

# **Pakistan-European Community**

## **Country Strategy Paper**

**for 2007-2013**

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## List of Acronyms

ADB	Asian Development Bank
ALA	Asia and Latin America
AKF	Aga Khan Foundation
ASEAN	Association of South-East Asia Nations
CSP	Country Strategy Paper
DIPECHO	Disaster Preparedness ECHO
ECHO	European Community Humanitarian Office
EPA	Environmental Protection Agency
ESR	Education Sector Reforms
EU EOM	EU Election Observation Mission
FATA	Federally Administered Tribal Areas
GDP	Gross Domestic Product
GOP	Government of Pakistan
GPI	Gender Parity Index
INGAD	Interagency Gender and Development Group
IPR	Intellectual Property Rights
MDGs	Millenium Development Goals
MIP	Multiannual Indicative Programme
MTDF	Medium-term Development Framework
MTR	Mid-term Review
NCS	National Conservation Strategy
NEAP	National Environmental Action Plan
NEP	National Environmental Policy
NIP	National Indicative Programme
NPEP	Northern Pakistan Education Project
NTBs	Non-Tariff Barriers
NWFP	North-West Frontier Province
PC	Planning Commission
PEPC	Pakistan Environmental Protection Council
PRSP	Poverty Reduction Strategy Paper
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SAP	Social Action Programme
SI	Stability Instrument
SPF	Small Project Facility
SPS	Sanitary and Phyto-sanitary (measures)
SME	Small and Medium Enterprises
TRTA	Trade-Related Technical Assistance
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNSCR	United Nations Security Council Resolution
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organisation
WWF	World Wildlife Fund

## 1. EXECUTIVE SUMMARY

With about 160 million inhabitants, Pakistan is the second largest Islamic nation after Indonesia. The country has considerable potential to develop into a stable, moderate and democratic state, but has not yet fully realised this potential. Although some progress on **democratisation** has been made by installing an elected parliament in October 2002, army influence is still strong and strengthening democratic institutions and processes remains an important task. Other political challenges include eliminating religious extremism and sectarian violence, addressing regional imbalances and improving the human rights situation. Continuation of the positive trend in relations with India and Afghanistan would greatly contribute to enhanced regional stability.

Since 1999 Pakistan has been successfully implementing a **macroeconomic reform programme**, resulting in some of the best economic indicators in its history. GDP growth registered 8.4% in 2004-05. This was facilitated by good export performance, high remittances and external financial support. However, the reforms have not yet had a major impact on reducing **poverty**, with one third of Pakistan's population still classified as poor. In spite of large contributions of official development aid, Pakistan's human development indicators worsened during the 1990s and social inequalities deepened. The 2004 UNDP Human Development Index ranks Pakistan last in South Asia. If the Millenium Development Goals are to be met a drastic change of approach towards social development will be required. The October 2005 earthquake caused widespread destruction but, according to the IMF, should have no major impact on Pakistan's economic prospects.

Pakistan is facing major **environmental problems**, including growing water shortages due to demographic pressure, deforestation and degradation of rangelands. There are fears that Pakistan could enter a downward spiral of environmental degradation and poverty. Poor **governance** remains a key issue and has had a negative impact on social service delivery. While the devolution process has strengthened local political institutions, more needs to be done to address management and capacity issues at local level.

The Islamic Republic of Pakistan and the European Union are committed to strengthening their relationship under the new **3<sup>rd</sup> Generation Cooperation Agreement**, which entered into force in 2004. In line with Pakistan's policy priorities, the key objective for 2007-2013 will be poverty reduction. The **first focal area** for assistance will be **rural development and natural resources management in North-West Frontier Province and Baluchistan** with a view to reducing regional disparities and promoting stability in Pakistan's sensitive provinces bordering Afghanistan. The **second focal area** will be **education and human resources development** which is a critical ingredient for developing a well-trained work force and creating a moderate and stable Pakistan.

Activities carried out in the field of higher education will be financed within the context of the regional programming for Asia. Other areas of assistance are trade development, democratisation and human rights and anti-money laundering.

Under the Development Cooperation Instrument (DCI), an indicative allocation of €398 million has been earmarked for Pakistan for the period 2007-2013. These resources may be supplemented by projects and programmes financed under the regional programmes for Asia and under various thematic programmes.

To maximise the impact of EC assistance, key cross-cutting issues, in particular the environment, conflict prevention, gender, HIV/AIDS, human rights and governance are mainstreamed in this CSP.

## 2. POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION

### 2.1 Analysis of the political situation

The Islamic Republic of Pakistan is the world's 7<sup>th</sup> biggest country and second largest Muslim nation after Indonesia with a population of about 160 million. Pakistan is a federal parliamentary democracy, but with strong army influence. General Pervez Musharraf took power in a military takeover in October 1999 and appointed himself Chief Executive and later President. He promised to redress the economy and fight corruption. The Supreme Court gave him three years to restore democracy. The military takeover resulted in international isolation including interruption of the political dialogue with the EU and temporary suspension from the decision-making bodies of the Commonwealth. Pakistan regained acceptance through its support for the international coalition against terrorism after withdrawing support from the Taliban regime in neighbouring Afghanistan following the 11 September 2001 incidents.

In April 2002 General Musharraf organised a referendum to extend his presidency until 2007, while retaining his post as Chief of Army Staff. Parliamentary elections were held in October 2002. The electoral process was described as "flawed" by an EU Election Observation Mission (EOM) as opposition parties headed by former Prime Minister Benazir Bhutto and Nawaz Sharif had been sidelined. After a long delay the newly elected National Assembly passed constitutional amendments substantially strengthening the role of the President. The required two-thirds majority was achieved only with support from religious parties. In return, President Musharraf pledged to give up his army uniform by the end of 2004. He subsequently retreated from this commitment, arguing that the uniform was important in his campaign to rid the country of extremism. The next parliamentary elections are expected to be held in 2007. They will have a decisive impact on whether Pakistan will make further progress towards strengthening democratic institutions.

Pakistan remains a low-income country but has the **potential to develop into a prosperous, moderate and democratic state**. Development of a stable democratic polity has been undermined by military interference in political affairs, which is illustrated by a history of alternation between civilian governments and military rule. Public and political accountability are areas with room for improvement. Conservative religious groups are challenging President Musharraf's agenda of "enlightened moderation".

Pakistan has suffered frequent sectarian violence in recent years. This is spearheaded by groups with support concentrated in NWFP and Baluchistan, including the tribal agencies on the Pakistan-Afghanistan border, and also in some larger cities like Karachi. The government has shown strong commitment to fighting terrorism by banning militant groups and arresting large numbers of Pakistanis and foreigners suspected of militant activities.

Pakistan displays considerable regional disparities, with the eastern provinces of Punjab and Sindh relatively wealthier than NWFP and Baluchistan. There is a long-standing

dispute between Sindh, Baluchistan and Punjab over a growing water shortage and harnessing hydroelectric power.

In 2000 Pakistan's then military government launched a campaign for political devolution aimed at transferring administrative and financial power to local governments, thereby strengthening local control and accountability. Local governments were elected on a non-party basis in 2001 and again in 2005. The devolution scheme has been criticised by the opposition for bypassing political parties and weakening the power of the provinces while doing little to establish accountability at local level.

Pakistan's constitution guarantees individual freedoms. However, frequent use of emergency legislation has eroded the stability of the legal system to uphold individual rights. A number of positive reforms have been carried out in the **human rights** field, notably related to police reform, abolition of the death penalty for juveniles and creation of a National Commission on the Status of Women. But the level of compliance with the new legislation is open to question. Several concerns remain, for instance related to the blasphemy and hudood laws, despite some procedural reforms. In November 2006 the Pakistan National Assembly and the Senate approved the Protection of Women (Criminal Laws Amendment) Bill to reform the Hudood decrees on adultery and rape. This is an important step in ensuring better protection of women's rights in Pakistan. Abuses of power by law enforcement agencies are common. Access to justice and lack of independence of the judiciary remain problematic. Women, religious and/or ethnic/tribal minorities and the poor are particularly vulnerable. Bonded and child labour as well as trafficking of children are still practised in Pakistan. Breaches of freedom of association and freedom of speech have been reported, especially in cases involving the political opposition.

Pakistan's ties with its neighbours are traditionally complex. Relations with **India** have experienced dramatic shifts, swinging from a tense border stand-off during 2002 to a resumption of the composite dialogue in January 2004. Confidence-building measures initiated since 2004 have been focussing mainly on travel links and people-to-people contacts and have raised hopes that the process has become "irreversible". Pakistan is expecting progress towards a settlement of the Kashmir issue, which it considers central for the success of the reconciliation process.

The long-standing conflict in **Afghanistan** and the resulting population movements have affected security throughout Southern and Central Asia. The Pakistan-Afghanistan border remains the scene of cross-border movements of insurgents and accompanying criminal activities such as drugs smuggling. Pakistan has made considerable efforts to control these phenomena by conducting military operations targeted at remnants of Al Qaida and the Taliban. These operations are highly unpopular with the local tribal populations. Bilateral relations with Afghanistan have been improved since 2001 but remain tense.

To sum up, Pakistan faces **difficult political challenges** in the years ahead: to complete the transition to a civilian government by strengthening democratic institutions and processes, to control religious extremism and sectarian violence and to improve the human rights situation, while continuing the positive trends in building better relations with India and Afghanistan.

## 2.2 Analysis of the economic situation including trade

Since 1999 Pakistan has been successfully implementing a **macroeconomic stabilisation** programme which has started to bear fruit: GDP growth has accelerated and official figures registered 8.4% growth in 2004-05, the highest in two decades. The fiscal deficit has been brought down and external debt has stabilised. However, **inflation** shot up to 9.3% in 2004-05, largely due to high oil prices.

The **earthquake on 8 October 2005** caused widespread destruction in Pakistan-administered Kashmir and eastern parts of the North-West Frontier Province, killing approximately 80,000 people and leaving 2.8 million without shelter. The areas affected suffered extensive damage to economic and social infrastructure. A Damage and Needs Assessment estimated costs for relief, livelihood support and reconstruction at US\$ 5.2 billion. Despite an expected adverse effect on the economy, particularly the fiscal deficit, the impact on economic growth should be modest. The IMF does not expect the earthquake to have a major impact on Pakistan's economic prospects.

Pakistan's economic development is affected by three underlying **structural weaknesses**: lack of a **skilled human resource base**, lack of **infrastructure**, particularly for electricity, railways and ports, and poor **governance**. **Foreign direct investment** has remained relatively low mainly due to concerns over security and to legal and regulatory issues. Although overall tax income has increased, the high dependence of the government on indirect taxes, low level of income tax collection and tax relief on capital and property gains have benefited mainly the small high-income segment of society.

Pakistan's **trade levels remain low** for a country of its size despite relatively fast growth in recent years. In 2003 Pakistan's trade openness, as a proportion of GDP, was 38%, which is low in international terms (for comparison ASEAN 144%). Pakistan's exports consist mainly of raw cotton, textiles and rice. If Pakistan is to integrate into the world market better, it needs to diversify its export base.

