:

	2014	2013
(a) Reconciliation of payable to Defined Benefit Plan		
Present value of defined benefit obligation	71,755	49,264
Fair value of plan assets	(71,755)	(25,411)
Remeasurement loss not recognized	-	(13,763)
	<u>-</u>	<u>10,090</u>
(b) Change in the present value of defined benefit obligation		
Opening defined benefit obligation	49,264	37,961
Current service cost	14,500	10,788
Interest cost	5,665	4,516
Benefits paid	(7,167)	(2,871)
Remeasurement loss/(gain) recognized	9,483	(710)
Closing defined benefit obligation	<u>71,755</u>	<u>49,264</u>
(c) Expense for the year - recognized in surplus for the year		
Current service cost	14,500	10,788
Interest cost	5,665	4,516
Expected return on plan assets	(2,893)	(3,175)
Remeasurement loss	1,707	1,707
	<u>17,272</u>	<u>13,816</u>
(d) Changes in fair value of plan asset		
Opening fair value of plan assets	25,411	26,124
Interest income	2,893	3,175
Contribution made directly to the Fund	43,125	-
Remeasurement gain/(loss)	326	(3,888)
Closing fair value of plan assets	<u>71,755</u>	<u>25,411</u>
(e) Major categories of plan assets as a percentage of total plan assets are as follows:		
	2014	2013
	Rs ('000)	%age
Term Deposit Receipts	38,487	54
Bank balances	33,268	46
	<u>71,755</u>	<u>100</u>

Term Deposit Receipts are kept with a scheduled bank having maturity of one year. Further, bank balances represents savings account maintained with scheduled banks.

Funds were invested within limits specified by regulations governing investment of approved retirement funds in Pakistan. The funds have no investment in the company's own securities.

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

	2014	2013
Valuation discount rate (per annum)	13.25%	11.5%
Expected rate of increase in salary level (per annum)	12.00%	11.5%
Expected return on plan assets (per annum)	13.25%	9.5%

Mortality was assumed as per adjusted SLIC 2001-2005 mortality table with one year age set back at valuations on both dates, June 30, 2013 and 2014.

The gratuity plan is defined benefits final salary plan. The trustees of the funds are responsible for plan administration and investment. The Company appoints the trustees. All trustees are employees of the Company.

The plan expose the Company to various actuarial risks: investment risk and salary risk.

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in respective assumptions by one percent.

	Defined benefit obligation
1 percent increase	1 percent increase
Rupees ('000)	Rupees ('000)

Discount rate	(5,762)	6,737
Expected rate of increase in salary level (per annum)	7,077	(6,140)

The impact of changes in financial assumptions has been determined by revaluation of the obligations on different rates.

The Company contributes to the Fund on the advice of the Fund's actuary.

The weighted average number of the defined benefit obligation is given below:

Plan Duration	Years
June 30, 2014	9
June 30, 2013	12

Projected payments

Rupees ('000)

Contributions FY 2015 14,895

Benefit payments:

FY 2015	10,343
FY 2016	9,540
FY 2017	7,087
FY 2018	3,700
FY 2019	5,751

*AtCo.*

2014 2013  
(Rupees in '000)

21. CONTINGENCIES AND COMMITMENTS

Contingencies

	3,820,000	3,265,000
--	-----------	-----------

Guarantees to the banks against lending to Microfinance institutions as given in note 9

Commitments

Aggregate commitments under Financing Agreements with Partner Organizations for:

	2014	2013
Loans	6,909,935	8,774,506
Grants	3,427,401	3,989,090
Community physical infrastructure	498,820	750,689
Capacity building	1,139,292	1,909,213
Social sector development	365,570	693,669
Social mobilization	2,205,076	2,254,902
Livelihood enhancement and protection	7,637,159	9,597,583
	14,547,094	18,372,089

22. SERVICE CHARGES ON LOANS TO PARTNER ORGANIZATIONS

These represent service charges on loans to POs under respective Financing Agreements at rates disclosed in note 8.2.

2014 2013  
(Rupees in '000)

23. INCOME ON INVESTMENTS AND SAVING ACCOUNTS

Profit on investments

Specific to Encowment Fund	97,629	105,092
Specific to projects	330,306	230,177
Specific to grant fund	494,105	461,672
Specific to others and saving accounts	389,382	595,223
	1,311,422	1,392,164

