



SAFWCO

CREDIT AND ENTERPRISE DEVELOPMENT PROGRAM
ANNUAL REPORT 2009 - 2010

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Message by the CEO

I am delighted to present to you the annual audited accounts of the Credit and Enterprise Development (CED) Program of Sindh Agricultural and Forestry Workers Coordinating Organization (Safwco) for the financial year 2009-2010.

The Sindh province is characterized by a range of complicated issues ranging from many underprivileged communities to an overwhelming dependence on the vagaries of nature. Safwco's interventions across the various programs have centered on providing access to basic facilities to those who do not have them and to improve the well being of the communities the organization works with.

Safwco has, with each passing year, successfully met the expectations of the communities it works with and this year, as with preceding years, witnessed an expansion in the organization's presence and growth in the program interventions as Safwco continued to offer integrated development programs consisting of social organization, micro-credit, community physical infrastructure, capacity development, natural resource management, health, education and disaster response and mitigation projects in its operational areas.

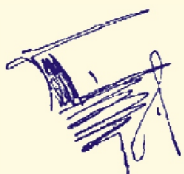
The Credit and Enterprise Development Program initiated by Safwco is designed to provide income generating loans to those members of the community who have the willingness and capacity to work. Small investments in the future of these individuals result in them owning viable assets and making a living with dignity and pride. The CED Program is an integral part of Safwco's holistic approach to development.

Safwco is pleased to present the accounts of the CED Program for the year ended 30 June 2010.

Events subsequent to balance sheet dates:

Subsequent to the balance sheet date, the province of Sindh was inundated with riverine floods which caused devastation across the country. Inflation rose dramatically and there was an acute energy shortage. Safwco's communities were affected by these natural and economic disasters and in many cases various interventions from other programs were essential to safeguard people we work with.

At the end, the Management would like to thank the staff of the CED Program for their hard work and commitment.



Suleman G Abro

Message by the GM CED

The progress made by Safwco towards translating its vision and mission during the year July 2009 to June 2010 has proved to be a definitive chapter in our history.

Many of our core activities – creating community organizations, providing access to quality education, health and basic infrastructure and responding to and mitigating the impact of disasters – have benefited hundreds of thousands of individuals, while our Credit and Enterprise Development is successfully growing.

Although we, the staff at Safwco were the implementers of the various programs, it was the Safwco Board of Governors who gave us direction with their valuable guidance at every step, helping us in achieving the vision and mission of the organization.

No doubt the scale and depth that Safwco has achieved would not have been possible, if we were not supported financially and technically by our donors. The cooperation of other stakeholders including government departments, communities and other civil society organizations has also been invaluable in making these accomplishments possible. Therefore, we extend our cordial thanks to them all and hope for the same assistance and cooperation in future as well.

We will continue our struggle for disadvantaged communities so that they too can access basic human rights – and in our view the right to earn a reasonable living is a basic human right.



Tufail Rajpar

Credit and Enterprise Development (CED) Program: Overview

Micro-credit initiatives are recognized all over the world as an effective tool for alleviating poverty. Credit and Enterprise Development (CED) program is one of the major initiatives of Safwco. Under this program, loans and other financial and technical services are provided to needy entrepreneurs who are otherwise excluded from access to conventional banking services. This program is mandated to undertake efforts for the economic empowerment of marginalized and deprived groups, especially the women of rural and semi-urban areas of Sindh, which also contributes to the social development of the entire community.

Safwco started this initiative with savings as the part of its social mobilization process in 1993-94. The saving groups were the pivots around which the women's organizations were formed and these organizations consolidated those savings; the need to increase household income emerged as a priority issue both as part of the development process and as the impediment to social development and mobility. Gradually, the provision of micro-credit was streamlined and Safwco initiated micro-credit interventions on a formal basis.

Credit Operational Strategies

The CED program at Safwco follows certain basic principles, which are that: Loans are given to the needy poor that do not have access to formal financial institutions, for income generating purpose; Beneficiaries are, at the very least, equitably spread across gender with 50% of the loans being given to females and 50% to males.

Moreover, equity is maintained also in the total amount disbursed. However, where possible, provision of financial services to women is given more emphasis. Loans are given by the microfinance branches located at various cities/tehsils established as per the decisions of the management. Loans are disbursed keeping in

mind the suggestions of the Credit Committees (CCs) of the Village Development Organizations (VDOs) in villages and Solidarity Groups in semi-urban/peri-urban areas.

Portfolio Distribution

In the micro-credit program, the small loans lent to the poor for micro-enterprise development are given for the following purposes of agriculture development, retailing and petty cash trading, livestock and poultry rearing, handicraft development, etc.

Agricultural development loans are usually given for agri-inputs such as seeds, fertilizers, and pesticides and also for bullocks, implements, water and agri-trading, etc. Beneficiaries of loans under the head of retailing and petty cash trading are shops such as grocers, confectionaries, clothes, tire-punctures, electric supplies and services, crockery, medical stores, cabins, fruit and vegetable carts, fish-mongers, flour millers, restaurant and cafes and service providers such as barbers, carpenters, dry cleaners, electricians, mechanics, etc. Livestock and poultry rearing loans range from goats and sheep rearing, buffalo rearing and other livestock trading to poultry farming. Handicraft development loans are for sewing, embroidery and pottery work. Whereas, loans for other purposes such as for purchase of donkey carts or pushcarts are also common.

Trainings

The CED Program organizes trainings regularly for the capacity development of clients. It seeks the services of the Human and Institutional Development (HID) Center to impart financial literacy and business management skills to their clients. The trainings conducted in the reporting period have focused on accounting, skill development and business development.

Global Award for Entrepreneurship 2009

The Global Entrepreneurship Award was organized in Pakistan, as one of eight selected countries. Different organizations and Micro Finance Institutions (MFIs) were called upon to submit case studies of their clients to participate as contestants in the event. Accordingly, Safwco also submitted case studies of its most outstanding clients, namely Ms. Nazia, Mr. Nisar and Mr. Jatti Fakkir who all won the Global Entrepreneur Award for 2009.

Targeting Ultra Poor (TUP) Program

Safwco has started a pilot project entitled Social Safety Net in District Thatta with support from CGAP and the World Bank, through the Pakistan Poverty Alleviation Fund. The purpose of this pilot project is to organize the ultra poor who are the most deprived segment of the population, lacking even the most basic necessities. The Safwco program aims to assist the targeted population through economic support, a special investment program in the form of a grant of

asset/capital in kind and stipends, skill-development trainings and social services. After two years, the program intends to merge into the mainstream microfinance program.

The objectives of the Ultra Poor Program are to cause: Life skills development and technical capacity building through training; Improvement and strengthening of livelihood conditions of the ultra poor; Improvement of economic conditions of the participants and aiding in asset building; and Inclusion into the mainstream development activities of the microfinance program or other poverty alleviation program.

Under this program, assets (small livestock, cash for initiation of small businesses, etc.) and enterprise development trainings were provided to 400 poor people in the coastal areas of Kharro Chhan. Under the savings mobilization project beneficiaries have started saving and the amount has reached Rs. 60,880. Skill building trainings were organized for the communities of the project areas where 190 poor men and women have developed their skills and are now involved in income-generating activities, and managing to meet their household expenditures.

Overall Analysis of CED Program

The Financial Year 2009-2010 marks a period of stable growth for the Program. By June 2010, the total assets of CED Program were Rs. 297 million. The overall financial position of the CED sector has improved with an increase in net assets of 28% for the current financial year (Increase in net assets for the financial year 2008-09: 30%) and the net surplus of the CED sector has increased by 20% (Increase in net surplus for the financial year 2008-09: 36%). The Program's growth is fairly stable over the previous years as well.

At the end of the financial year 2009-10, the outreach of the Micro Finance Program stood at 23,123 active borrowers decreasing by 307 borrowers as compared to last year (Outreach: Active borrowers 2008-09: 23,430). The current gross portfolio of the Program amounts to Rs. 231 million. It shows an increase of Rs. 18 million (a growth of 9%) as compared to the last year. Main contributor to this increase is that the amount of average loan balance per active borrower has increased, despite the fact that the number of active borrowers has decreased.

As the Safwco CED Program is currently in its growth phase, the financing structure relies heavily on loan and grants. However efforts are being made to increase its equity base over the number of years. Currently the equity amounts to Rs. 65 million with an increase of 28% in the financial year 2009-10 (Increase in equity for the financial year 2008-09: 30%).