The **EU is Pakistan's largest trading partner**. EU imports from Pakistan have grown substantially over the years to €3.4 billion in 2005, nevertheless 2005 saw Pakistan register a trade deficit with the EU for the first time in many years. Pakistan's exports to the EU are heavily dependent on textile and clothing products (over 60 %). The main imports from the EU are mechanical and electrical machinery (47%) followed by chemicals and pharmaceuticals (22%).

Regional trade with **SAARC** countries stands at under 4 % of total trade. Pakistan would greatly benefit from increased regional trade, including with India. However, political constraints have effectively put a brake on expanding commercial links. This could possibly change if the current reconciliation process prevails. With reconstruction, trade with Afghanistan has grown very rapidly to about US\$ 1 billion per annum with further growth expected. Implementation of the South Asia Free Trade Agreement (**SAFTA**) is on track to start the liberalisation process as of July 2007.



### 2.3 Analysis of social development

The 2004 UNDP **Human Development Index** shows that only five countries have lower expenditure on health and education, as a percentage of GDP, than Pakistan. Overall, Pakistan ranked 142<sup>nd</sup> out of 177 countries in terms of human development which makes it last in South Asia. Only half of Pakistan's population is literate. According to an EC Strategic Review and Programming Mission, human development outcomes in Pakistan remain lower than in countries with similar income levels, and this gap is widening, not narrowing. Despite reduced tension in the region, spending on defence remains very high, limiting fiscal space for increasing social spending. It will be difficult for Pakistan to meet its Millennium Development Goals (MDGs)<sup>1</sup>, in particular on infant mortality, child malnutrition, and primary school enrolment, unless there is a drastic change in the government's approach to social development. If the MDGs are to be achieved, a significant reduction in gender gaps and policy measures specifically addressing gender inequalities will also be required. Gender differentials persist in health care, and maternal mortality remains high. Use of reproductive health services is low.

In 1999 a World Bank Poverty assessment classified one third of Pakistan's population as poor, with the phenomenon more pronounced in rural areas. In the absence of up-to-date statistics on poverty, it is difficult to say whether the economic growth achieved in recent years has had a positive effect on poverty. Many economists consider the reform process as purely growth- and not equity-oriented with little or no effect on reducing poverty. Some analysts believe that it would be difficult to tackle poverty without reforms in agriculture and land ownership, as agriculture still accounts for 25 % of the GDP and employs some 40 % of the labour force.

Pakistan's population growth rate is the highest in South Asia at around 2%. If this trend continues, the country's population could double by 2025, which would render integration of the working age population into the economy even more challenging than it is today. Indications are that recent growth has not been very employment-intensive, casting some doubt on MTFD projections that unemployment will come down from 7.5% in 2004-05 to 4.0% in 2009-10, unless the relationship between growth and labour absorption capacity improves dramatically. **Demographic pressure** has been contributing to out-migration for several decades. This is likely to continue in future.

Pakistan displays considerable regional disparities, with the eastern provinces of Punjab and Sindh relatively more advanced than NWFP and Baluchistan. There is disagreement on the formula for sharing the budget between the provinces and the centre and amongst the provinces themselves. Other provinces feel that Punjab benefits at their expense due to the strong emphasis on the population factor. There is also a long-standing dispute between provinces over the **growing water shortage** and harnessing of hydroelectric power. With Pakistan likely to face severe water shortages by 2010, disputes over this essential resource could potentially become a root cause for conflict and a source of internal and external instability. The problem is compounded by a rising need for household water to supply rapidly expanding urban populations.

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<sup>1</sup> For a detailed overview on targets and achievements towards MDGs, see ANNEX 5

To summarise, one of the biggest challenges for the future security, stability and economic prosperity of Pakistan is its **slow progress in social development**. The government has not given sufficient priority to education and health, which is reflected in the lowest budgetary allocation in South Asia. Key Millennium Development Goals will not be attained unless the Government undertakes a sustained shift of its spending priorities. Higher **investment in human capital and skills** will not only be a necessary condition for improvements in human development terms but also increasingly important to promote the creation of productive and decent work opportunities and to sustain growth rates in the long run.

Migratory flows out of Pakistan principally head westwards. The Pakistan authorities have been stepping up their capacity to prevent and fight illegal migration, especially through improving their ability to detect forged or fraudulent travel documents and to collect information on smugglers' networks. A readmission agreement with Pakistan is under negotiation.

## **2.4 Analysis of the environmental situation**

The environmental situation in Pakistan is giving cause for serious concern. Air pollution has increased manifold over the past ten years. From being a water-affluent country, Pakistan has now turned into a **water-scarce country**. The problem is aggravated by water pollution from various sources and increasing salinity. The country's forest stands suffer from extensive degradation, with no more than 4 per cent of the surface covered by trees. Pakistan's biodiversity is under threat, possible implications include capital depletion, flooding and desertification, loss of livelihoods as well as local insecurity. The fear is that Pakistan's environmental problems could become irreversible, entering a downward spiral of poverty and environmental degradation (the **poverty-environment nexus**). The existing level of degradation and pollution is aggravated by failure to bring the environment into the policy mainstream.

More than two decades of conflict in Afghanistan led to a massive **influx of refugees**, over 3 million of whom are still in the country. Refugees received food aid and other humanitarian assistance, but often competed with the local population in developing sustainable livelihoods. Their livestock contributed to degradation of the rangelands. They looked to remaining forest resources as a means of generating income and source of fuelwood and, in some cases, resorted to illegal logging. While repatriation of Afghan refugees remains a priority, options for finding durable solutions for Afghan refugees are under debate between the government, donors and aid agencies.

## **3. OUTLINE OF PAKISTAN'S POLICY AGENDA**

### **3.1 Poverty alleviation and macro-reforms**

The government's strategy is articulated in the **Poverty Reduction Strategy Paper (PRSP)** finalised in 2004. This outlines a comprehensive policy framework for continued growth and development in Pakistan. The PRSP is built around four pillars: (i) achieving broad-based **economic growth** focusing on the **rural economy**, (ii) improving

**governance** and consolidating devolution, (iii) investing in **human capital** and delivery of basic social services, and (iv) **targeting the poor** and vulnerable. The strategy also focuses upon attainment of Millennium Development Goals (MDGs) for sustainable development and poverty reduction and aims at forging an alliance between civil society and the private sector.

To implement the PRSP strategies and MDG action plans, the government presented a **Medium-Term Development Framework (MTDF) for 2005-10**, which is incorporated in its annual development planning. It focuses on three aspects of growth: development of **infrastructure, human resources development** and **technology** within the broad parameters of the macroeconomic framework.

The MTDF sets an ambitious GDP growth target of 7.4% per annum for 2005 to 2010, covering industry, agriculture and services. The MTDF recognises the private sector as a primary source of growth and places full emphasis on vocational/skill training and on upgrading the educational system and re-orienting it towards building a knowledge-based economy. It also recognizes the critical role of creating income and employment opportunities for economic growth and poverty reduction.

The **Local Government Ordinance** of 2001 introduced a far-reaching devolution plan designed to transfer administrative and financial responsibility, including social service delivery, to local governments. Financial resources are to be distributed to local governments through formula-based fiscal bloc transfers from the provinces. Accountability of local governments towards citizens is expected to increase.

**Devolution** has strengthened local political institutions and promoted gender equality in politics. However, there are mixed signals about the extent to which service delivery has improved so far and several key challenges remain to ensure successful completion of the devolution process, including management and capacity issues at local level, clear separation of federal, provincial and local responsibilities and a well-defined system of fiscal transfers.

### 3.2 Economy and trade

The vision for 2030 expressed by the government in its **MTDF** is to achieve a “developed, industrialised, just and prosperous Pakistan through **rapid and sustainable development in a resource-constrained economy by developing knowledge inputs.**” Macroeconomic stability is a key factor in this respect and is based, according to the GOP, on (i) increasing development expenditure; (ii) raising investment and exports (targeted to grow at an annual rate of 10%); and (iii) containing inflation below 6%. Agriculture and manufacturing, including **SME development**, will be given priority, together with **upgrading water, energy, transport and urban infrastructure**. Finally, the MTDF places emphasis on building intellectual capital by focusing on vocational training and the development of a **skilled workforce**.

The MTDF for 2005-10 also sets the objective of ensuring equitable development of regions and social cohesion. This will entail achieving not only growth, but also

**employment-oriented pro-poor economic growth and social protection.** Measures taken by the government over recent years include public works programs, support to the provision of micro-finance services and reforms of the social safety net. Further extension of social protection and pension and social security schemes to workers in the private sector and the informal economy will be needed, however, to improve pro-poor growth and reduce poverty. The MTFD also recognises that growth cannot be sustained by agriculture, textile-dominated manufacturing or low-productivity services, and calls for emphasis on building a knowledge-based economy with high-productivity sectors driving growth.

Pakistan's export development strategy is based on the need to increase both the volume and value of exports, through product diversification and adding to the value chain by capacity building capacity and enhancing exporters' capability. The tariff remains Pakistan's main **trade policy** instrument; its relative importance has increased as a result of the recent lifting of non-tariff barriers on several items. The scope for improving efficiency through further substantial cuts in tariffs may, however, be limited in the near future by the importance of the customs tariff to the government as a source of revenue.

Since 1999, reforms have been addressing fundamental issues concerning Pakistan's **banking sector** by strengthening the banking supervision and regulation systems. The reform process successfully laid the foundation for development of the micro-finance sector. Linked to this is the development of a sound **SME policy framework**, notably to facilitate access to finance for small entrepreneurs. Continued growth of this sector is regarded as a major source of employment and income.

### 3.3 Social reforms

The national **Education Sector Reform** (ESR) and the **Education For All** action plans form the centrepiece of the education strategy in the Poverty Reduction Strategy Paper (PRSP) and include reforming and mainstreaming religious schools (madrassas). While the strategy on education is well-articulated and clearly recognises problem issues, there is a need to turn policies into increased investment. The budget allocation for education remains below 2 % of GDP, as against the minimum of 4.5 % recommended by UNESCO. Provincial programmes account for over 90% of the country's education expenditure and merit more attention than they have been given under the strategic framework.

Progress towards education targets requires additional resources and improvements in the efficiency and quality of public spending which in turn is linked to the success of **devolution** - the fundamental reform in service delivery. The potential for **public-private partnerships** in education is significant in Pakistan, given the rapid expansion of private schools. **Capacity development and governance** are receiving increasing attention. Specifically, there is a realisation of the need to build capacity among district education officials and to implement strategies for improving teacher presence in schools.

The Ministry of Health has developed a five-year plan for 2005-10. "**Health for all**" is the government document containing guidance to help develop strategies for more efficient, equitable and sustainable policies. While the budget allocation for the health sector has increased, it is still only 0.7% of GDP, the lowest in South Asia.

The Government is implementing an HIV/AIDS Control Program with the aim to prevent HIV from becoming established in high-risk populations and spreading to a general adult population.

**Water and sanitation** facilities including sewerage in urban areas and drainage in rural areas are available to only 42% of the population. With the exception of a few big cities, sewerage services are almost non-existent, raising serious public health concerns. Public-sector investment in this area is inadequate, leaving many to rely on polluted and contaminated drinking water.