24. OTHER INCOME

Gain on disposal of property, plant and equipment

	12,981	-
--	--------	---

Markup on loans to employees

	481	232
--	-----	-----

Others

	13,462	178
		410

*AtCo.*

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>25. GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Salaries, wages and other benefits	25.1 & 25.3	346,189	304,772
Rent, rates and taxes		31,590	26,400
Repairs and maintenance		8,660	9,303
Traveling, lodging and conveyance		80,732	58,627
Communication		4,767	3,852
Printing and stationery		7,126	4,954
Insurance		11,811	11,161
Vehicles running and maintenance		24,405	28,397
Utilities		4,124	4,658
Legal and professional charges		1,799	3,930
Auditor's remuneration	25.4	5,820	4,640
Advertisement		2,690	1,951
Media projection		5,356	3,300
Newspapers, books and periodicals		1,068	894
Depreciation		30,552	29,456
Amortization		3,860	3,202
Security services		3,324	2,691
Office shifting and related expenses		9,344	-
Others		7,601	6,238
		<u>590,818</u>	<u>508,426</u>
25.1 The aggregate amounts charged in respect of remuneration of Chief Executive Officer were as follows:			
Managerial remuneration		17,772	16,157
Contribution to Staff Provident Fund		1,616	2,081
		<u>19,388</u>	<u>18,238</u>
In addition, the Chief Executive Officer is provided medical insurance, car and accommodation/house rent allowance. Gratuity and provident fund are payable to the Chief Executive Officer in accordance with the terms of employment.			
25.2 No remuneration was paid to the directors during the year except reimbursement of expenditure for attending meetings etc. at actual.			
25.3 This includes Rs 35,270 thousand (2013 : Rs 33,280 thousand) in respect of employees' retirement benefits.			
25.4 Auditor's remuneration		2,100	1,500
Statutory and projects' audit		3,480	2,900
Audit of POs		240	240
Tax services		<u>5,820</u>	<u>4,640</u>
25.5 General and administration expenses include Rs 108,564 thousand (2013: Rs 76,903 thousand) incurred on different programme activities as disclosed in note 17.			

	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>26. SEMINARS, WORKSHOPS AND TRAININGS</b>		
Training	17,615	16,261
Seminar and workshops	22,702	21,838
	<u>40,317</u>	<u>38,099</u>
Seminars, workshops and training expenses include Rs 12,492 thousand (2013: Rs 16,945 thousand) incurred on different programme activities as disclosed in note 17.		
<b>27. TECHNICAL AND OTHER STUDIES</b>		
Technical and other studies include Rs 121,865 thousand (2013: Rs 96,466 thousand) incurred on different programme activities as disclosed in note 17.		
<b>28. PROJECT AND RELIEF ACTIVITIES</b>		
Earthquake relief - note 28.1	343,368	-
Flood relief - note 28.2	289,776	89,319
Project and other activities	30,578	18,684
Project activities for MIOP (IFAD)	2,283	-
	<u>666,025</u>	<u>108,003</u>
28.1 This represents expense incurred on earthquake relief activities carried out in districts Awaran and Kech of Balochistan province through the POs - National Rural Support Programme (NRSP) and Poverty Eradication Initiative (PEI).		
28.2 This represents expense incurred on flood relief activities carried out in district Narowal of Punjab province through various POs.		
<b>29. PROVISION AGAINST LOANS/SERVICE CHARGES</b>		
Provision/(reversal) against loans to POs	27,524	(12,400)
Provision against service charges receivable	-	45,421
	<u>27,524</u>	<u>33,021</u>
<b>30. FINANCIAL CHARGES</b>		
On long term loans	100,034	90,952
Imputed interest on below market rate long term loan	73,860	61,487
Bank charges	1,226	731
	<u>175,122</u>	<u>153,170</u>
<b>31. MOVEMENT IN RESERVE FOR GRANT BASED ACTIVITIES</b>		
Income earned during the period on grant fund investments	494,105	461,672
Less: Expenditure on project and relief activities - note 28	<u>666,025</u>	<u>108,003</u>
	<u>(171,920)</u>	<u>353,669</u>
31.1 The project and relief activities expenditure incurred in excess of income earned during the year was financed from accumulated reserve for grant based activities.		
<b>32. TRANSACTIONS WITH RELATED PARTIES</b>		
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. The company in normal course of business pays for electricity, gas and telephone (utility bills) to entities controlled by Government of Pakistan which are not material, hence not disclosed in these financial statements.		

**34. 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	Rating	2014 Balance Rs in '000	2013 Balance Rs in '000
<b>Investments</b>				
Counterparties with external credit rating				
	PACRA	A1+	3,074,000	4,151,660
	JCR-VIS	A-1+	3,118,000	3,542,172
	PACRA	A1	2,000,000	1,500,000
	JCR-VIS	A-2	250,000	250,000
Securities issued/supported by Government of Pakistan			4,525,105	3,472,563
			<u>12,967,105</u>	<u>12,916,395</u>
<b>Bank balances</b>				
Counterparties with external credit rating				
	PACRA	A1+	246,453	136,823
	JCR-VIS	A-1+	6,381,230	5,130,948
	PACRA	A1	62	5,366
	JCR-VIS	A-2	319	16,604
	Moody's	P-1	-	663
Balance with National Saving Centre			11	11
			<u>8,628,135</u>	<u>5,290,417</u>
<b>Loans to Partner Organizations</b>				
Counterparties with external credit rating	JCR-VIS	A-2	546,250	1,425,000
Counterparties without external credit rating				
	*		12,345,365	10,808,959
	**		197,096	197,146
			<u>13,088,711</u>	<u>12,431,105</u>
<b>Profit/service charges receivable</b>				
Counterparties with external credit rating				
	PACRA	A1+	75,673	176,561
	JCR-VIS	A-1+	86,704	251,002
	PACRA	A1	43,498	30,367
	JCR-VIS	A-2	20,755	9,062
	JCR-VIS	A-3	-	19,998
Securities issued/supported by Government of Pakistan			152,547	21,777
Counterparties without external credit rating				
	*		514,016	339,687
	**		895,193	848,434

\* Counterparties with no defaults in the past.  
\*\* Counterparty overdue for more than 365 days.