Overview of the Balance Sheet

Assets

The current assets of the CED Program mainly comprise of cash and bank balance, Program's gross loan portfolio, grant receivable and accrued services charges. The current assets have increased by 22% as compared to the last year. The major source of increase in the current assets

is the increase in the amount of loans disbursed to the clients during the current financial year (average loan balance per active borrower for 2009-10 is Rs. 10,005 and for 2008-09 is Rs. 9,088) and the increased cash balance retained in the banks. The loan loss reserve amounts to Rs. 9.4 million increasing by 33% (Rs. 2.3 million) during the year as the amount of loans due over a year has increased by Rs. 2.57 million.

The proportion of long term assets as compared to the total assets of the Micro Finance Program is 9% and this has been fairly the same for the past year as well. The long term assets include land, buildings, fixtures, furnishings, equipment and vehicles. The gross fixed assets have increased by 19% (Rs. 4.5 million).

Liabilities

There is an overall increase of 19% in the total liabilities of the CED Program which is considerably less as compared to the last year increase of 36%. The Micro Finance Program has current liabilities amounting to Rs. 222 million and Long term liabilities amounting to 9 million as at June 30, 2010.

The short term liabilities of Safwco Micro Finance Program include a loan from PPAF amounting to Rs. 206 million, emergency fund amounting to Rs. 7 million, interest payable to PPAF on loan amounting to Rs. 4.3 million, deferred grant amounting to Rs. 1.6 million and other liabilities of Rs. 3.1 million. The financial year 2009-10 showed an increase of 19% as compared to the last year's variance which was 36%. The high variance in the previous year was due to increased amount of loan from PPAF (variance in Rs. 2008-09: 51 million and 2009-10: 30 million) during the financial year 2008-09. Long term liabilities of the Micro Finance Program are represented by deferred grant for Capital expenditure and have increased by Rs. 1.75 million (24%).

Funding profile of the CED Program

The funding structure of the CED Program comprises of loan and reserves/equity. The debt to equity ratio of the Program is 3.2 for the current year 2009-10 (Financial year 2008-09: 3.4). The reason behind this high debt to equity ratio is that the Program heavily relies on the subsidized loan from PPAF which amounts to Rs. 206 million as at June 30, 2010. With the KIBOR rate exceeding 12 percent during 2010, the loan from PPAF carried services charges of 8% during the financial year 2009-10. This loan is the source of major funding for Micro Finance Program and is renewable after the term set out by PPAF. The Program is not funded through any commercial liabilities.

The equity of the CED Program stands at Rs. 65 million as at June 30, 2010. This marks an increase of 28% (an increase of Rs. 14 million) which is slightly less as compared to the growth in equity during the previous year (almost 30%). However, the growth in equity is quite steady over the long term and the Management of the Program is making efforts to make it stable in the long term.

Overview of Profit and Loss Account

During the financial year 2009-10, CED Program made an overall profit of Rs. 14.22 million marking an increase in the profit of 20% as compared to the last year (Increase in profit for the financial year 2008-09: 11.83 million). During the previous years, despite the fact that the Program was making an overall surplus, it faced operating losses and these losses were covered by the grant income received by the Program. However, in the financial year 2009-10, the Program was successfully in operating profits. One of the major reasons behind this was that the proportion with which the Program's operating income increased (15%) was higher than that of the proportionate increase in the expenses for the year (5%).

Income earned during the year

CED Program has fewer sources of income which mainly includes income from lending, grant income, donations received and interest income earned on savings. Out of these, major sources of income are income from leading/service charges earned which contributes approximately to 78% of the total income and grant income which is 19% of the total income earned during the financial year 2009-10.

Income from lending comprises interest/services charges on loan and registration fees. This source of income is steadily growing over the past years. This year it has increased by 39% (Rs. 17.7 million) which is comparatively less than the last year's increase which was 52% (Rs. 15.5 million). Grant Income has consistently decreased over the last three years, with an approximate decrease of Rs. 3.2 million and Rs. 1.8 million in the financial years 2008-09 and 2009-10 respectively indicating that the Micro Finance Program is becoming financially stable over time. The rest of the two sources of income are fairly negligible making only 2-3% of the total income.

Interest expense

Interest expense paid during the year amounts to Rs. 21 million and is the 8% markup paid to PPAF on its subsidized lending to the Micro Finance Program. This expense has risen by 132% in the current financial year. The interest cover ratio is 67% for the current year (2008-09: 130%) indicating that the cost of borrowing is increasing in a greater proportion as compared to the income.

Expenses incurred during the year

In the financial year 2009-10, the operating expenses of the CED Program have showed only a marginal increase of 5%. Majority of this increase is due to the increase in the non operating expenses incurred under Targeting the Ultra Poor Project. The General and Administration expenses have only increased by 0.1% (Rs. 49,062) in 2009-10 showing Programs commitment to reduce the overhead cost.

Despite the marginal increase in operating expenses, the expense to income ratio has decreased significantly showing that the proportionate increase in the income is much greater than the proportionate increase in the operating expenses. This indicates greater control over General and admin expenses.

The increase in the operating cost per borrower sluggish over the years. For this financial year 2009-10 it was only 1%.

Write offs during the year

The write offs during the year amounts to Rs. 4,398,197. This figure is approximately 2% of the gross loan portfolio. This percentage has almost been stagnant over the last three years.

Profit for the year

The gross profit ratio has deteriorated by 11% as compared to last year. The gross profit ratio falls

due to the much higher amount of interest paid as compared to the last year and the proportionate increase in revenue is also lesser.

The Program was able to make a net surplus of Rs. 14 million during the year representing a growth of 20%. Despite there is an increase in profit over the years the net profit ratio is consistently decreasing by approximately 3% every year although this decrease is not as high as the decrease in the gross profit ratio (11%) mainly because of the reduced operating expenses for the year.

Year on Year Analysis

Table A

<i>Year on Year Analysis - Balance sheet</i>					
	2007-08	2008-09	2009-10	Variance 2007- 08/2008- 09	Variance 2008- 09/2009- 10
	RKR	RKR	RKR	%	%
Current Assets					
Cash and Bank Balances	24,162,293	11,535,290	45,769,422	(52)%	297%
Gross Loan Portfolio	141,602,126	212,928,091	231,347,774	50%	9%
Loan Loss Reserve	(4,104,808)	(7,097,168)	(9,427,860)	73%	33%
Net Portfolio	137,497,318	205,830,923	221,919,914	50%	8%
Other Current Assets	7,680,982	13,173,363	12,706,405	72%	(4)%
Total Current Assets	169,340,593	230,539,576	280,395,741	36%	22%
Long-Term Assets					
Gross Fixed Assets	18,756,149	23,015,599	27,494,077	23%	19%
Accumulated Depreciation	(6,448,446)	(8,287,194)	(11,004,139)	29%	33%
Net fixed Assets	12,307,703	14,728,405	16,489,938	20%	12%
Total Long Term Assets	12,307,703	14,728,405	16,489,938	20%	12%
TOTAL ASSETS	181,648,296	245,267,981	296,885,679	35%	21%
LIABILITIES					
Short-Term Loans	125,659,033	176,473,680	206,210,168	40%	17%
Other Current Liabilities	11,669,953	10,129,555	16,037,273	(13)%	58%
Total Current Liabilities	137,328,986	186,603,235	222,247,441	36%	19%
Other Long Term Liabilities	4,912,336	7,429,073	9,180,905	51%	24%
Total Long Term Liabilities	4,912,336	7,429,073	9,180,905	51%	24%
TOTAL LIABILITIES	142,241,322	194,032,308	231,428,346	36%	19%
EQUITY					
Operating Profit/(Loss) after Tax - prior years	30,728,754	39,406,974	51,235,673	28%	30%
Operating Profit/(Loss) after Tax - current year	8,678,220	11,828,699	14,221,660	36%	20%
TOTAL EQUITY	39,406,974	51,235,673	65,457,333	30%	28%
TOTAL LIABILITIES AND EQUITY	181,648,296	245,267,981	296,885,679	35%	21%