### 3.4 Environmental policy

Despite efforts to halt environmental degradation, environmental quality in Pakistan continues to deteriorate. The Mid-Term Review (MTR) of the **National Conservation Strategy (NCS)** undertaken in 2000 states that the primary achievements under the NCS were awareness-raising, and, to a lesser extent, institution-building, rather than actual improvements in the physical environment. At the same time, the environmental challenges faced by Pakistan are being amplified by factors such as a rapid population increase and economic growth.

**Environmental legislation** in Pakistan is fairly well developed. However, implementation on the ground remains extremely weak as the institutional set-up is inefficient and essential human, administrative, technical and financial resources are not available. These imbalances are addressed in the new draft National Environmental Policy (NEP) and the related Medium-Term Development Framework (MTDF) for 2005-10. Major issues to be addressed within the development framework are: water management, silting of reservoirs, municipal and industrial waste treatment, and improved access to sanitation.

## 4. OVERVIEW OF PAST AND ONGOING EC COOPERATION, COORDINATION AND COHERENCE

### 4.1 Past and ongoing EC cooperation

Since the start of its cooperation with Pakistan in 1976, the **Commission has committed more than €500 million to projects and programmes**. During the 1980s the Commission launched a mix of infrastructure and social development projects which focused on development of roads, bridges, a fishing harbour facility, rural electricity infrastructure, livestock, education, vocational training and integrated rural development. In the 1990s the Commission streamlined and consolidated its portfolio and reoriented its activities towards policy-based social sector investment programmes, placing greater emphasis on human development and environmental management in line with shifts in government policy. In addition, the Commission provided support to smaller-scale operations with NGOs in areas such as population welfare, child labour, income generation, drug demand reduction and rural health. Under the previous CSP, the EC cooperation in Pakistan focused on **human development**, in particular basic education

programmes at provincial level. In order to enhance Pakistan's capacity on WTO related issues, a trade-related technical assistance programme was launched in 2004 with a view to streamlining procedures and processes for trade facilitation in compliance with EU norms and standards.

For the period 2002-2006 €75 million were originally allocated for development and economic cooperation. Additional EC support to Pakistan was provided following the events of 2001 in recognition of Pakistan's role as a partner in the fight against terrorism. On the economic side, Pakistan received budgetary support of €50 million to support development of micro-finance SMEs. This was later supplemented with a special allocation of €20 million for education in the North West Frontier Province under the NIP for 2006. Following the October 2005 earthquake the Commission committed €8 million for relief and reconstruction. Substantial assistance was also provided under other thematic budget lines, including for Afghan refugees in Pakistan.

Under its **environment** cooperation policy, over the last decade the EC contributed a total of €32 million to rehabilitation, management and conservation of natural resources, safeguarding and conservation of biodiversity, education and capacity-building through sustainable resource management with the involvement of local communities. Major target areas included upland areas of Punjab and North-West Frontier Province (NWFP), benefiting more than 2 million people.

#### **4.2 Donor coordination and harmonisation**

The World Bank and the Asian Development Bank (ADB) are by far the largest providers of development loans to the country. Both have annual funding targets of over €1 billion for the years ahead. After the USA, the UK and Japan, the **European Commission is among the biggest grant donors** in Pakistan. Close inter-action with other key players is essential as joint programmes could substantially increase the policy leverage of EC investment.

The establishment of a **government-led donor coordination mechanism to monitor implementation of the PRSP** has been largely ineffective. While informal and formal donor coordination has increased, there is a need to further improve coherence and regularity in the policy dialogue with the government. There is also a need for increased dialogue between the major International Financial Institutions and other donors.

**EU Member States** regularly hold coordination meetings at country level. However, of the 16 Member States currently represented in Pakistan, only a few have large development cooperation programmes, in particular the United Kingdom, Germany and the Netherlands. Others contribute to more limited activities.

The Federal Education Ministry is now co-chairing the **education donor coordination** group which has become a prime vehicle for building up understanding of sectoral approaches. All provinces are making efforts to produce sector-wide plans, *inter alia*, as a future tool for donor coordination. Coordination in the sector is quite advanced in Sindh

Province where the donor core group will be transformed into a formal Sindh Education Sector Steering Committee, chaired by the Minister of Education.

The EC also plays a prominent role in **sectoral donor groups** on the environment and forestry, the Interagency Gender and Development Group (INGAD), and groups on human rights, trade policy, micro-finance and financial services and governance.

### 4.3 Coherence and Policy Mix

Pakistan's relations with the European Union are in large measure influenced by its important role as a partner in the **fight against terrorism**. Pakistan is located in a region which is of crucial interest to the EU and its security. The compelling reasons that led to engagement in 2001 remain valid today and include core strategic interests. Apart from fighting terrorism and proliferation of weapons of mass destruction and the associated means of delivery, these include assisting in disarmament efforts on small arms and light weapons, contributing to efforts on clearing explosive remnants of war, facilitating successful implementation of the Afghanistan project, supporting reconciliation with India, tackling the narcotics business, and promoting human rights, democratisation and a tolerant society. Pakistan could be a powerful and stabilising voice in the Islamic world, building bridges with the west and promoting stability and conflict resolution in the region.

The primary means for the EC to address these issues through its aid programmes is by way of **reducing poverty** and promoting good governance, both of which are essential components of the EU strategy to achieve the MDGs. By tackling MDGs with development assistance, the EC is helping to address the root causes of conflict, terror and drug abuse. There is also scope to focus EC cooperation more on needy provinces. Selection criteria would include poverty indicators and the commitment to economic and social reforms.

As regards policy mix, the EC aims to combine support for achieving the MDGs with helping Pakistan to perform economically. The EU/EC has supported Pakistan's prominent role in the fight against terror by **increasing market access**. The government is striving to reduce poverty by creating the right conditions through macroeconomic reforms. Access to EU markets for Pakistan's products will be important for foreign exchange earnings and job creation and could therefore make a significant contribution to domestic stability, while acting against social deprivation. To improve market access for Pakistani products, the EC is prepared to include Pakistan as one of its leading beneficiaries of Trade-Related Technical Assistance (TRTA). This cooperation aims at streamlining procedures and processes in order to facilitate trade and at enhancing compliance with EU norms and standards and should reflect both the important role of the textile sector in trade with the EU and the need for trade diversification. Furthermore the EC, while welcoming the MTF objective that Pakistan should seize the opportunities created by globalisation, supports the objective of strengthening the social dimension of globalisation and of promoting decent work.

The **3<sup>rd</sup> Generation Cooperation Agreement** entered into force in 2004 and provides the overall framework for EC cooperation with Pakistan. When the European Parliament ratified the Agreement in 2004 it also suggested that the Commission place particular emphasis on progress in the fields of **democratisation and human rights**. The new Cooperation Agreement contains a clause on respect for human rights and democratic principles as an essential element which gives the European Union and the Commission a strong mandate to re-enforce the policy dialogue and projects in these areas. Pakistan was chosen as a focus country under the European Initiative for Democracy and Human Rights for a number of years. The EU observed the 2002 General Elections by sending An **EU Election Observation Mission (EOM)** monitored the 2002 general election. The EOM recommended support to strengthen the electoral process in preparation for the next parliamentary elections in 2007.

The EC can indirectly support reconciliation between India and Pakistan by supporting the SAARC process and by encouraging regional exchanges under trade cooperation programmes.

In September 2000 the Commission received a mandate from the EU Council to **negotiate a readmission agreement with Pakistan**. At the time of drafting the CSP these negotiations were still in progress. Technical and other support could be required to assist Pakistan's authorities in this field. This can be provided under the AENEAS programme which aims at providing support to better management of migratory flows I all their dimensions.

The EU General Affairs Council put strong emphasis on the need for the EU to assist non-EU countries in the fight against terrorism under the UNSCR 1373 and decided that pilot projects should be launched in a limited number of countries. Due to its central role in supporting the global fight against terrorism, Pakistan was selected as one of the pilot countries and the Commission has responded to this request with a technical assistance project to combat **money laundering**. The orientation of EC development cooperation towards poverty alleviation also helps to address the root causes of terrorism.

## **5. THE EC RESPONSE STRATEGY (INTERVENTION SECTORS)**

### **5.1 Lessons learned and response strategy**

Experience to date in development cooperation in Pakistan provides some important lessons for the EC response strategy. This analysis is based on a number of relevant evaluations, a "Strategic Review and Programming Mission" and reports on "Environmental Rehabilitation in North West Frontier Province and Punjab", "Palas Rural Development Project", "Rural Social Development Programme", "Social Action Programme" and "Evaluation of Economic Cooperation between the European Community and Partner States".

Projects implemented under the CSP 2002-2006 amount to €9 million for education, €0 million for financial sector reforms, € million for trade development, € million for



prevention of child labour and €5 million for other activities (fight against terrorism and drugs, democratisation). A Strategic Review and Programming Mission determined that these interventions were firmly in line with government objectives outlined in the PRSP. The Review Mission pointed towards the need to address capacity constraints at various levels of administration.

Thematic budget lines and regional programmes covered activities covered support for NGOs, humanitarian aid, refugees, health, human rights and economic cooperation. Efforts were made to enhance synergy between these activities with the overall strategy.

The EC contributed substantially to two major rural environmental rehabilitation projects over the past years. These have been evaluated as successful with regard to achieving desired outputs, but a country environmental profile raised the question of sustainability. Future support to communities for safeguarding their natural resources requires that project design should value market-based mechanisms and would ideally be linked to social development, e.g. alternative rural livelihoods and land reform.

The following conclusions can be drawn:

- One key lesson from the Social Action Programme (a national multi-donor programme on education, health and water supply which ran from 1992 to 2002 with EC participation) is that reform programmes require a **high level of political commitment** to the core policy and institutional reform from the government. The disappointing outcome highlighted the difficulty of supporting social sector reforms without addressing lack of governance, particularly poor financial management and procurement practices.
  - ⇒ Sector support programmes need to include a **strong focus on governance**, public finance and systematic change. Whenever possible, they should be linked to **provincial and national reform programmes**, in coordination with IFIs.
- The **devolution process** has transformed the framework for cooperation: support programmes need to work primarily at district and provincial level. However, a great deal of **ambiguity remains on the mandates and responsibilities** of the respective layers of government (federal, provincial, district).
  - ⇒ While policy dialogue on social issues can be conducted at provincial level, **implementation needs to be supported in the districts**. There is a need clearly to define the roles and responsibilities of all actors. Devolution also implies **reorientation of the civil service** to enable the different levels to fulfil their roles. EC programmes need to take this into account.
- **Policies relevant to EC operations do exist** for most poverty-related sectors, but **implementation is often weak**.