*Aff Co.*

**33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

**33.1 Financial assets and liabilities**

	2014			2013		
	Held to maturity investments	Loans and receivables	Total	Held to maturity investments	Loans and receivables	Total
(Rupees in '000)						
<b>Financial Assets:</b>						
Maturity upto one year						
Current maturity of long term investments	-	-	-	594,000	-	594,000
Current maturity of loans to Partner Organizations	-	11,169,061	11,169,061	-	8,579,876	8,579,876
Short term investments	11,380,705	-	11,380,705	11,435,995	-	11,435,995
Advances, deposits and other receivables	-	46,254	46,254	-	21,807	21,807
Profit/service charges receivable	-	895,193	895,193	-	848,434	848,434
Bank balances - specific to projects	-	8,446,212	8,446,212	-	5,196,814	5,196,814
Cash and bank balances	-	181,942	181,942	-	93,603	93,603
Maturity after one year						
Long term investments	1,586,400	-	1,586,400	886,400	-	886,400
Long term loans to Partner Organizations	-	1,919,650	1,919,650	-	3,851,229	3,851,229
	<u>12,967,105</u>	<u>22,658,312</u>	<u>35,625,417</u>	<u>12,916,395</u>	<u>18,591,763</u>	<u>31,508,158</u>
<b>Financial Liabilities:</b>		Other financial liabilities			Other financial liabilities	
Maturity upto one year						
Deferred liabilities - grant fund	-	8,304,497	8,304,497	-	5,057,363	5,057,363
Current portion of long term loans	-	653,734	653,734	-	615,431	615,431
Service and commitment charges payable	-	28,355	28,355	-	28,655	28,655
Accrued and other liabilities	-	108,906	108,906	-	87,344	87,344
Maturity after one year but before five years						
Long term loans	-	3,988,034	3,988,034	-	5,232,382	5,232,382
Maturity after five years						
Long term loans	-	8,738,930	8,738,930	-	9,771,024	9,771,024
	-	<u>21,822,456</u>	<u>21,822,456</u>	-	<u>20,792,199</u>	<u>20,792,199</u>
Off balance sheet items:						
Commitments	-	14,547,094	14,547,094	-	18,372,089	18,372,089

*Aff Co.*

**34.1 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 13,985,061 thousand (2013: Rs 13,299,931 thousand) (including loans to five major POs of Rs 7,282,193 thousand; 2013: five major POs of Rs 7,837,946 thousand). 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 33.1.

**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.

**(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 27,312,678 thousand (2013: Rs 26,824,374 thousand) and financial liabilities include balances of Rs 15,494,348 thousand (2013: Rs 15,618,837 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 118,643 thousand (2013: Rs 112,055 thousand) higher/lower.

*Aff-Go*

**(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 amortized cost.

**34.2 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.

**35. CONTRIBUTORY PROVIDENT FUND**

Details of Employees' Provident Fund are as follows:

	2014	2013
	(Rupees in '000)	
a) Size of the fund:		
- Net assets	77,463	48,874
- Total assets	97,260	50,804
Cost of investments made	86,850	48,023
Percentage of investments made to total assets	89%	95%
Fair value of investments made	86,850	48,023

	2014		2013	
	(Rupees in '000)	%	(Rupees in '000)	%
b) Breakup of investments - at cost				
National Saving Scheme	38,477	44	35,556	74
Balance with banks	48,373	56	12,467	26
	86,850	100	48,023	100

c) Investments out of provident fund have been made in accordance with the provisions of section 227 of the Companies Ordinance, 1984 and the rules formulated for the purpose.

*Aff-Go*

**36. NUMBER OF EMPLOYEES**

Total number of employees at the end of the year were 219 (2013: 218). Average number of employees during the year were 218 (2013: 218).

**37. CORRESPONDING FIGURES**

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

**38. DATE OF AUTHORISATION**

These financial statements were authorized for issue by the Board of Directors of the Company on 26 SEP 2014.

*Affslo.*



Director



Chief Executive Officer





عشق، علم، عمل

پی پی اے ایف کی بنیادی اقدار اور اس کے کام کی اصل روح ہیں۔

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

**Pakistan Poverty Alleviation Fund**

14-Hill Road, F-6/3, Islamabad, Pakistan  
UAN +92-51-111-000-102, Fax +92-51-227-0411  
Website: [www.ppaf.org.pk](http://www.ppaf.org.pk)