Table B

<i>Year on Year Analysis - Profit and Loss account</i>					
	2007-08	2008-09	2009-10	Variance 2007- 08/2008-09	Variance 2008- 09/2009- 10
	RKR	RKR	RKR	%	%
Interest/Service Charge on Loans	29,554,482	45,059,287	62,836,839	52%	39%
Other Operating Income	4,024,310	6,512,210	7,277,906	62%	12%
Service charges earned	33,578,792	51,571,497	70,114,745	54%	36%
Interest on Loan	(7,484,707)	(9,133,819)	(21,214,310)	22%	132%
Net service charges income	26,094,085	42,437,678	48,900,435	63%	15%
Provision for Loan Losses	(1,432,547)	(2,620,751)	(5,628,313)	83%	115%
Write-Off	(1,046,739)	(3,043,870)	(1,161,577)	191%	(62)%
Net service charges income after provision	23,614,799	36,773,057	42,110,545	56%	15%
Other (interest on investment)	133,822	704,784	1,656,267	427%	135%
Other Non-Operating Income	1,150,000	500,000	500,000	(57)%	0%
	24,898,621	37,977,841	44,266,812	53%	17%
General and admin expenses	(30,102,050)	(39,268,401)	(39,317,463)	30%	0.1%
Community training expenses	(6,004,765)	(2,922,287)	-	(51)%	(100)%
Less: Non-Operating Expenses	(2,307,976)	(2,948,146)	(7,922,763)	28%	169%
Expenses for the year	(38,414,791)	(45,138,834)	(47,240,226)	18%	5%
	(13,516,170)	(7,160,993)	(2,973,414)	(47)%	(58)%
Grant Income	22,194,390	18,989,692	17,195,074	(14)%	(9)%
	8,678,220	11,828,699	14,221,660	36%	20%

Ratios

Table C

Ratios			
	2007-08	2008-09	2009-10
Gross fixed assets/Total assets	10%	9%	9%
Equity to asset ratio	22%	21%	22%
Gross loan portfolio/total assets	78%	87%	78%
Debt to equity ratio	3.2	3.4	3.2
Yield on portfolio	21%	21%	27%
Gross profit ratio	70%	71%	60%
Net profit ratio	26%	23%	20%
Interest cover ratio	116%	130%	67%
Operating expense ratio	114%	88%	67%
Write offs to average GLP	2.0%	2.5%	2.0%
Operating cost per borrower	1,668	1,676	1,700
Average loan balance per borrower	7,800	9,088	10,005

Table D: Sources of Income

	2007-08	2008-09	2009-10
Service charges earned	59%	72%	78%
Other (interest on investment)	0.2%	1%	2%
Other Non-Operating Income – Donations	2%	1%	1%
Grant Income	39%	26%	19%

Outreach of Safwco Micro Finance Program

As at June 30, 2010, the CED Program had 15 branches which were functional in various districts/cities of the Sindh Province in Pakistan. During the year the Program did not expand geographically but it did develop a strategy for future expansion into underserved areas and laid the groundwork for new branches in the future.

During the year the Program disbursed loans amounting Rs. 366 million to its clients. The outreach in terms of borrowers fluctuated on both sides during the year. For the first three quarters it increased and then slightly dipped in the last quarter (April – June 2010) by 4% as compared to the Previous quarter (January – March 2010) (Chart 2 shows the quarterly fluctuation in borrowers).

However, the financial year 2009-10 showed an increasing trend for the loan disbursed every quarter. This is because on an average the amount of loan disbursed to the borrowers increased every quarter. This is evident from the fact that during the quarter June – September 2009 Rs. 64 million were lent to the clients. This figure increased to Rs. 107 million for the last quarter of the year i.e. March – June 2010 reflecting an increase of 67% as compared to the first quarter. The chart below shows the loan disbursement during each quarter of the year ended June 30, 2010.

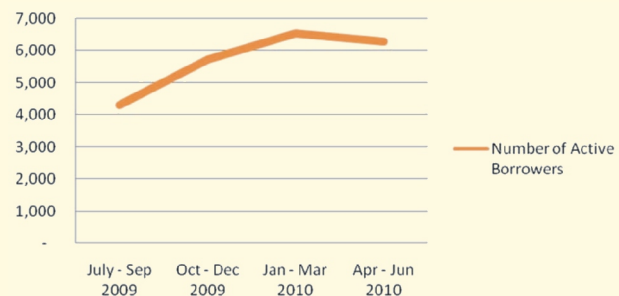
CHART 1

Quarter wise breakup of disbursements during the year



CHART 2

Number of Active Borrowers

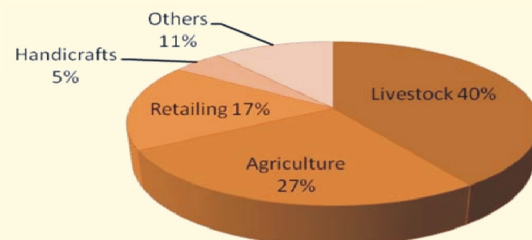


The Micro Finance Program is offering its products to clients working in various sectors. Majority of the Program's clientele is in the livestock, agricultural and retailing sectors. Handicrafts and other different income-generating businesses constitute only a small part of the overall lending. The largest sector catered by Safwco – CED program is the livestock sector which covers approximately 40% of the total loans disbursed during the year, 27% is covered by agriculture, 17% by retailing, 5% by handicrafts and 11% by clients in other businesses. Chart 3 shows the sector wise diversity of Program's portfolio.

Although livestock continues to be the largest sector disbursement wise, there is also a lot of potential in the agricultural sector whose share of the overall portfolio continues to increase over time. Moreover, the products for the agricultural sector were not offered to the clients in Nawabshah and Sanghar cities.

CHART 3

Sector wise diversity of the Micro Finance Program's Portfolio



Sector wise diversity of the Micro Finance Program's Portfolio

CHART 4

During the year, 47% of the loans disbursed by the Safwco's Micro Finance Program were to women. This percentage has not shown much variation.

Gender Distribution of the Micro Finance Program's Portfolio

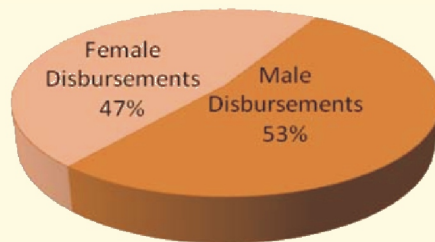


CHART 5

Gender wise distribution of the Micro Finance Program's Products

Although the overall percentage of women borrowers is less, a few sectors showed greater concentration of women as compared to men which included the livestock and the handicrafts sector with 68% and 89% proportion of women respectively. The following chart gives the gender wise distribution of Micro Finance Program's products.

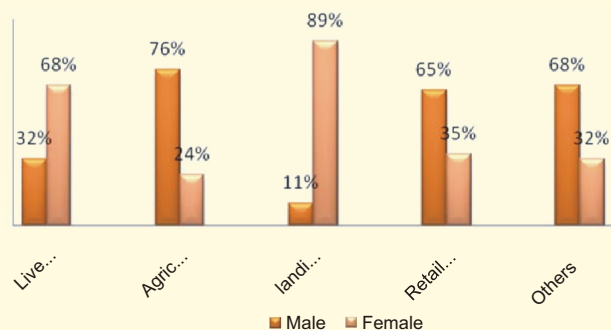
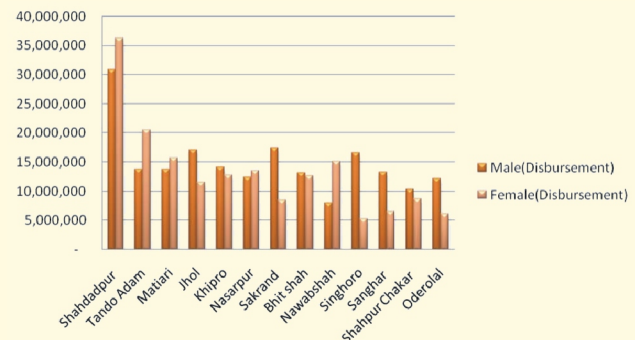


CHART 6

Gender wise District / City wise distribution of Micro Finance Program's Disbursements

Similarly, the proportion of women is higher in a few districts/cities. They include Shahdadpur, Tando Adam, Matiari, Jhol, Khipro, Nasarpur, Sakrand, Bhitshah and Nawabshah. These areas are those which have high number of disbursements in the livestock and the handicrafts sector.



Region/City-wise Analysis of Micro Finance Program

Safwco Micro Finance program is operational in different districts/cities of Sindh namely Shahdadpur (including EDF unit & Urban Branch), Tando Adam, Matiari, Jhol, Khipro, Nasarpur, Sakrand, Bhit Shah, Nawabshah, Sinjhoro, Sanghar, Shahpur Chakar and Oderolal.