- ⇒ The EC needs to intensify the **policy dialogue** to help ensure sustained political commitment to agreed policies. Budget support needs to be combined with specific performance indicators and increased financial commitment from the government to poverty-related expenditures.
- Increased budgetary allocations to social sectors and development programmes alone are not sufficient to fight poverty. **Institutional capacity to absorb and make effective use of funds is often lacking.** Existing allocations are sometimes not used at all or are spent without making any impact on poverty. Transfer and disbursements of funds can be slow, and decision-making on development expenditure ad hoc and politically motivated.
  - ⇒ When providing educational and other sectoral support, the EC will aim to **increase the absorption capacity of government systems.** Necessary structural changes should be tackled by working through government planning and budgetary systems. Before providing budgetary aid, institutional capacity to **plan and implement effectively** needs to be strengthened.
- Projects in **partnership with NGOs** (such as cooperation with the Aga Khan Foundation in the Northern Areas and in the educational field) have often had a positive and direct impact on the target populations. Involvement of civil society has also been highly instrumental in supporting societal change or counterbalancing the weakness of local governments. However, sustainability of those approaches remains a challenge.
  - ⇒ Working through **NGO/civil society/non-state actors can be a useful addition to sectoral programmes and budget support** operations, whenever possible. They could play a useful role as facilitators for public-private partnerships that would combine the sustainability and strength of government with the flexibility, efficiency and grassroot knowledge of NGOs.
- The **role of women** in the social development process is crucial, both as agents of change at decision-making level and also within the family and the community.
  - ⇒ Gender **mainstreaming** will need to be stepped up to ensure that the particular needs of women are properly addressed in all EC programmes. In addition, targeted non-focal action should tackle **women's rights**, as one of the most urgent human rights issues in Pakistan.

## 5.2 Focal Areas

The EC responded to the **8 October 2005 earthquake** by providing humanitarian aid of €48 million and by adopting, in December 2005, a € 50 million programme on “Earthquake Early Recovery and Reconstruction Support to Pakistan” which covers

rehabilitation of education and health facilities in the affected areas, an emergency education programme and community-based livelihood recovery schemes. This programme does not form part of this CSP/MIP, but special efforts will be undertaken to ensure coordination with other activities. The programme will be implemented for five years starting from 2006, therefore the EC does not foresee to allocate additional resources for long-term reconstruction and rehabilitation in this strategy document. The Commission will however closely follow evolving humanitarian needs during the recovery phase and could consider, if needs are justified, further assistance to the earthquake-affected vulnerable population. An effective transition between relief and recovery is essential.

The **overall aims** of European Commission operations in Pakistan are to **fight poverty** and help Pakistan follow a sustainable growth path. This will only succeed if growth is founded on political stability, social cohesion, creation of productive and decent work opportunities, human and social development, the rule of law and diversification of economic activity. EC programmes in Pakistan will be designed to contribute towards these objectives in line with the targets set out by the Pakistan Government in its five-year Medium-Term Development Framework and its Poverty Reduction Strategy Paper.

The proposed EC operations take into account the findings of the country environmental assessment (see Annex 5) which recommends that the priority for action should be to address the nexus of social and economic factors and associated environmental impacts while contributing to the overall objective of poverty alleviation.

The long-standing conflict in neighbouring Afghanistan has had a deep impact on economic and social development in the less developed and less secure western provinces. These provinces need to move further ahead towards the MDGs to ensure the **cohesion and stability of the country** as a whole and to prevent conflicts from evolving in these sensitive areas bordering Afghanistan. Such efforts would supplement the EC's substantial involvement in neighbouring Afghanistan. The first focal area of the EC Strategy therefore aims at improving **Rural Development and Natural Resources Management in NWFP and Balochistan**, placing particular emphasis on the deteriorating state of the environment and declining water resources, with the objective of improving livelihoods, income generation and employment creation among rural communities including refugee-impacted areas. This scenario is a strong reason for the EC to engage in cooperation here. Specific objectives include improved natural resources management, development and rehabilitation of community physical infrastructure, participation of women in development activities, and better livelihoods and incomes.

**Education and Human Resources Development play a strategic role** in the government's long-term plan. The EC seems well placed to build on its substantial experience to continue concentrating assistance in this area. This will be the second focal area for EC cooperation with Pakistan over the reference period. The overall objective is to increase access to basic education and to support measures to improve the quality of education and human resource development in order to better prepare Pakistan's transition to a knowledge-based growth economy.

The EC will address poverty alleviation and human resources development in the two focal areas described above through a budget-support approach whenever possible. In this connection, the EC will closely coordinate and link its activities with those of other donors, including with international financial institutions (IFIs), at both policy and operational levels.

Outcome indicators will include average income, access to social services including enrolment rates by gender and prevalence of HIV/AIDS, skills training and entrepreneurial opportunities, better use of water and forests and reduced environmental degradation.

Trade development with a view to further integration of Pakistan into the world economy together with human rights and democratisation will constitute non-focal areas of EC support.

The EC will further strengthen its cooperation with development-oriented NGOs and civil society organisations, including social partners if and when this contributes to achieving objectives outlined in this Country Strategy Paper.

### **5.2.1 Focal Area 1: Rural Development and Natural resources Management in NWFP and Baluchistan**

The PRSP gives priority to bringing vulnerable and backward regions into the mainstream of development by reducing existing inequalities. NWFP and Baluchistan are the two most disadvantaged provinces in Pakistan in terms of incidence of poverty and human development indicators. Ensuring economic and social cohesion between these provinces and their more advanced neighbours Sindh and Punjab would be of key importance to Pakistan's long-term stability. It would also have major cross-border significance with Afghanistan, notably by promoting better border security and encouraging the government to formulate medium- to long-term strategies for Afghan refugees.

Regional development policies offer the framework for EC cooperation activities in the two provinces. The Provincial Reform Programme in NWFP focuses on service delivery, good governance and financial management. There is determination to bring the Federally Administered Tribal Areas (FATA), which are formally part of NWFP but administered separately through the FATA Secretariat, into the development mainstream. Regional reforms in Baluchistan will place emphasis on good governance, human and social development and water. The provincial government has devised a water conservation strategy. One key challenge in both provinces is to work towards sustained poverty reduction through better environmental management.

Natural resources management has been neglected in Pakistan's border areas, strained by the impact of long-standing regional conflict and the heavy influx of refugees from neighbouring Afghanistan. Availability of water is an important factor. This will be addressed by means of a holistic rural development approach with emphasis on

improving livelihoods, upgrading rural infrastructure and preserving natural resources. Another aim is to discourage illicit activities, in particular production and trafficking of drugs, and trafficking and spread of illicit small arms and light weapons, within a wider regional context.

Operations will take account of the devolution process, aiming to decentralise decision-making and implementation to local governments (The FATA have not so far been part of the devolution process). While local governments will be the main partners in this approach, concerns remain about implementation capacity in the districts due to lack of manpower and incomplete devolution. It could therefore be necessary to make workable arrangements with provincial and local authorities to subcontract part of the development task to civil society organisations.

Within this priority, the Commission could play an important role in natural resource management, covering issues such as water management and distribution, energy, forest management, land reform and governance. **Equity and governance in resource management should be addressed by a bottom-up approach** involving civil society organisations. This builds on past EC experience in this field.

Implementation of the EC Country Strategy will be closely coordinated with the efforts of the international community to support a comprehensive solution to the situation of Afghan refugees. With humanitarian assistance, including ECHO-funded operations, due to be phased out, it will be crucial to ensure a successful transition from the short-term relief provided for more than two decades to Afghan refugees towards an area-based development approach for the benefit of the refugee-impacted border areas in Pakistan, supporting the development of livelihoods in the affected communities. The geographic focus of EC operations will thus take account of the areas hardest hit by the presence of Afghan refugees.

### **5.2.2 Focal Area 2: Education and Human Resources Development**

Continued support to education can build on the experience of what is already a focal area of EC-Pakistan cooperation. Strengthening **education** is a critical ingredient for creating a moderate, stable democratic Pakistan in the medium to long term. A well trained workforce will be instrumental in enhancing Pakistan's growth potential. Donor support can provide incentives for the Government of Pakistan increasingly to realign spending priorities in this area and in the social sectors as a whole.

The EC will continue **dialogue at federal and provincial levels to mobilise political support in favour of allocating additional resources to human development and improved sector planning**. Major objectives would include enhancing education indicators towards achieving MDGs, strengthening the public education system, persuading the government to continue reforms of *madrassas*, enhancing the overall productivity of the work force and building up the capacity of civil society. This will involve supporting improvements in governance at district and provincial levels, for instance on budget processes. **Partnerships with other donors**, including IFIs, will be

reinforced. The outcome of the National Education Policy Review process will further inform the fine tuning of the proposed intervention strategy in the education sector. In Sindh and NWFP the EC is working towards a multi-donor sector approach which could become a model for other provinces. This type of joint action will help to **build up institutional capacity at provincial and district level** and address concerns over the efficiency of expenditure in the education sector and absorption capacity. The ultimate aim is to provide quality education services, raise levels of learning, improve teacher performance and facilitate access to better quality schools especially for girls and socially disadvantaged groups.

While emphasis should remain on supporting basic education, the EC, in line with stated government priorities, will also look into needs in other areas of education. It is felt that too little is being done for middle, secondary and vocational education, especially with a view to providing better qualifications for job entrants in response to the challenge of providing employable skills for Pakistan's economy, as identified in the PRSP and MTRF. Provision of quality higher education is another area where Pakistan is striving for improvements to which the EC can contribute.

The main objective here is to enhance international cooperation capacity of universities by facilitating transfer of know-how and good practices in the field of student and academic staff mobility. The European Commission will contribute to financing a mobility scheme between European universities holding an Erasmus Charter and third country universities that will complement existing programmes in the field of higher education. The types of mobility to be funded are master, doctorate and post-doctorate opportunities for students and exchanges for the purposes of teaching, practical training and research for academic staff. Higher cooperation activities will be funded under the regional programming for Asia.

Education on human rights, decent work, including core labour standards and health and safety at the workplace, family health and welfare and HIV/AIDS will receive support as cross-cutting issues.

The EC has established a track record in Pakistan for cooperating with civil society organisations such as the Aga Khan Foundation (AKF) in the educational field. To consolidate this approach, emphasis will be placed on working through public-private partnerships where appropriate. At national level, applied research on education and policy analysis could be further strengthened and would be a useful addition to cooperation at provincial and district level.

To enhance disaster preparedness and response, DIPECHO activities will focus on capacity building of local communities and authorities.

## 5.3 Non-focal areas

### 5.3.1 Trade Development and Economic Cooperation

Pakistan's export base is narrow in terms of products and markets and international competition is increasing. The EU, as Pakistan's largest trading partner, is prepared to support Pakistan's efforts to seek new trade and business opportunities and enhanced competitiveness through continued and **expanded trade-related technical assistance** based on the experience from the first major cooperation programme in this area launched in 2004 and a Trade Needs Assessment carried out in 2005 which provides a comprehensive overview of major constraints and potential. The social dimension of globalisation should be taken into account.

Emphasis should be placed on support to (i) development and implementation of the GOP's medium-term trade strategy in line with the PRSP and MTFD; (ii) the Doha Development Agenda, including policy and sector-level activities; and (iii) regional and bilateral trade cooperation.

Increasing trade and economic interaction at regional level is crucial and could lead to an improvement in relations between Pakistan and India. Pakistan's role in regional initiatives, for instance on implementing SAFTA, will be supported where possible and could be backed up by direct cooperation with regional bodies such as SAARC.