The Program by far has its largest operations (disbursement wise) in the Shahdadpur which contributed the highest amount of loans disbursed and the total number of borrowers each quarter. With an annual lending of Rs. 67 million this city contributes more than 18% of loans disbursed during the financial year 2009-10. The operations in this city have grown tremendously during this year. The overall disbursements in the last quarter of the year March – June 2010 reached Rs.21 million which is almost 195% of what it was in the first quarter (Disbursements July – December 2009: 11 million).

CHART 7

Disbursements - District / City wise

Next biggest area by operations is Tando Adam contributing almost 9.5% of the total disbursements for the year which is far smaller than Shahdadpur, almost half of what is the scale of disbursements in Shahdadpur. The rest of the regions/cities add up to the portfolio between the ranges of 8% to 5% of which the smallest one is Oderolal which contributes only 5% to the disbursements. The following charts show the district/city-wise distribution of the disbursements and outreach in terms of clients.

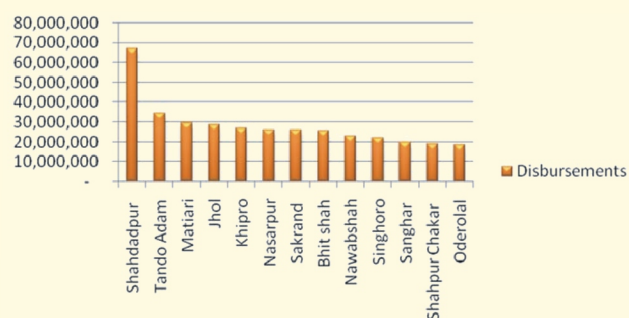
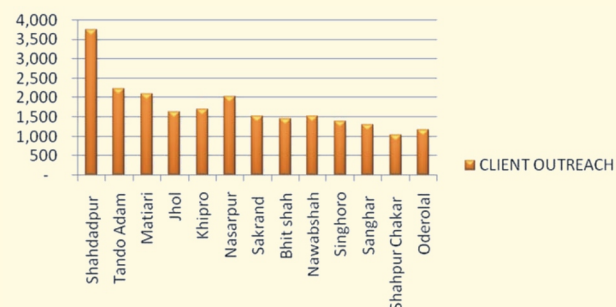
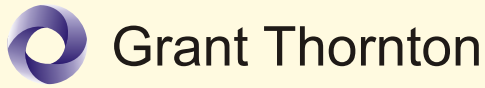


CHART 8

Client Outreach - District / City wise



Consolidated financial statements and auditor's report to the Board of
Governors
Sindh Agricultural and Forestry Workers Coordinating Organization
Credit and Enterprise Development (SAFWCO-CED)
For the year ended June 30, 2010



Anjum Asim Shahid Rahman
Chartered Accountants

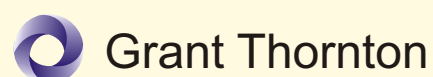


Consolidated financial statements and auditor's report to the Board of
Governors

Sindh Agricultural and Forestry Workers Coordinating Organization
Credit and Enterprise Development (SAFWCO-CED)

For the year ended June 30, 2010

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November 29, 2010

The Board of Governors

Sindh Agricultural & Forestry Workers Coordinating Organization

Credit Enterprise Development

House No. C-415/416

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Hyderabad

Dear Sirs,

DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

We are pleased to enclose three copies of draft consolidated financial statements of **Sindh Agricultural & Forestry Workers Coordinating Organization - Credit And Enterprise Development** (the Organization) for the Year ended **June 30, 2010** together with our draft audit report thereon. The enclosed draft consolidated financial statements have been initialed by us for the purpose of identification only. We shall be pleased to sign our report in the present or modified form after ;

- I) these consolidated financial statements have been considered and approved by the board of governors and signed by the Chief Executive Officer, Manager Finance and Member of governors body authorized to do so in the manner so required;
- ii) we have received a representation letter duly signed by the Chief Executive Officer and Manager Finance.

2. RESPONSIBILITIES OF THE AUDITORS AND THE BOARD OF GOVERNORS IN RELATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

The responsibilities of the independent auditors in a usual examination of the financial statements are explained in Section 255 of the Companies Ordinance, 1984 and International Standards on Auditing. While the auditors are responsible for forming and expressing their opinion on the financial statements. The responsibility for the preparation is primarily that of the management. The board's responsibilities include the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies and safeguarding of the assets. The audit of the financial statements does not relieve the board of its responsibilities. Accordingly, our examination of the books of accounts and records should not be relied upon to disclose all the errors or irregularities, which are nor material in relation to the consolidated financial statements .

Further the inclusion, publication, or reproduction by management of our report in documents containing information in addition to the financial statements and our report thereon, may require us to perform additional procedures to fulfill our professional responsibilities. For this, management shall provide us that additional information for our review.

3. OTHER MATTERS FOR BOARD OF GOVERNOR'S INFORMATION

3.1 Related parties transactions

We have been informed by the management that there have been no transactions with related parties other than those disclosed in notes to the financial statements.

3.2 Contingencies and commitments

We have been informed by the management that there are no contingencies and commitments as at balance sheet date.

3.3 Frauds and errors

We have been informed by the management that no cases of fraud and error have been brought to their knowledge which would have occurred during the year and which could have a material effect on these financial statements.

We wish to place on record our appreciation for the co-operation and courtesy extended to us by the management during the course of our audit.

Yours sincerely,



Anjum Asim Shahid Rahman
Chartered Accountants

Encl: As,above



Grant Thornton

Anjum Asim Shahid Rahman

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AUDITOR'S REPORT TO THE BOARD OF GOVERNORS

We have audited the annexed consolidated balance sheet of **Sindh Agricultural & Forestry Workers Coordinating Organization - Credit And Enterprise Development (the Organization)** as at June 30, 2010 and the related consolidated statement of income and expenditure, consolidated cash flow statement and consolidated statement of changes in retained surplus together with the notes forming part thereof (here-in-after referred to as the financial statements) for the year then ended.

It is the responsibility of the Board of Governors to establish and maintain a system of internal control, and prepare and present the consolidated financial statements in conformity with the approved accounting standards as applicable in Pakistan. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for opinion.

In our opinion the consolidated financial statements present fairly in all material respects the financial position of the Organization as at June 30, 2010 and of its consolidated surplus, consolidated cash flows and consolidated statement of changes in retained surplus for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Date: 15 JAN 2011
Karachi


Anjum Asim Shahid Rahman

Chartered Accountants

Muhammad Shaukat Naseeb

**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30,2010**

	Note	2010 -----Rupees-----	2009
ASSETS			
Current assets			
Cash and bank balances	4	45,769,422	11,535,290
Micro credit loans to customers - net	5	221,919,914	205,830,923
Grant receivable from PPAF		3,161,703	9,203,692
Accrued service charges		4,723,054	-
Advances, deposits and prepayments	6	4,821,648	3,969,671
		<u>280,395,741</u>	<u>230,539,576</u>
 Non-current assets			
Non-current assets	7	16,384,438	14,517,405
Fixed assets-tangible	8	105,500	211,000
Fixed assets-intangible		16,489,938	14,728,405
		<u>296,885,679</u>	<u>245,267,981</u>
 LIABILITIES			
Current liabilities	9	206,210,168	176,473,680
Loan from PPAF	10	7,029,108	4,492,025
Emergency Fund		4,270,820	-
Accrued markup on loan from PPAF	11	3,126,153	5,051,889
Accrued and other liabilities	12	1,611,192	585,641
Deferred grant for operations		222,247,441	186,603,235
 Non-current liabilities			
Deferred grant for fixed assets	13	9,180,905	7,429,073
Accumulated surplus		65,457,333	51,235,673
		<u>296,885,679</u>	<u>245,267,981</u>
Contingencies and commitments	14		

The annexed notes from 1 to 25 form an integral part of these consolidated financial statements


Chief Executive


Member Governing Body


Manager Finance

**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2010**

INCOME	Note	2010 -----Rupees-----	2009
Service charges earned	15	70,114,745	51,571,497
Service charges expense	16	(21,214,310)	(9,133,819)
Net service charges income		<u>48,900,435</u>	<u>42,437,678</u>
Charge to loan loss reserve	5.4	(5,628,313)	(2,620,751)
Loans directly written off	5.4	(1,161,577)	(3,043, 870)
Net service charges income after provision		42,110,545	36,773,057
Other income	17	<u>2,156, 267</u>	<u>1,204,784</u>
		<u>44,266,812</u>	<u>37,977,841</u>
 EXPENDITURE			
General and administrative expenses	18	39,317,463	39,268,401
Community training expenses		-	2,922,287
Other expenses	19	7,922,763	2,948,146
		<u>47,240,226</u>	<u>45,138,834</u>
Net operating deficit		(2,973,414)	(7,160,993)
Grant income	20	<u>17,195,074</u>	<u>18,989,692</u>
Net surplus for the year		<u>14,221,660</u>	<u>11,828,699</u>

The annexed notes from 1 to 25 form an integral part of these consolidated financial statements.



Chief Executive Officer



Member Governing Body




Manager Finance

**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010**

	2010	2009
	-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus for the year	14,221,660	11,828,699
<i>Adjustment for:</i>		
Depreciation	2,611,445	1,733,248
Amortization	105,500	105,500
Charge to loan loss reserve	5,628,313	2,620,751
Loans directly written off	1,161,577	3,043,870
Service charges	21,214,310	9,133,819
	<u>44,942,805</u>	<u>28,465,887</u>
(Increase) / decrease in operating assets		
Micro credit loans to customers - net	(22,878,881)	(73,998,226)
Accrued service charges	(4,723,054)	-
Grant receivable from PPAF	6,041,989	(5,526,757)
Advances, deposits and prepayments	(851,977)	34,376
	<u>(22,411,923)</u>	<u>(79,490,607)</u>
Increase / (decrease) in operating liabilities		
Emergency Fund	2,537,083	2,361,499
Accrued and other liabilities	(1,925,736)	(843,893)
Deferred grant for operations	1,025,551	(3,058,004)
	<u>1,636,898</u>	<u>(1,540,398)</u>
Service charges paid	<u>(16,943,490)</u>	<u>(9,133,819)</u>
Net cash generated from / (used in) operating activities	<u>7,224,290</u>	<u>(61,698,937)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets-tangible	(4,478,478)	(4,259,450)
Deferred grant for fixed assets	1,751,832	2,516,737
Net cash used in investing activities	<u>(2,726,646)</u>	<u>(1,742,713)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan from PPAF	29,736,488	50,814,647
Net cash generated from financing activities	<u>29,736,488</u>	<u>50,814,647</u>
Net increase / (decrease) in cash and cash equivalents	34,234,132	(12,627,003)
Cash and cash equivalents at the beginning of the year	<u>11,535,290</u>	<u>24,162,293</u>
Cash and cash equivalents at the end of the year	<u><u>45,769,422</u></u>	<u><u>11,535,290</u></u>

The annexed notes from 1 to 25 form an integral part of these consolidated financial statements.


Chief Executive Officer


Member Governing Body


Manager Finance

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
CONSOLIDATED STATEMENT OF CHANGES IN RETAINED SURPLUS
FOR THE YEAR ENDED JUNE 30, 2010

	Rules
Balance as at June 30, 2008	39,406,974
Net surplus for the year	
Balance as at June 30, 2009	<u>11,828,699</u>
	51,235,672
Net surplus for the year	
Balance as at June 30, 2010	<u>14,221,660</u>
	<u>65,457,333</u>

The annexed notes from 1 to 25 form an integral part of these consolidated financial statements.



Chief Executive Officer



Member Governing Body



Manager Finance

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

1. STATUS AND NATURE OF OPERATIONS

Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO) is a non government organization, registered on May 30, 1993 under the certificate of registration of Societies Act XXI of 1860. The registered office of SAFWCO is situated at Shahdadpur, Sindh. It is currently working in 3 districts of Sindh. It is engaged in activities compatible with the objectives of Pakistan Poverty Alleviation Fund (PPAF) and deals with projects/programmes for helping the poor, landless and asset less in order to enable them to gain access to resources for their productive self-employment, to encourage them to undertake activities of income generation and poverty alleviation and for enhancing their quality of life.

Credit & Enterprises Development Sector is a segment of SAFWCO which started its operations in 2000 and is engaged in programmes for poverty alleviation through capacity building of SAFWCO and the communities and through providing micro credits to groups and individuals for income generating activities. The operations are primarily funded through microfinance loans and grants received from PPAF. However, SAFWCO also revolves its earnings for the purpose of microfinance loans under its self owned Project named Revolving Fund.

SAFWCO has 15 branches (June 2009: 15 branches) in operations as at June 30, 2010 and employs 191 (June 2009: 152) staff and consultants.

1.1 Basis of consolidation

These consolidated financial statements include the financial statements of following projects and funds:

PPAF Capacity Building I
PPAF Capacity Building II
PPAF Capacity Building III
PPAF Capacity Building IV
PPAF EDF Capacity Building
PPAF MIOP Capacity Building
PPAF MIOP Capacity Building I
PPAF Micro Credit Account
PPAF MIOP Micro Credit Account
PPAF EDF Micro Credit Account
TUP Project
Emergency Fund Account
Village Bank System
Revolving Fund Account
SAFWCO-CED Fund Account
SAFWCO PPAF PRISM Micro Credit Account

The assets, liabilities, income and expenses of projects and funds have been consolidated on a line by line basis. Material intra-fund/project balance and transactions have been eliminated

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and in compliance with disclosure guidelines for financial reporting by Microfinance Institutions which are voluntary norms recommended by a group of sponsors, including the donors who make up the Consultative Group to Assist the Poor (CGAP) and the members of the Small Enterprise Education and Promotion network (SEEP).

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Cash and cash equivalents

cash and cash equivalents comprise cash in hand and balances with banks.

3.2 Micro credit loans to customers

Loans are stated net of loan loss reserve and loans written off directly through income and expenditure account. Loan loss reserve is created on amounts overdue for 30 days or above as per the following time based criteria:

Description	Reserve (Percentage of outstanding balance)
31 - 90 days overdue loans	10%
91 - 180 days overdue loans	25%
181 - 365 days overdue loans	50%
Above 365 days overdue loans	100%

Direct write offs can be made for loan disbursed at least two years before the date of financial statements.

3.3 Advances, deposits and prepayments

Advances, prepayments and other receivables are carried in the balance sheet at cost, which is the fair value of the consideration to be settled in the future for goods and services to be received.

3.4 Fixed assets

Tangible

Property, plant and equipment including all additions are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is charged to income by applying the reducing balance method systematically on monthly basis at the rates specified in note 7. Depreciation is charged from the month in which an asset is available for use while no depreciation is charged from the month in which the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to SAFWCO and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit and loss account during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of fixed asset, if any, are taken to income and expenditure account.

Intangible

Intangible assets are stated at cost less accumulated amortization. Amortization is charged to income applying the straight line method.

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Acquired computer software licensees are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 4 years.

3.5 Grants

Deferred grant for operations

SAFWCO records grants and donations for operations in the income statement below the net surplus / deficit from operations. Grants and donations for periods beyond the current operating period are recorded under liabilities as deferred grant for operations.

Deferred grant for fixed assets

Grants for fixed assets are recorded as deferred grants for fixed assets in the balance sheet and an amount equal to the period's depreciation is transferred to income over the useful life of the assets acquired.

3.6 Income recognition

Service charges on micro credit loans are recognised in the income and expenditure account using the effective interest rate method. Due but unpaid service charges are accrued on overdue loans for period up to 30 days. After 30 days, overdue loans are classified as non-performing and further accrual of unpaid services charges ceases. Accrued service charges on non-performing loans are reversed income on bank accounts is recognized on receipt basis.

3.7 Expenses

Service charges related to the long term loan payable to PPAF are charged to income and expenditure account as and when incurred.

3.8 Provisions

Provisions are recognized when there are legal or constructive obligations as a result of past events, it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amounts can be made.

3.9 Offsetting

Financial assets and financial liabilities are only set-off and the net amount is reported in the consolidated financial statements when there is a legally enforceable right to set-off and SAFWCO intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously.

3.10 Related party transactions

Related parties comprise of other projects, key management personnel and other related entities. All transactions and balances with related parties are disclosed in these consolidated financial statements.

3.11 Compensated absences

Cost of compensated absences is recognised when earned by the eligible staff.