The EC's trade and economic co-operation will be based on a needs assessment and focus on:

- Expanded **trade-related technical assistance** on implementing the Doha Development Agenda and trade diversification through possible technical cooperation, capacity-building, networking and information exchange. Themes may include intellectual property rights, trade facilitation, food safety standards, in particular sanitary and phyto-sanitary (SPS) measures, and non-tariff barriers (NTBs).
- **Business-to-business cooperation** between EU and Pakistan with emphasis on trade; investment opportunities and corporate social responsibility, and cross-cutting issues such as gender and the environment. There is also a strong need for trade diversification through technical cooperation, networking and information exchange. The role of SMEs in the export sector could be reinforced.

EC assistance will focus on both **public-sector and private-sector stakeholders**. Co-operation with other donors and regional facilities shall be pursued.

### 5.3.2 Democratisation and Human Rights

In line with emphasis by the Government of Pakistan on the reform of the judiciary, the EC will continue to support initiatives to strengthen democratisation and to improve the human rights situation in Pakistan. This will take the form of facilitating **access to justice for vulnerable groups** of society, notably women, children and religious and/or

ethnic/tribal minorities particularly through strengthening viable systems to provide legal assistance to deprived and vulnerable individuals. Support for awareness-raising campaigns, for instance on women's rights and core labour standards, would back up these activities.

The EC will continue to build on its experience on combating child labour to address child protection issues in a broader sense, including violence, abuse, trafficking, exploitation and discrimination. Special emphasis will be placed on juvenile justice. Another area of concern is minorities' rights.

The EC will cooperate with national institutions with a specific mandate for the protection and promotion of human rights and human and social development in order to help the government of Pakistan to implement its policies and international commitment towards human rights, fair globalisation and decent work.

The EC is prepared to assist with further strengthening the democratic process in Pakistan with a particular focus on political parties, public accountability and the electoral process, taking into account the recommendations made by EU election observers.

### **5.3.3 Support to Non-State Actors and Thematic Budget Lines**

The EC recognises the special contribution made by **NGOs/Non-State Actors, including social partners**, to the overall socio-economic development. Consequently, engaging civil society is an increasingly important focal area in the EC-Pakistan cooperation portfolio. Amid deficiencies and gaps in state social services, NGOs in Pakistan contribute a significant percentage of basic social services, particularly to the poorest and most marginalised segments of society. At the same time, it cannot be assumed that all NGO activities are self-sustaining, particularly in the case of social services. In the medium term, the EC plans to continue financially to support NGOs/non-state capacity in Pakistan, from the **Thematic Budget Line on Non-state Actors and Local Authorities in Development** and **Regional Asia-wide Programmes**, which provide essential social services, in close collaboration with the government of Pakistan, in the devolved institutional set-up to foster public-private and private-private partnerships at grassroots level. Some 20% of the assistance in the EC's ongoing portfolio is contributed through these channels.

In response to the on-going under funding of the world-wide fight against transmittable diseases – and at the request of the Council - the Commission intends to launch “A European Programme for Action to Confront **HIV/AIDS, Malaria and Tuberculosis** through External Action (2007-2011)”<sup>2</sup>. While linked to the EC operations on HIV/AIDS and Tuberculosis in Pakistan under thematic budget lines, this global programme could provide the framework and possible funding for future EC action in these areas.

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<sup>2</sup> Communication from the Commission to the Council and the European Parliament; A European Programme for Action to Confront HIV/AIDS, Malaria and Tuberculosis through External Action (2007-2011), 27.04.2005, COM (2005) 179 final



Population control is a key cross-cutting issue that determines the effectiveness of Pakistan's Poverty Reduction Strategy. **Reproductive health programmes** are currently funded at country level from different thematic budget lines. To ensure a more policy-based and consistent approach, additional support for reproductive health could be provided through a strategic EC framework programme.

In the context of EU migration policies and negotiation of a readmission agreement, the Commission is prepared to provide focused support in this field from the **migration and asylum thematic budget line**.

Other thematic areas which Pakistan could benefit from include **Human Rights and Democracy** (in addition to activities mentioned under 5.3.2) along with activities related to **Environment and Sustainable Management of Natural Resources, including Energy**, to address the growing challenges in this field.

#### **5.3.4 Governance and Security**

Within the DCI area of cooperation on governance, democracy, human rights and support for institutional reform, in particular related to co-operation and policy reform in the fields of security and justice, the Community will carry out measures which shall fully respect OECD-DAC guidelines, taking also into consideration relevant European Council Conclusions.

Where relevant, in particular in crisis situations, assistance could be provided under the new Stability Instrument (SI) to support external EC action in the field of conflict prevention and regional stability.

#### **5.4 Indicative Timetable for Implementation**

Under the Development Cooperation Instrument (DCI), an indicative allocation of €398 million has been earmarked for Pakistan for the period 2007-2013.

MIP I: 50% of the total envelope for Pakistan (approximately €200 million).

MIP II: 50% of the total envelope for Pakistan (approximately €198 million).

## **ANNEX 1: EU/EC CO-OPERATION OBJECTIVES**

### **1. The EC Treaty Objectives for External Co-operation**

The European Commission's development programme in Pakistan is grounded in the objectives set out in Art 177 of the Treaty of the European Union,<sup>3</sup> which sets out the following broad objectives for development cooperation:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them.
- The smooth and gradual integration of the developing countries into the world economy.
- The campaign against poverty in the developing countries.

This is tied to the general objective of developing and consolidating democracy and the rule of law, and encouraging respect for human rights and fundamental freedoms. The Treaty also calls for coordination and consultation between the Community and the Member States on their aid programmes.

On the basis of Article 179 of the same Treaty, a new Development Cooperation Instrument (DCI) was adopted in December 2006. Pakistan is eligible to participate in cooperation programmes financed under the DCI [regulation (EC) N° 1905 of the European Parliament and the Council of 18 December 2006 establishing a financial instrument for development cooperation].

### **2. Objectives of the EU as laid down in other applicable documents**

The Treaty objectives are reflected in the 2004 Cooperation Agreement (Council Decision of 29<sup>th</sup> April 2004, 2004/870/EC between the European Community and the Islamic Republic of Pakistan), which contains the following four objectives:

- To secure the conditions for and to promote the increase and development of two-way trade between the Parties in accordance with the Agreement establishing the World Trade Organisation (WTO);
- To support Pakistan's efforts for comprehensive and sustainable development, including economic and social development policies which take account of the poor and disadvantaged sections of its population, particularly women in these sections, as well as the sustainable management of natural resources;
- To promote investment and economic, technical and cultural links in their mutual interest;
- To build Pakistan's economic capability to interact more effectively with the Community.

The 2001 Communication *Europe and Asia* (Commission Communication COM(2001)469 "Europe and Asia: A Strategic Framework for enhanced partnerships")

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<sup>3</sup> <http://europa.eu.int/abc/obj/treaties/en/entoc05.htm>

further defines the framework the following 6 objectives: (i) contribute to peace and security in the region and globally, through a broadening of our engagement with the region; (ii) further strengthen our mutual trade and investment flows with the region; (iii) promote the development of the less prosperous countries of the region, addressing the root causes of poverty; (iv) contribute to the protection of human rights and to the spreading of democracy, good governance and the rule of law; (v) build global partnerships and alliances with Asian countries, in appropriate international fora, to help address both the challenges and the opportunities offered by globalisation and to strengthen our joint efforts on global environmental and security issues; (vi) and help strengthen the awareness of Europe in Asia (and vice versa).

### **3. Speeding up Progress towards the Millennium Development Goals**

In its 12 April 2005 Communication on Speeding up progress towards the Millennium Development Goals,<sup>4</sup> the Commission takes stock of the EU's contribution to development and identifies the necessary measures to accelerate achievement of the MDGs. The Commission's aims at (a) setting new intermediate targets for growth in official aid budget by 2010 for both EU and Member States, ultimately achieving the 0.7% target of gross national income (GNI) by 2015, (b) speeding up reforms to improve aid quality, (c) re-evaluating EU's influence on the conditions for development and (d) ensuring Africa's primacy as the beneficiary of these approaches with a re-renewed impetus of partnership between the two continents. The proposals on Development Financing and Policy Coherence are set out in detail in two other communications. Together these contribute to the three pillars of sustainable development (economic, social and environmental).

### **4. Financing for Development and Aid Effectiveness**

In its 12 April 2005 Communication on Financing for Development and Aid Effectiveness,<sup>5</sup> the Commission outlines means of achieving interim targets of increased ODA volumes by 2010 and move towards the UN target of 0.7% GNI by 2015. It suggests new aid modalities, innovative finance sources and includes proposals in addressing the remaining post-HIPC debt problem of low income countries. It suggests redefining EU commitment regarding GPG. The main challenge on co-ordination and harmonisation is the credible implementation of the EU framework and results of the High Level Forum on aid effectiveness and complementarity in aid delivery. Commitment on reforming the International Finance System must be strengthened.

### **5. EU Policy Coherence for Development**

In its 12 April 2005 Communication on Policy Coherence for Development,<sup>6</sup> the Commission has defined coherence commitments in the overall framework of the EU sustainable development strategy and identified the following priority areas with high potential of attaining synergies with development policy objectives: trade; environment;

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<sup>4</sup> COM 2005/0132 final

<sup>5</sup> COM 2005/0133 final

<sup>6</sup> COM2005/0134 final

security; agriculture and fisheries; social dimension of globalisation, employment and decent work; migration; research and innovation; information society; transport and energy. These commitments were endorsed by the Council (GAERC) on 24 May 2005. The Communication further calls on non-development policies to respect development policy objectives and on development cooperation to also contribute, where possible, to reaching the objectives of other EU policies.

## **6. The ‘European Consensus’ on EU Development Policy**

In its meeting on 22 November 2005, the General Affairs and External Relations Council adopted the EU Development Policy Statement, also known as “the European Consensus”<sup>7</sup>, endorsed by the European Parliament on 15<sup>th</sup> December, substituting the development commitments of the Joint Declaration of the Council and European Commission from November 2000. The “European Consensus on Development” provides, for the first time, a common vision that guides the action of the EU, both at its Member States and Community levels, in development cooperation. The Statement identifies the eradication of poverty in the context of sustainable development, including pursuit of the MDGs, as the primary and overarching objective of EU development cooperation. The Statement also emphasises that EU partnership and dialogue with third countries will promote common values of respect for human rights, fundamental freedoms, peace, democracy, good governance, gender equality, the rule of law, solidarity and justice and the EU’s commitment to effective multilateralism.

The priorities from the ‘European Consensus’ are supported by a number of subject-specific communications, including the 2001 Communication on the Programme of Action for the mainstreaming of gender equality in Community development cooperation, the 2002 Communication ‘Trade and development: assisting developing countries to benefit from trade’, the 2003 Communication on Governance and Development and the Sixth Environmental Action Plan (Com (2001) 31, the Communication on “Fighting rural Poverty” (COM 2002, 429) and the EU Guidelines to support land policy design and reform processes in developing countries (COM (2004) 686).

## **7. The 2005 UN Summit conclusions on human and social development**

The importance of strengthening the social dimension of globalisation and of promoting productive employment and decent work opportunities was highlighted in §47 of the UN Summit conclusions of September 2005 regarding human and social development. UN member states committed themselves in particular to “*strongly support fair globalisation and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the MDGs.*”

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<sup>7</sup> Joint Statement on European Union Development Policy ‘the European Consensus’, Council of the European Union, 14820/05.

## ANNEX 2: Country at a glance

The status of the country as to the likely achievement of the Millennium Development Goals at a glance

In October 2006, *United Nations Economic and Social Commission for Asia and the Pacific UNESCAP*, the *United Nations Development Programme UNDP* and the *Asian Development Bank ADP* have issued a report “Millennium Development Goals: Progress in Asia and the Pacific 2006”. This report is the latest update on the progress towards MDGs in Asia and the Pacific. It highlights the region's achievements and exposes issues on which much work remains to be done. The report looks in a more holistic way at overall country progress by assessing absolute MDG indicators in addition to MDG targets.

The report classifies the progress made by each country into 4 categories

- *Early achiever* — Has already met the target
- ▲ *On track* — Expected to hit the target by 2015
- *Off track – Slow* — Expected to hit the target, but after 2015
- ▼ *Off track – Regressing* — Slipping backwards, or stagnating

Goal	1	2	3	4	6	7
	\$1/day poverty	Underweight children	Primary enrollment	Reaching grade 5	Primary completion rate	
		Gender primary	Gender secondary	Gender tertiary	Under-5 mortality	Infant mortality
		HIV prevalence	TBC prevalence	TBC death rate	Forest cover	Protected area
		CO <sub>2</sub> emissions	ODP/CFC consumption	Water urban	Water rural	Sanitation urban
						Sanitation rural
Pakistan	●	■	▲	▲	▼	▼

<b>Land area</b> 796096 sq Km (=)	<b>Population</b> 152.53 (2004)	<b>Population density</b> 191 per sq km	
<b>Annual population change</b> (% per year)			
Year 2004: +1.9%	Year 2001: + 2.6%	Year 2002: +2%	Year 2003: +1.94%

### Economic Summary

Indicator	Year 2001-02	Year 2002-03	Year 2003-04	Year 2004-05	Year XZ
Real GDP growth (%)	3.1%	5.1%	6.4%	8.4%	
GDP US\$ millions (p.p.p.)	82.3	71.5			
GDP per capita (\$)	501	582	579	736	
Inflation % CPI Dili in rupiah	3.5%	3.1%	4.6%	9.3%	
Exports US\$ millions	\$9135 m	\$11160 m	\$12313 m	n.a.	
Imports US\$ millions	\$10340 m	\$12220 m	15592 m	n.a	
Fiscal deficit (% GDP)	4.3%	3.7%	2.3%	3.2%	

### Selected Social Indicators

Indicator	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004
Adult literacy rate over 15s %	47 %	49%	50.5%	51.6%	52%
Primary school enrolment %	73 %		73 %		
Secondary school enrolment %	23.9 %		22.5 %		
Life expectancy at birth	63	63	64	64	n.a
Underweight children <5 (%)	38% (1995-2002)				
<5 mortality rate (per 1,000 live births)	85	85	83	74	
Maternal mortality rate (per 100,000 live births)	500		350		
Children <2 fully immunised (%)		63 %	64 %	67 %	
Infants <1 fully immunised (%)				61 %	
Births supervised by trained personnel (%)		23 %			
Households with access to safe water (%)	90		90 %		

### ANNEX 3: Overview past EC cooperation with Pakistan: 2000 -2006

Total EU grants to Pakistan: 2000 – 2006

	2000	2001	2002	2003	2004	2005	2006	Total
ALA Allocation	11,000,000	22,900,000	65,000,000	15,000,000	15,000,000	15,000,000	35,000,000	<b>178,000,000</b>
Thematic line-NGO	897,133	2,344,890	2,603,335	4,245,483	901,668	-	-	<b>10,992,509</b>
Thematic line-HR	-	971,737	2,380,000	500,000	447,100	745,000	-	<b>5,043,837</b>
Thematic line-Health	-	-	-	3,669,180	11,821,352	-	-	<b>15,490,532</b>
Food Security	1,800,000	-	-	-	-	-	-	<b>1,800,000</b>
Exceptional Humanitarian Aid	4,775,000	1,415,000	6,940,000	8,060,000	4,420,000	50,776,000	-	<b>76,386,000</b>
Exceptional Financial Assistance (Earhquake reconstruction)	-	-	-	-	-	50,000,000	-	<b>50,000,000</b>
SPF	-	-	-	-	-	425,758	-	<b>425,758</b>
<b>Total</b>	<b>18,472,133</b>	<b>27,631,627</b>	<b>76,923,335</b>	<b>31,474,663</b>	<b>32,590,120</b>	<b>116,946,758</b>	<b>35,000,000</b>	<b>338,138,638</b>

#### ANNEX 4: Donor Matrix For Pakistan

<i>Donor</i>	<i>Objectives and strategy</i>	<i>Sectors</i>	<i>Complementarity with EC</i>	<i>Period</i>	<i>Financial resources (in Euros)</i>
EU member states)					
UK	Support poverty reduction through (i) increased incomes for the poor; (ii) improved delivery of education, health and population services; (iii) greater accountability of state to its citizens	financial services; education; health; citizens rights; public sector	Devolution and service delivery (education) in NWFP	2005-2007/08	332.65 million
Germany	Address widespread poverty, in particular in rural areas in the northern part of Pakistan, and by focusing on the social situation of women and children	basic education; basic health; renewable energy; democracy/civil society; statistics	Education and natural resource management	2004	39.556 million
Netherlands		Environment, democratisation, education	Education and environment		
Multilateral donors and UN					
WB	Support poverty reduction by addressing (i) government effectiveness; (ii) business climate; (iii) pro-poor growth	financial services and trade; governance; transport, energy; rural development; education; health; women rights	Northern Areas Education; Provincial Reform Programmes, PRSC; TRTA	2003-2005	1.08 billion (equivalent to 463 million a year for high case scenario for FY03-05)
ADB	Support poverty reduction through (i) infrastructure projects; (ii) social sector development; (iii) strategic focus on governance, regional cooperation and private sector development	Infrastructure incl. transportation; rural development; education; health; energy; private sector	Provincial DSSPs; Access to Justice Programme; Rural Support and Provincial Resource Management Programmes in Baluohistan	2005-06	1.51 billion
UNDP	Encourage civil society and participation from disadvantaged groups through (i) participatory governance; (ii) poverty alleviation; (iii) health and (iv) education	Education; health; SMEs; women rights; environment; governance	Rural Support Programmes; Democratisation and Governance	2004-08	19.3 million (core UNDP funds); projected total budget: 131.4 million
<b>Total (multilateral and UN)</b>					<b>2.609 billion</b>



<b>Donor</b>	<b>Objectives and strategy</b>	<b>Sectors</b>	<b>Complementarity with EC</b>	<b>Period</b>	<b>Financial resources (in Euros)</b>
<b>Bilateral (non-EU member states)</b>					
US	Promote equality, stability, economic growth and improved well-being of Pakistani families	education (incl.infrastructure and training); health, governance, financial services in rural areas (microfinance)	Education and Governance	2003-06	614.4 million
Switzerland	Improve living conditions of disadvantaged groups through micro and small enterprise development; human and institutional development; and natural resource management	environment; microfinance; non-fomal education; human rights	NWFP community based projects; Child Labour	1999-2005	67.67 million (average 9.6 million/year)
Japan	Construct and develop a sustainable society in Pakistan by ensuring human security and human development; development of a sound market economy; and balanced regional socio-economic development	education, health, water and sanitation; rural development; investment/industry; infrastructure	Rural Development and human development	2005-2010	to be determined according to implementation (previous estimates amount to 965 million/year)
Norway	To support poverty reduction within the framework of a rights-based approach, including promotion of human rights and democracy, as well as political stability in the region	education, good governance, culture	Education in NWFP	yearly	7.7 million/year
Canada	Contribute to povery reduction and sustainable development through support to local governance, social development and gender equality	social sectors incl.education, health, women and citizens rights	Education and citizen rights	2001-06	To be determined on a yearly basis but not communicated before hand
<b>Total ( bilaterals other than EU MS)</b>					

## ANNEX 5: Country Environmental Profile

### 1. SUMMARY

This country profile describes the current and upcoming **environmental issues in Pakistan**, in particular **their relation to economic development and poverty reduction**.

Pakistan is **largely arid and semi-arid**, receiving less than 250mm annual rainfall. It comprises diverse landscapes, with high mountain systems, fragile watershed areas, alluvial plains, coastal mangroves and dune deserts. Because it is endowed with remarkable geology and is spread over broad latitude, Pakistan spans several of the world's ecological regions. Due to man-made borders and the country not being an isolated entity in bio-geographic terms, few species are found only in Pakistan. Forests cover approximately 3.7 million ha (4.5%).

Pakistan's **environmental problems are enormous**, ranging from **overexploitation of natural resources** and widespread **ecological degradation**, to a massive **contamination** of air, water and soils by traffic and industrial exhausts, untreated urban and industrial wastewater and indiscriminate application of pesticides. Obsolete pesticides are stored in appalling conditions throughout the country.

These problems are mainly **caused by a combination of poverty**, one of the highest **population growths** amongst developing countries, **land constraints** and lack of appropriate **technologies**. These environmental problems are **magnified by inefficient and ineffective governance** at all levels and threaten the lives and livelihoods of the population, in particular the poor and the environmental degradation affects the economy as a whole, reducing annual GDP by up to 8%.

For Pakistan, being an arid country, the **waters of the Indus River** are of outmost importance for producing food for the fast growing population. The irrigation system was originally constructed before independence and further extended during the 1960s and 70s. Lack of preventive maintenance, failure to construct an efficient drainage system, deforestation and consequent erosion in the watersheds have put the sustainability of this irrigation system under high pressure. Threats include the sedimentation of major reservoirs and contamination by untreated discharge of urban and industrial land. Population growth, combined with the limited amount of freshwater discharged via the Indus and its tributaries, will soon make Pakistan a water deficient country, with less than 1000 m<sup>3</sup> freshwater available per capita. Recurring droughts, as well as wastage of water resources, aggravate this situation.

The Government of Pakistan, as a response to the decay in environmental quality, enacted a set of relevant environmental legislation, created an Environmental Protection Agency and deployed a **National Conservation Strategy (NCS)** in 1992, supplemented by the National Environmental Action Plan (NEAP) in 1996. International and bilateral donors including the EU and the EU Member States supported both policy frameworks. The EU, in particular, supported two rural environmental rehabilitation projects. Whilst both the projects have been evaluated successful with regard to achieving programmed

outputs, their outcomes are not deemed sustainable due to short span of project life for environmental activities.

In general, the GoP and donor community's achievements have raised awareness for environmental issues, but this has not been reflected in **institutional capacity building**. In the meantime, the overall physical environment continues to deteriorate.