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	-----Rupees-----	
4. CASH AND BANK BALANCES		
Cash in hand	637,145	1,022,965
Cash at banks		
Current Accounts	3,629,463	2,568,884
Saving accounts	41,502,814	7,943,441
	45,132,277	10,512,325
	<u>45,769,422</u>	<u>11,535,290</u>

5. MICRO CREDIT LOANS TO CUSTOMERS - NET

		2010		2009	
	Note	Number	Rupees	Number	Rupees
Regular loans		20,863	220,838,579	21,877	204,549,330
Overdue loans		2,260	10,509,195	1,553	8,378,761
Gross portfolio		23,123	231,347,774	23,430	212,928,091
Loan loss reserve	5.2		(5,029,663)		(2,637,970)
Loans written off	5.3		(4,398,197)		(4,459,198)
Net portfolio			<u>221,919,914</u>		<u>205,830,923</u>

5.1 Overdue loans have been classified in the following categories:

	2010			
Classification	Amount outstanding Rupees	Provision required %	Provision required Rupees	Provision held Rupees
1-30 days overdue	-	0%	-	-
31-90 days overdue	165,922	10%	16,592	16,592
91-180 days overdue	624,702	25%	156,176	156,176
181-365 days overdue	926,958	50%	463,479	463,479
Above 365 days overdue	8,791,613	100%	8,791,613	8,791,613
	<u>10,509,195</u>		<u>9,427,860</u>	<u>9,427,860</u>

	2009			
Classification	Amount outstanding Rupees	Provision required %	Provision required Rupees	Provision held Rupees
1-30 days overdue	-	0%	-	-
31-90 days overdue	346,045	10%	34,604	34,604
91-180 days overdue	257,954	25%	64,489	64,489
181-365 days overdue	1,553,397	50%	776,699	776,699
Above 365 days overdue	6,221,365	100%	6,221,365	6,221,365
	<u>8,378,761</u>		<u>7,097,157</u>	<u>7,097,157</u>

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

	2010 ----- Rupees -----	2009 -----
5.2 Loan loss reserve		
Opening balance	2,637,970	1,432,547
Charge for loan loss reserve for the year	5,628,313	2,620,751
Amount written off	(3,236,620)	(1,415,328)
Closing balance	5,029,663	2,637,970
5.3 Loan written off		
Write off from provision	3,236,620	1,415,328
Direct write off	1,161,577	3,043,870
	4,398,197	4,459,198
5.4 Charge to Income and Expenditure account		
Charge to loan loss reserve	5,628,313	2,620,751
Loans directly written off	1,161,577	3,043,870
	6,789,890	5,664,621

5.5 Portfolio Quality Report

SAFWCO's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending upon the number of days overdue. For each such class of loan, the outstanding principal balance of such loan is divided by the outstanding principal balance of the gross portfolio before deducting provision for loan losses.

	2010		2009	
	Rupees	Portfolio at Risk	Rupees	Portfolio at Risk
Regular	220,838,579		204,549,330	-
1-30 days overdue		0.00%	-	0.00%
31-90 days overdue	165,922	0.07%	346,045	0.16%
91-180 days overdue	624,702	0.27%	257,954	0.12%
181-365 days overdue	926,958	0.40%	1,553,397	0.73%
Above 365 days overdue	8,791,613	3.80%	6,221,365	2.92%
	231,347,774	4.54%	212,928,091	3.93%

SAFWCO does not allow rescheduling or restructuring of loans and during the year no loans were rescheduled or restructured.

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

During the year micro credit loans were disbursed relating to following products. Each product has same terms, conditions and service charge rates as follows:

Products	Average Term Range (in months)	Interest Rate (per annum)
Agriculture loan	6	20%
Regular monthly loan	3-12	20%
Buffalo purchasing loan	12	20%
Festival loan	12	20%
Eid ul Azha loan	3	20%
Half installment loan	6-12	20%

5.6 Current Recovery Ratio

Current recovery ratios are calculated and reported on a quarterly basis. The numerator of this ratio is total cash payments of principal received during the reporting period. The denominator is the total loans falling due during the period along with the payments in arrears at the start of the period. Penalty interest is not included in the numerator or the denominator of the ratio.

Period	2010	2009
1st Quarter	98.07%	93.01%
2nd Quarter	98.22%	93.07%
3rd Quarter	98.22%	93.13%
4th Quarter	98.38%	98.06%
	<u>98.38%</u>	<u>98.06%</u>

The loan are repaid in 1 year on average computed on the basis of a sample of tenure of loans disbursed during the year.

Under these circumstances, a current recovery ratio of 98.38% (2009:98.06%) for one year loans is approximately equivalent to an Annual Loss Rate (ALR) of 4.54% (2009:3.93%).

5.7 Loans to employees

Loans outstanding from employees are amounting to Rs. 2,832,088 as at June 30, 2010.

2010 2009
----- Rupees -----

6. ADVANCES, DEPOSITS AND PREPAYMENTS

Prepayments	513,464	
Advances to staff and branches	3,809,958	3,599,671
Security deposit	498,226	370,000
	<u>4,821,648</u>	<u>3,969,671</u>

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

7. FIXED ASSESTS - TANGIBLE

2010	Cost		Depreciation					
	As at July 01, 2009	Additions during the year	As at June 30, 2010	As at July 01, 2009	Charge for the year	As at June 30, 2010	Written down value as at June 30, 2010	Depreciation rate per annuum
				Rupees				
Freehold land	4,454,200	-	4,454,200	-	-	-	4,454,200	0%
Land and building	2,150,000	-	2,150,000	578,296	78,585	656,881	1,493,119	5%
Furniture and fixtures	1,829,050	253,708	2,082,758	553,858	132,392	686,250	1,396,508	10%
Computers	2,772,500	1,112,300	3,884,800	1,908,355	620,428	2,528,783	1,356,017	33%
Electrical equipment	1,086,890	529,970	1,616,860	701,463	199,785	901,248	715,612	20%
Motor vehicles	10,300,959	2,582,500	12,883,459	4,334,222	1,580,255	5,914,477	6,968,982	20%
	22,593,599	4,478,478	27,072,077	8,076,194	2,611,445	10,687,639	16,384,438	

2009	Cost		Depreciation					
	As at July 01, 2009	Additions during the year	As at June 30, 2010	As at July 01, 2009	Charge for the year	As at June 30, 2010	Written down value as at June 30, 2010	Depreciation rate per annuum
Freehold land	4,454,200	-	4,454,200	-	-	-	4,454,200	0%
Land and building	2,150,000	-	2,150,000	495,575	82,721	578,296	1,571,704	5%
Furniture and fixtures	1,566,800	262,250	1,829,050	426,915	126,943	553,858	1,275,192	10%
Computers	2,617,250	128,950	2,746,200	1,524,659	376,126	1,900,785	845,415	33%
Electrical equipment	1,068,490	44,700	1,113,190	612,932	96,100	709,032	404,158	20%
Motor vehicles	4,923,959	3,371,000	8,294,959	2,679,217	816,465	3,495,682	4,799,277	20%
Motor bikes	1,553,450	452,550	2,006,000	603,648	234,893	838,541	1,167,459	20%
	18,334,149	4,259,450	22,593,599	6,342,946	1,733,248	8,076,194	14,517,405	

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISE DEVELOPMENT SECTOR (SAFWCO-CED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010 ----- Rupees -----	2009 -----
8. FIXED ASSET INTANGIBLE			
Opening balance		211,000	316,500
Addition during the year		-	-
Amortization for the year		(105,500)	(105,500)
Closing balance		<u>105,500</u>	<u>211,000</u>
9. LOAN FROM PPAF			
Opening balance		176,473,680	125,659,033
Received during the year		<u>327,413,535</u>	<u>261,040,000</u>
		503,887,215	386,699,033
Principal repayment during the year		<u>(297,677,047)</u>	<u>(210,225,353)</u>
Closing balance		<u>206,210,168</u>	<u>176,473,680</u>
9.1 The loan carries service charges at the rate of 8% per annum on daily product basis. Upon expiry of the agreement it will be roll forward for another term for which maturity and other conditions such as pricing will be set by PPAF. The said loan is payable on quarterly basis. The loan is secured by hypothecation of outstanding loan portfolio, and first charge on all assets / capital items created out of financing agreement for capacity building.			
	Note	2010 ----- Rupees -----	2009 -----
10. EMERGENCY FUND			
Opening balance		4,492,025	2,130,526
Income for the year		<u>3,624,184</u>	<u>3,262,100</u>
		8,116,209	5,392,626
Expenses for the year		<u>(1,087,101)</u>	<u>(900,601)</u>
Closing balance		<u>7,029,108</u>	<u>4,492,025</u>
10.1 It represents 1% fee received from borrower at the time of loan disbursement. In the case of death of the borrower the fee is utilized to settle outstanding balance of loan.			
11. ACCRUED AND OTHER LIABILITIES			
Payable to other projects -net	11.1	2,191,381	3,928,738
Accrued liabilities		<u>934,772</u>	<u>1,123,151</u>
		<u>3,126,153</u>	<u>5,051,889</u>