Whilst some of the donors could demonstrate effective environmental impact assessments from their interventions, a **mainstreaming of environmental issues** into overall development cooperation, as an alternative to stand-alone environmental projects, **could not be demonstrated**. The EC Delegation relies, in this respect, on the environmental impact assessment of proposed projects from the Government's Planning Commission (PC). Questions have been raised whether this procedure is optimal and whether support for environmental issues reflects the country's needs.

Recognising the grave environmental problems, the MoE has devised a new National Environmental Policy 2005-2010, complemented by the Mid-Term Development Framework for the same period. Financial allocations to the environment sector have been increased more than 8-fold to around Euro 310 million. However, past experience indicates that the MoE was not able to spend more than 60% of the allocated budget on actual projects. Conceding this, **MoE has urged donors to support capacity building** at all levels: federal, provincial and district, to achieve progress in effectively tackling environmental problems.

Possible EC support to Pakistan's environmental policy could be partially extended via budget funding – keeping the severe capacity limitations of Pakistan's public administration and the EC's own fiduciary responsibilities in mind. Alternatively, continued support for Pakistan's civil society via environmental projects implemented through NGOs could be considered.

## 2. **BACKGROUND**

### 2.1 *Physical environment*

#### 2.1.1 Borders

Pakistan, situated between 24°-27° north and 62°-78° east, occupies a position of geostrategic importance, bordered by Iran in the west, Afghanistan in the northwest, China in the northeast, India in the east and the Arabian Sea in the south. The total land area is estimated at 803, 940<sup>3</sup> sq. km., more than double the size of Germany. In the northeastern tip of the country, Pakistan controls about 84,159 sq.km. of the former princely state of Jammu and Kashmir, including Gilgit and Baltistan.

### 2.1.2 Climate

Pakistan lies in the Temperate Zone. The climate is generally arid, characterised by hot summers and cool or cold winters, with wide variations between extremes of temperature at given locations. More than half the annual rainfall occurs during the monsoon period from June to September. Were it not for the Indus River and its tributaries flowing through the country, most of Pakistan would be a desert. These generalisations should not, however, obscure the distinct differences existing between particular locations. For example, the coastal area along the Arabian Sea is usually warm, whereas the frozen snow-covered ridges of the Karakoram Range and of other mountains of the far north are cold all year round.

## 3. STATE OF THE ENVIRONMENT

### 3.1 *Environmental policy and legislation*

#### 3.1.1 Policy and action plans

To address the enormous environmental challenges, the Government of Pakistan has taken various steps, starting with the enactment of the Pakistan Environmental Protection Ordinance in 1983. This was followed by the formation of the Pakistan Environmental Protection Council (PEPC) in 1984, an apex body for setting up environmental policies. However, no major action in terms of environmental policies or practices was carried out until 1992, when Pakistan endorsed the National Conservation Strategy (NCS), as an environmental policy at the sectoral level. NCS, after an in-depth evaluation of issues and their implications for long-term sustainability, prioritised 14 areas for implementation, which have evolved into the current Draft National Environmental Policy and the related Draft Mid-Term Development Framework for the period 2005-2010.

**Table 1: Environmental Priorities set by Government of Pakistan**

<i>National Conservation Strategy, NCS 1992-2000, priorities</i>	<i>National Environmental Action Plan, NEAP, 2001 – core Areas</i>	<i>National Environmental Policy, NEP, 2005-2010 – key sectoral issues</i>	<i>Mid-Term Development Framework, MTF, 2005-2010 – key sectoral issues</i>
Maintaining soils in croplands	Clean air	Water management and conservation	Fresh water, sanitation, slums and squatter settlements
Increasing irrigation efficiency	Clean water	Energy efficiency, renewables	Air pollution
Protecting watersheds	Solid waste management	Agriculture, livestock	Solid/Hazardous wastes management
Supporting forestry and plantations	Eco-system management	Forestry, plantations	Forestry and watershed management
Restoring rangelands and improving livestock		Biodiversity, protected areas	Biodiversity, wildlife and protected areas
Protecting wetlands		Climate change, air quality, noise	Rangeland management
Conserving biodiversity		Pollution and waste	Desertification

	management	
Increasing energy efficiency	Cross sectoral issues, Environment and:	Climate change
Developing & deploying renewables	Population	Energy conservation and renewables
Managing urban wastes	Gender	Marine pollution
Supporting institutions	Health	Multilateral environmental agreements
Integrating population & environment	Trade	Cross sectoral environmental concerns
Preserving cultural heritage	Poverty	Trade and environment
	Local Governance	Human resource development
		Environmental education and awareness
		Research on environment

At the macro level, the programme areas of NCS were assumed to be central to development plans, as they are critical (and cross-cutting) for economic and social sectors of the country.

The post-NCS period witnessed significant progress towards the creating of institutions and adoption of policy measures for the environment. Specific milestones in this direction include reactivating the Pakistan Environmental Protection Ordinance (PEPO) with a new Pakistan Environmental Protection Act through the Parliament in 1997, establishment of Federal and Provincial Environmental Protection Agencies (EPAs), approval of National Environmental Quality Standards (NEQS), and initiation of Provincial Conservation Strategies and acceptance of local communities/NGOs as partners in environmental management.

A Mid-Term Review of the NCS was carried out in May-June 2000 by an independent review team, comprising local and foreign experts. The review concluded that the NCS was highly instrumental in creating awareness in environment and conservation. It initiated a consultative process for advocating priorities and putting in place the environmental institutional framework. However, further effort and action is required to effect actual improvements in the state of the environment and conservation of natural resources. The review emphasised improvement in implementation capacity and the need to reinvigorate and refocus through another, more focused programme with emphasis on poverty reduction and economic development in addition to environmental sustainability.

Based on this mid-term review of the NCS and other lessons learnt in implementing the Social Action Programme (SAP) and various other development programmes, the Ministry of Environment developed the National Environmental Action Plan (NEAP), which was approved by the Pakistan Environmental Protection Council in February 2001. The primary objective of the NEAP is to initiate actions and programmes for achieving a state of the environment which safeguards public health, promotes sustainable livelihoods and enhances the quality of life of the people of Pakistan. The NEAP aims to focus on immediate measures to achieve a visible improvement in the quality of air, water and land, through effective cooperation between the Government and civil society. The Government of Pakistan and UNDP have jointly initiated an umbrella support

programme, entitled the NEAP Support Programme, providing flexibility in responding to emerging national priorities through project interventions with a focus on the poverty-environment nexus.

Despite these continued efforts to halt environmental degradation, Pakistan’s environmental quality continues to deteriorate. The Mid-term Review (MTR) of NCS undertaken in 2000, states that achievements under NCS were primarily awareness raising and to a lesser extent institution building, rather than actual improvements to the physical environment. At the same time, the environmental challenges faced by Pakistan have amplified owing to such factors as rapid population increase and economic growth. Consequently, a new National Environmental policy 2005-2015, together with a financial proposal in the form of a Mid-Term Development Framework (MTDF) 2005-2010, was devised from the Ministry of Environment, focal areas of which are listed in Table 1.

### 3.1.2 Legislation, Current and in preparation

Environmentally related legislation in Pakistan is fairly well developed. Implementation remains the major problem, because the institutional setup is neither efficient, nor are essential human, administrative, technical and financial resources available for effective enforcement. Table 2 below provides an overview of Pakistan’s environmental legislation to date. Major new developments, apart from a parliament Act for Renewable Energy are not currently planned.

**Table 2: Environmental legislation in Pakistan Acts, Ordinances, Rules and Regulations**

Pakistan Environmental Protection Act	1997
National Environmental Quality Standards: Self-Monitoring and Reporting by Industries Rules	2001
Environmental laboratories Certification Regulations	2000
Environmental Samples Rules	2001
Self-Monitoring & Reporting (SMART) Procedure	-
The Pollution Charge for Industry, Calculation and Collection Rules	2001
Hazardous Substances Rules ( <i>Draft</i> )	2003
Provincial Sustainable Development Fund Board, Procedure, Rules	2001
Environmental Tribunal rules	1999
Provincial Sustainable Development Fund Utilisation Rules	2003
National Resettlement Policy march ( <i>Draft</i> )	2002
Project Implementation and Resettlement of Affected Persons Ordinance ( <i>Draft</i> )	2001

## 4. EC AND OTHER INTERNATIONAL DEVELOPMENT ASSISTANCE

### 4.1 *EC cooperation with the country from an environmental perspective*

Objectives such as ‘Protection of the Environment and Natural Resources’ as well as ‘Sustainable Development’ are mentioned in the EC’s Country Strategy (CSP) 2002-

2006. However, the EC’s current National Indicative Programme does not focus on the environment. The CSP lists the major environmental challenges to Pakistan:

- Environmental degradation threatens to permanently damage ecological systems and is particularly influencing the lives of the poorest sections of society;
- Availability of water resources has been steadily declining;
- Pakistan’s irrigated land is threatened by high degrees of water logging and salinity
- The annual rate of deforestation is one of the highest in the world.

The actual focal areas of EC development cooperation with Pakistan were:

- Human development, for which Euro 59 million is allocated to improve access to and enhance the quality of basic education in Sindh and Northern Pakistan and
- Trade development, Euro 6 million is earmarked to foster a trade and business environment in which EU/Pakistan economic relations can grow, in particular through institutional capacity building.

In addition to these priority activities, the MIP covers projects addressing the problem of child labour and the challenge of reducing demand for illegal drugs through the rehabilitation of street drug users. This package is in addition to measures already announced to support Pakistan, following the conflict in Afghanistan, including the Financial Sector Services Reform programme.

During much of the period covered under the CSP 2002 – 2006 however, the EC has been engaged in major projects explicitly concerned with the environment.

Two projects, the NWFP Rehabilitation Project and the Palas Valley Conservation were closed in late 2004 and early 2005 respectively. Both projects had positive impacts on the environment in the target areas. GoP’s Economic Affairs Division indicated that renewed EC development cooperation within the environment sector is seen as desirable.

**Table 3: EC environmental cooperation projects**

<i>Project Title</i>	<i>Euro million</i>	<i>Status</i>
Environmental Rehabilitation in NWFP	25	Closed
Palas Valley Conservation	4.8	Closed
Tropical Forest Programme	2	Ongoing
NGO Co-financing, WWF Coastal Livelihoods Project	0.73	Ongoing

An effective procedure to consider cross cutting environmental issues, for other areas of EC intervention was only applied in a limited way and needs to be reinforced. For instance, in the education sub-sector the EC co-financed posters and curriculum development to include the natural water cycle, in cooperation with WWF.

## **RECOMMENDED PRIORITY ACTIONS**

Environmental threats faced by Pakistan result from:

- Past economic and social development, environmental impacts of which were either not understood or ignored: soil degradation, accumulation of pesticides in soils and groundwater, inefficient irrigation practices, encroachment/fragmentation and destruction of natural habitats and deforestation;
- High population pressure combined with relatively low agricultural productivity, driving small and landless farmers either into mega cities like Karachi and Lahore or onto marginal lands;
- Current development policy, favouring industrial expansion to create sustainable economic growth in the range of 6% or more p.a. Actual industry related GDP growth during July-September 2004 was 15%, compared to 2% for agriculture.