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	-----Rupees-----	
11.1 Payable to other projects - net		
Owed to		
SAFWCO Endowment Account	224,646	224,646
Communities	10,385	-
Branches	81,394	171,869
SAFWCO HID	2,495,628	4,430,398
	2,812,053	4,826,913
Owed by		
Rural Development Program	400,882	400,882
Social Development Account	203,790	330,905
Staff Saving	10,000	110,000
Other	6,000	56,388
	620,672	898,175
	<u>2,191,381</u>	<u>3,928,738</u>
12. DEFERRED GRANT FOR OPERATIONS		
Opening balance	585,641	3,643,645
Received during the year	<u>15,898,787</u>	<u>14,487,825</u>
	16,484,428	18,131,470
Released to income to the extent of current expenditure	<u>(14,873,236)</u>	<u>(17,545,829)</u>
Closing balance	<u>1,611,192</u>	<u>585,641</u>

12.1 Movement in deferred grant for operations is as follows:

Program / Project	Fund balance of July 01, 2009	Funds received during the year	Funds receivable as at June 30, 2010	SAFWCO Contribution	Other Income	Total funds	Funds utilized for						Fund balance of June 30, 2010
							Operational expenditures	Capital expenditure	Program expenditure	Bank charges other charges	Returned to donors	Total funds utilized during the year	
PPAF MIOP Capacity Building I	-	11,881,352	-	2,464,551	52,628	14,398,531	(10,350,835)	(2,999,670)	-	-	-	(13,350,505)	1,048,026
Social Safety Net - TUP	585,641	8,091,105	-	647,376	26,025	9,350,147	(1,690,501)	(1,074,000)	(6,022,480)	-	-	(8,786,981)	563,166
	<u>585,641</u>	<u>19,972,457</u>	<u>-</u>	<u>3,111,927</u>	<u>78,653</u>	<u>23,748,678</u>	<u>(12,041,336)</u>	<u>(4,073,670)</u>	<u>(6,022,480)</u>	<u>-</u>	<u>-</u>	<u>(22,137,486)</u>	<u>1,611,192</u>

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	-----Rupees -----	
13. DEFERRED GRANT FOR FIXED ASSETS		
Opening balance	7,429,073	4,912,336
Net capital expenditure	4,073,670	3,960,600
	<u>11,502,743</u>	<u>8,872,936</u>
Deferred capital grant released to the extent of depreciation	(2,321,838)	(1,443,863)
Closing balance	<u><u>9,180,905</u></u>	<u><u>7,429,073</u></u>
14. CONTINGENCIES AND COMMITMENTS		
CONTINGENCIES		
The management has applied for the tax exemption certificate the process of which is still under process. Till the time exemption certificate is issued, it is expected that FBR may tax the surpluses/ income for the year. However, no provision has been made in these consolidated financial statements, as management is confident that exemption: will be allowed for entire period		
COMMITMENTS		
The are no commitments as at June 30, 2010		
	2010	2009
	-----Rupees -----	
15. SERVICE CHARGES EARNED		
Service charges on micro credit loans to customers	62,836,839	45,059,287
Loan processing fees	7,277,906	6,512,210
	<u><u>70,114,745</u></u>	<u><u>51,571,497</u></u>
16. SERVICE CHARGES EXPENSE		
Interest expense is recognized on the loan balance payable to PPAF at the rate of 8% annum in accordance with provisions of the loan agreement referred to in note 9.1.		
	2010	2009
	-----Rupees -----	
17. OTHER INCOME		
Donation	500,000	500,000
Bank Profit	1,656,267	691,554
Miscellaneous income	-	13,230
	<u><u>2,156,267</u></u>	<u><u>1,204,784</u></u>

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	-----Rupees-----	
18. GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and other benefits	24,172,009	23,653,772
Vehicle operating expenses	3,459,863	3,236,499
Training expenses	394,812	2,683,405
Office rent and utilities	2,026,238	1,994,056
Depreciation expense	2,401,663	1,718,590
Courier Expense	56,452	-
Entertainment expenses	1,050,188	-
Repair and maintenance	100,000	-
Bank charges	1,669,428	1,090,104
Traveling and conveyance	853,312	857,497
Office supplies and equipment	580,736	724,237
Printing and publication	686,863	723,324
Stationery	170,838	704,740
Audit expenses	539,951	584,917
MIS software	-	595,000
Amortization	105,500	105,500
Health insurance	425,615	-
Annual membership fees	579,600	-
Study grant	9,380	10,000
Miscellaneous	35,015	586,760
	<u>39,317,463</u>	<u>39,268,401</u>
19. OTHER EXPENSES		
Targeting Ultra Poor Project		
Grants for capital investment	2,006,023	948,676,
Salaries expenses	891,000	852,000
Subsistence allowance	2,087,000	290,000
Health care & subsidy	1,929,457	-
Office rent & utilities	251,700	261,110
Fuel & maintenance	239,750	240,560
Training allowance for trainees	48,000	97,800
Food charges	44,800	97,800
Management and logistics	29,400	53,400
Traveling and transportation	112,550	34,600
Printing and stationery	-	23,350
Bank charges	4,851	14,862
Depreciation	209,782	14,658
Training material cost	5,500	13,500
Miscellaaneous	62,950	5,830
	<u>7,922,763</u>	<u>2,948,146</u>
This expenditure was incurred on project undertaken by SAFWCO for Targeting Ultra poor project funded by PPAF :		
20. GRANT INCOME		
For operations	14,873,236	17,545,829
For fixed assets	2,321,838	1,443,863
	<u>17,195,074</u>	<u>18,989,692</u>

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

21. REMUNERATION TO KEY MANAGEMENT PERSONNEL

	Chief Executive Officer	General Manager
	2010	
	-----Rupees -----	
Managerial remuneration	-	270,000
Other benefits	-	36,000
	-	306,000

22. RELATED PARTY TRANSACTIONS

SAFWCO-CED has related party relationship with its key management personnel, including their associates, projects and SAFWCO. Transactions between the SAFWCO and its related parties are carried out under normal course of business.

Detail of payable to other projects is given in note 11 to these consolidated financial statements. There are no transactions with key management personnel other than under their terms of employment. Remuneration to key management personnel is disclosed in note 21 to these consolidated financial statements.

23. RISK MANAGEMENT

SAFWCO's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. SAFWCO's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the SAFWCO's financial performance.

SAFWCO's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. SAFWCO regularly reviews its risk management policies and system to reflect changes in markets, products and emerging best practice

23.1 CREDIT RISK

SAFWCO takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for SAFWCO by failing to discharge an obligation. Credit risk is the most important risk for the SAFWCO's business; management therefore carefully manages its exposure to credit risk. Credit exposure arise principally in lending activities that lead to loans into the SAFWCO's asset portfolio. The credit risk management and control are controlled through the credit policies of the SAFWCO which are updated regularly.

23.1.1 RISK LIMIT CONTROL AND MITIGATION POLICY

SAFWCO manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups.

SAFWCO structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or programmes. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations at the time of loan appraisal for initial and subsequent loans.

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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FOR THE YEAR ENDED JUNE 30, 2010

23.1.2. Impairment and provisioning policies

The management assess the existence of impairment, based on the accounting policy mentioned in note 3.2.