Recommended priority actions should address the above-sketches nexus of social and economic factors and associated environmental impacts. Actions should further:

- Deliver synergy with, or be complimentary to, other donor initiatives;
- Match GoP strategies, where there is capacity to absorb co-funding & implement projects on site;
- Be congruent with the overarching objective to contribute to poverty alleviation.



## ANNEX 6: Millennium Development Goals - Targets and Achievements

Target & Indicators	Definition	1990/91	2000/01	2002/03 <sup>2</sup>	2005/06 PRSP Targets <sup>3</sup>	2011 Perspective Plan Targets <sup>4</sup>	2015 MDG T
<b>1. Eradicating Extreme Poverty and Hunger</b>							
Proportion of population below the calorie based food plus non-food poverty line.	Headcount index based on the official poverty line of Rs. 748.56 per capita per month, based on 2000-01 prices and 2350 minimum caloric requirement.	26.1% <sup>1</sup>	32.1%	n/a	28%	15%	13%
Prevalence of underweight children under 5 years of age	Proportion of children under 5 years who are underweight for their age.	40% <sup>2</sup>	41.5% <sup>6</sup>	n/a	33%	28%	< 20%
Proportion of population below minimum level of dietary energy consumption	Proportion of population below 2350 calories per day of food intake (Food poverty line).	25%	30% <sup>7</sup>	n/a	n/a	15%	13%
<b>2. Achieving universal primary education</b>							
Net primary enrolment ratio (%)	Number of children aged 5-9 years attending primary level classes i.e. 1-5, divided by the total number of children aged 5-9 years, multiplied by 100.	46% <sup>8</sup>	51% <sup>9</sup>	n/a	58%	91%	100%
Completion/survival rate to grade 5 (%)	Proportion of students who complete their studies from grade I to grade 5.	Approx. 50% <sup>10</sup>	68% (M: 72, F: 65) <sup>10</sup>	72 <sup>10</sup>	79% (M: 82, F:76)	n/a	100%
Adult literacy rate (%)	Proportion of people aged 10+ years who can read and write with understanding.	36.3% (M:50, F: 21)	50.5% (M:63, F:38)	54% (M: 63, F: 42)	59.5% (M: 70, F:49)	78% (M: 88, F:67)	88% (M: 89, F: 88)
<b>3. Promoting gender equality and women empowerment</b>							
Gender parity index (GPI) for primary, secondary and tertiary education	Proportion of girls enrolments at primary, secondary and tertiary levels in comparison with boys.	Primary: 0.51 Secondary: 0.50 Tertiary: 0.46	Primary: 0.57 Secondary: 0.64 Tertiary: 0.78	Primary: 0.57 Secondary: 0.64 Tertiary: 0.78	0.73	n/a	Primary: 1 Secondary: 0.94
Youth literacy GPI	Proportion of females as compared with boys aged 15-24 who can read and write	0.51	0.65	0.65	0.70	n/a	1.00
Share of women in wage employment in the non-agricultural sector	The share/proportion of women employed in the non-agricultural wage sector.	8.7% <sup>11</sup>	8.9% <sup>12</sup>	n/a	n/a	n/a	n/a
Proportion of seats held by women in national parliament	Proportion of seats held by women in the national parliament	National Assembly 2/217=0.9% Senate: 1/87=1% <sup>13</sup>	National Assembly 72/342=21% Senate: 17/100=17% <sup>13</sup>	National Assembly 72/342=21% Senate: 17/100=17% <sup>13</sup>	n/a	n/a	n/a
<b>4. Reducing child mortality</b>							
Under-five mortality rate	No. of deaths of children under five years of age per thousand live births.	140 <sup>14</sup>	105 <sup>15</sup>	103	80	65	52
Infant mortality rate	No. of deaths of children under 1 year of age per thousand live births.	102 <sup>16</sup>	77 <sup>17</sup>	75	63	40	40
Proportion of fully immunized children 12-23 months	Proportion of children of 12 to 23 months of age who are fully vaccinated against EPI target diseases.	75% <sup>18</sup>	53% <sup>19</sup>	55%	82%	90%	> 90%
Proportion of under 1 year children immunized against measles	Proportion of children 12 months of age and received measles vaccine.	80% <sup>20</sup>	57% <sup>21</sup>	57%	80%	90%	> 90%
Prevalence of under weight children (under 5 years of age).	Proportion of children under 5 years who are underweight for their age.	40% <sup>22</sup>	41.5% <sup>23</sup>	40%	33%	28%	< 20%
Proportion of children under five who suffered from diarrhea in the last 30 days and received ORT.	Proportion of children under 5 years who passed more than 3 watery stools per day and received ORS (treated with oral re-hydration salt).	N.A.	45%	40%	40%	20%	< 10%
Lady Health worker's coverage of target population	Households covered by Lady Health Workers for their health care services.	N.A. <sup>24</sup>	33.6%	55%	83%	92.2%	100%
<b>5. Improving Maternal Health</b>							
Maternal mortality ratio	No. of mothers dying due to complications of pregnancy and delivery per 100,000 live births	550 <sup>25</sup>	350 <sup>26</sup>	350-400	300-350	180	140
Proportion of births attended by skilled birth attendants	Proportion of deliveries attended by skilled health personnel (MOs, midwives, LHV's).	18% <sup>27</sup>	40% <sup>28</sup>	40%	75%	90%	> 90%
Contraceptive prevalence rate	Proportion of eligible couples for family planning programmes using one of the contraceptive methods	12% <sup>25</sup>	30% <sup>25</sup>	33%	41.7%	53%	55%
<b>6. Combating HIV/AIDS Malaria and other diseases</b>							
<b>Target &amp; Indicators</b>							
<b>Definition</b>							
<b>1990/91</b>							
<b>2000/01</b>							
<b>2002/03</b>							
<b>2005/06 PRSP Targets</b>							
<b>2011 Perspective Plan Targets</b>							
<b>2015 MDG T</b>							
Total fertility rate	Average number of children a woman delivered during her reproductive age (15-49)	5.4 <sup>29</sup>	4.1 <sup>29</sup>	3.9	3.76	2.5	2.1
Proportion of women 15-49 years who had given birth during last 3 years and made at least one antenatal care consultation	Proportion of women (15-49) who delivered during the last 3 years and received at least one antenatal care during their pregnancy period from either public/private care providers.	15% <sup>27</sup>	31% <sup>27</sup>	35%	50%	75%	100%

Target & Indicators	Definition	1990/91	2000/01	2002/03 <sup>2</sup>	2005/06 PRSP Targets <sup>3</sup>	2011 Perspective Plan Targets <sup>4</sup>	2015 MDG Targets <sup>5</sup>
HIV prevalence among 15-24 year old pregnant women	n/a	n/a	n/a	n/a	n/a	n/a	Baseline to reduced by 50%
HIV prevalence among vulnerable group (e.g. active sexual workers)	n/a	n/a	0.03%	n/a	n/a	n/a	Baseline to reduced by 50%
Proportion of population in malaria risk areas using effective malaria prevention and treatment measures.	Proportion of population living in 19 high risk districts of Pakistan having access and using effective malaria prevention and treatment as guided in roll back malaria strategy	n/a	20%	25%	25%	n/a	75%
Incidence of tuberculosis per 100,000 population	Total number of new cases of TB reported.	n/a	177	177	133	n/a	45
Proportion of TB cases detected and cured under DOTS (Direct Observed Treatment Short Course).	Proportion of TB cases detected and managed through DOTS strategy.	n/a	25%	27%	70%	n/a	85%
<b>7. Ensuring Environmental Sustainability</b>							
Forest cover including state-owned and private forest and farmlands	Forest cover including state-owned and private forest and farmlands, as percentage of the total land area.	4.8%	4.8%	4.8	5%	5.7%	6%
Land area protected for the conservation of wildlife.	Land area protected as percentage of total land area.	9.1%	11.25%	11.26	11.3%	11.5%	12%
GDP (at constant factor cost) per unit of energy use as a proxy for energy efficiency.	Value added (in Rs.) per ton of oil equivalent	26,471	27,047	27,141	27,300	27,650	28,000
No. of vehicles using CNG fuel.	No. of petrol and diesel vehicles using CNG fuel.	500	280,000	370,000	n/a	812,000	920,000
Sulphur content in high speed diesel (as a proxy for ambient air quality)	Percentage of sulphur (by weight) in high speed diesel.	1.0	1.0	1.0	n/a	n/a.	0.5 to 0.2
Proportion of population (urban and rural) with sustainable access to a safe (improved) water source	Percentage of population with access to piped water	53%	63%	64%	70%	84%	93%
Proportion of population (urban and rural) with access to sanitation.	Percentage of population with access to sewerage and drainage.	30%	40%	41%	55%	63%	90%
Proportion of katchi abadis regularized.	Katchi abadis regularized as percentage of those identified by the cut-off date of 1985.	n/a	50%	51%	60%	75%	95%

- Data related to poverty and consumption indicators reported here are collected periodically through the Household Integrated Economic Survey (HIES) by the Federal Bureau of Statistics and analysed by the Planning Commission and CRPRID in order to compute the head count ratio and related indicators.
- Not a HIES year.
- All PRSP targets are taken from Accelerating Economic Growth and Reducing Poverty: The Road Ahead. Poverty Reduction Strategy Paper, Government of Pakistan, December 2003.
- Ten Year Perspective Development Plan 2001-2011, govt. of Pakistan, Planning Commission, September 2001.
- Data on nutrition related indicators are collected periodically through the National Nutrition Survey and analysed by the Planning Commission. In the table given above, the data reported under the column for 2000/01 are from the 2001-02 survey and those under 1990/91 are from the 1988-89 survey.
- Data on nutrition related indicators are collected periodically through the National Nutrition Survey and analysed by the Planning Commission. In the table given above, the data reported under the column for 2000/01 are from the 2001-02 survey and those under 1990/91 are from the 1988-89 survey.
- Planning Commission
- Pakistan Integrated Household Survey (PIHS) 1991 and 2001-2002
- Sub-committee headed by the Director, Pakistan Institute of Development Economics. However, the National Educational Management Information System (NEIMS) reports 66%.
- Ministry of Education
- Labour Force Survey 1991-92
- Labour Force Survey 2001-02
- Women and Men in Pakistan, Federal Bureau of Statistics
- Progress in Agenda for Health sector Reforms, Ministry of Health, May 2003
- Pakistan Reproductive Health and Family Planning Survey 2000-2001
- Planning Commission
- Pakistan Demographic Survey 2001
- Planning Commission
- Pakistan Integrated Household Survey 2000-01
- Planning Commission
- Pakistan Integrated Household Survey 2000-01
- National Nutrition Survey 2001-02, Planning Commission
- National Nutrition Survey 2001-02, Planning Commission
- The LHW Programme started in 1994 with 30,000 LHWs
- Progress in Agenda for Health Sector Reforms, Ministry of Health, May 2003
- National Institute of Population Studies 2003
- Agreed in Advisory Committee meetings organized by the Planning Commission during July 2003-February 2004
- Pakistan Integrated Household Survey 2000-01
- Pakistan Demographic S