23.1.3 Maximum exposure to credit risk

Credit risk exposures relating to on-balance sheet assets are as follows :

	2010	2009
	-----Rupees -----	
Cash at bank	45,132,277	10,512,325
Micro credit loans to customers - net	221,919,914	205,830,923
Grant receivable from PPAF	3,161,703	9,203,692
Accrued service charges	4,723,054	-
Advances to staff	3,809,958	3,599,671
	<u>278,746,906</u>	<u>229,146,611</u>

23.1.4 Loans to customers are summarized as follows:

Neither past due nor impaired	220,838,579	204,549,330
Past due and impaired	<u>10,509,195</u>	<u>8,378,761</u>
Gross portfolio	231,347,774	212,928,091
Loan loss reserve	(5,029,663)	(2,637,970)
Loans written off	<u>4,398,197</u>	<u>(4,459,198)</u>
Net portfolio	<u>221,919,914</u>	<u>205,830,923</u>

23.1.5 Concentration of credit risk by class of business

SAFWCO's major credit risk arises from micro credit loans to customers, which is divided into following classes of business:

	2010		2009	
	Rupees	Percentage %	Rupees	Percentage %
Agriculture	53,088,775	23	53,136,523	25
Livestock	93,650,433	40	87,864,621	41
Retailing	41,391,805	18	40,810,640	19
Handicrafts	10,317,292	5	5,939,786	3
Others	33,304,654	14	25,176,521	12
Gross Portfolio	<u>231,752,959</u>	<u>100</u>	<u>212,928,091</u>	<u>100</u>

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FOR THE YEAR ENDED JUNE 30, 2010

23.1.6 Concentration of credit risk by geographical location

SAFWCO's major credit risk arises from micro credit loans to customers, which is divided into following geographical locations:

	2010		2009	
	Rupees	Percentage %	Rupees	Percentage %
Rural Branch Shahdadpur	23,596,915	10	30,434,567	14
Urban Branch Shahdadpur	19,273,920	8	16,124,671	8
Khipro Branch	18,174,167	8	17,185,029	8
Tando Adam Branch	21,235,642	9	17,488,260	8
Jhol Branch	17,385,187	8	19,250,017	9
Bhit Shah Branch	15,633,744	7	14,843,824	7
Nawabshah Branch	16,058,145	7	13,590,503	6
Sakrand Branch	16,681,535	7	14,555,608	7
Matyari Branch	17,932,000	8	13,079,010	6
Sanghar Branch	11,627,250	5	12,441,406	6
EDF Unit	1,374,759	1	5,119,599	2
Shahpur Chakar Settlement Branch	11,540,484	5	9,299,273	4
Sinjhor Settlement Branch	12,129,917	5	11,058,114	5
Udero Lal Settlement Branch	10,705,425	5	9,980,193	5
Nasarpur Settlement Branch	15,360,350	6	8,478,017	5
Village Banking System	2,638,334	1	-	-
Gross portfolio	231,347,774	100	212,928,091	100

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FOR THE YEAR ENDED JUNE 30, 2010

23.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprises of currency risk interest rate risk and other price risk.

SAFWCO is not exposed to significant market risk.

23.2.1 Interest rate sensitive financial assets and liabilities

		Interest / markup bearing				Non interest / mark up bearing				Total	
	Effective yield interest rate	Maturity upto one year	Maturity upto five years	Maturity over five years	Sub total	Maturity upto one year	Maturity upto five years	Maturity over five years	Sub total	June 30, 2010	June 30, 2009
----- Rupees -----											
Financial assets											
Cash and bank balances	5%	41,502,814	-	-	41,502,814	4,266,608	-	-	4,266,608	45,769,422	11,535,290
Micro credit loans to customers	20%	221,919,914	-	-	221,919,914	-	-	-	-	221,919,914	205,830,923
Grant receivable from PPAF		-	-	-	-	3,161,703	-	-	3,161,703	3,161,703	9,203,692
Advances, deposits and		-	-	-	-	4,308,184	-	-	4,308,184	4,308,184	3,969,671
Accrued service charges		-	-	-	-	4,723,054	-	-	4,723,054	4,723,054	-
		263,422,728			263,422,728	16,459,549			16,459,549	279,882,277	230,539,576
Financial liabilities											
Loan from PPAF	8%	206,210,168	-	-	206,210,168	-		-	-	206,210,168	176,473,680
Accrued and other liabilities		-	-	-	-	3,126,153			3,126,153	3,126,153	5,051,889
Accrued markup on loan from PPAF						4,270,820					
		206,210,168			206,210,168	3,126,153			3,126,153	209,336,321	181,525,569
		57,212,560			57,212,560	13,333,396			13,333,396	70,545,956	49,014,007

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

23.3 Liquidity risk

Liquidity risk is the risk that Safwco is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdraw. The consequence may by the failure to meet obligations to repay depositors and fulfill commitments to lend.

SAFWCO has a strong financial support from PPAF and has balances with SAFWCO for maintaining sufficient liquidity and to meet anticipated funding requirements. Change in the government monetary policy and market expectations of interest rate are all important factors that can adversely affect SAFWCO's key funding source. Efficient and accurate planning plays a critical role in liquidity management. Management performs a critical review of expected cash inflows / outflows which allow Safwco to take timely decisions based on the future requirements

23.3.1 Maturities of assets and liabilities

	2010					
	Total	Up to one month	Over one month upto six months	Over six months upto one year	Over one year upto five years	Over five years
	Rupees					
Assets						
Cash and bank balances	45,769,422	637,145	-	45,132,277	-	-
Micro credit loans to customers - net	221,919,914	-	-	221,919,914	-	-
Grant receivable from PPAF	3,161,703	-	-	3,161,703	-	-
Advances, deposits and prepayments	4,821,648	-	-	4,821,648	-	-
Accrued service charges	4,723,054	-	4,723,054	-	-	-
Fixed assets-tangible	16,384,438	-	-	-	9,040,611	7,343,827
Fixed assets-intangible	105,500	-	-	-	105,500	-
	296,885,679	637,145	4,723,054	275,035,542	9,146,111	7,343,827
Liabilities						
Loan from PPAF	206,210,168	-	-	206,210,168	-	-
Emergency Fund	7,029,108	-	-	7,029,108	-	-
Accrued and other liabilities	3,126,153	-	-	3,126,153	-	-
Accrued markup on loan from PPAF	4,270,820	-	4,270,820	-	-	-
Deferred grant for operations	1,611,192	-	-	1,611,192	-	-
Deferred grant for fixed assets	9,180,905	-	-	-	9,180,905	-
	231,428,346	-	4,270,820	217,976,621	9,180,905	-
Net assets	65,457,333	637,145	452,234	57,058,921	(34,794)	7,343,827

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FOR THE YEAR ENDED JUNE 30, 2010

	2009					
	Total	Up to one month	Over one month upto six months	Over six months upto one year	Over one year upto five years	Over five years
	Rupees -----					
Assets						
Cash and bank balances	11,535,290	1,022,965	-	10,512,325	-	-
Micro credit loans to customers - net	205,830,923	-	-	205,830,923	-	-
Grant receivable form PPAF	9,203,692	-	-	9,203,692	-	-
Advances, deposits and prepayments	3,969,671	-	-	3,969,671	-	-
Fixed assets-tangible	14,517,405	-	-	-	7,216,309	7,301,096
Fixed assets-intangible	211,000	-	-	-	211,000	-
	245,267,981	1,022,965	-	229,516,611	7,427,309	7,301,096
Liabilities						
Loan from PPAF	176,473,680	-	-	176,473,680	-	-
Emergency Fund	4,492,025	-	-	4,492,025	-	-
Accrued and other liabilities	5,051,889	-	-	5,051,889	-	-
Deferred grant for operations	585,641	-	-	585,641	-	-
Deferred grant for fixed assets	7,429,073	-	-	-	7,429,073	-
	194,032,308	-	-	186,603,235	7,429,073	-
Net assets	51,235,673	1,022,965	-	42,913,376	(1,764)	7,301,096

23.4 Capital risk management

SAFWCO's objectives when managing capital risks are to safeguard SAFWCO's ability to continue as a going concern in order to provide financial services to the world's lowest-income entrepreneurs.

Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'accumulated surplus' as shown in the consolidated balance sheet plus net debt.

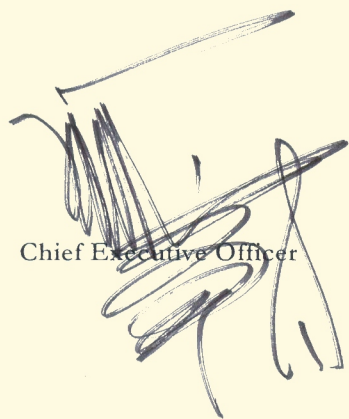
24. AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been authorized on 15 JAN 2011 by the Board of Governors of SAFWCO.

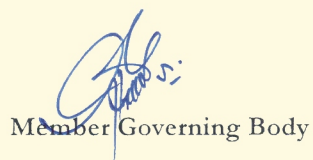
25. GENERAL

25.1 Figures have been rounded off to the nearest rupee.

25.2 Corresponding figures have been re-arranged and reclassified, wherever necessary for the purposes of comparison.



Chief Executive Officer



Member Governing Body



Manager Finance



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