

**Conclusions of the Mid-Term Review of the Country Strategy
Paper for Pakistan (2007-13)**

and

Multiannual Indicative Programme 2011-13

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
CBO	Congressional Budget Office
CDI	Centre for Defence Information
CDM	Clean Development Mechanism
CSP	Country Strategy Paper
DAC	(OECD) Development Assistance Committee (which divides countries between developing, least developing etc based on a set of indicators)
DCI	Development Cooperation Instrument
DFID	UK Department for International Development
DRR	Disaster Risk Reduction
EAD	Economics Affairs Division
EIB	European International Bank
EIDHR	European Initiative for Democracy and Human Rights
EMIS	Education Management and Assistance
EOMs	Election Observation Missions
FATA	Federally Administered Tribal Area
GAERC	General Affairs and External Relations Council
GoP	Government of Pakistan
GSP	Generalised System of Preference
IDP	Internally Displaced Persons
IFS	Instrument for Stability
IPR	Individual Property Rights
IPU	Inter Parliamentary Union
MDG	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MIP	Multi-Annual Indicative Program
NDMA	National Disaster Management Authority
NEA	National Education Assessment
NWFP	Northern Western Frontier Province
ODA	Official Development Assistance
PASC	PFM Analysis and Support Component
PDF	Pakistan Development Forum
PEFA	Public Expenditure and Financial Accountability
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Paper
PSSP	PFM Strategy Support Program
RECCA	Regional Economic Cooperation Conference on Afghanistan
SAARC	South Asian Assistance for Regional Cooperation
SEP	Sindh Education Plan
SMCs	School Management Committees
SPS	Sanitary and Phyto-sanitary Standards
TBT	Technical Barriers to Trade
TRTA	Trade Related Technical Assistance
UNDP	United Nations Development Program
UNHCHR	United Nations High Commissioner for Human Rights

1. PART I – EXECUTIVE SUMMARY

The EU is committed to building a strong relationship with Pakistan, including in development cooperation and trade. This was reconfirmed at the first EU-Pakistan Summit in June 2009. The Summit Communiqué issued on this occasion underlined the EU’s intention to assist Pakistan in a broad range of areas, including trade, implementation of electoral reform, improvement in human rights protection, and rehabilitation and reconstruction in areas of the North West Frontier Province (NWFP) where the army has retaken control from Taliban elements. On 27 October 2009 the Council of the European Union agreed on a plan for Strengthening EU Action in Pakistan as a common endeavour between EU institutions and Member States which emphasizes the long-term nature of the EU’s commitment to Pakistan’s development.

The agreed priorities under the Country Strategy Paper (CSP) for the period 2007-13 are a) rural development and natural resources management in the NWFP and Balochistan with a view to reducing regional disparities and promoting stability in these provinces, and b) education as a critical ingredient for developing a well-trained work force. The analysis of political, economic and social developments in Pakistan since the CSP entered into force has confirmed that these priorities remain valid.

Security challenges that have arisen in recent years have affected identification and implementation of the rural development focal sector under the Multiannual Indicative Programme (MIP) 2007-10. The geographical focus on the two above-mentioned provinces should nevertheless remain. One new priority that has arisen in 2009 is to support rehabilitation and reconstruction in areas affected by counter-insurgency operations in the north and west of the country. Internal conflict has resulted in large numbers of internally displaced people, who require support in rebuilding their lives and re-establishing social services. Such activities are fully compatible with the overall orientation of the CSP.

Suggested non-focal areas include human rights and good governance as well as cooperation in the field of trade.

The Indicative Budget Allocation for Pakistan for the 2011-13 period is €225 million which covers both focal and non-focal sectors:

	Focal Sectors:	€160 M
I	Focal sector I: Rural Development and Natural Resources Management <i>Support to cope with the effects of climate change and to mitigate climate change and support to the rehabilitation and reconstruction of NWFP military conflict affected areas and IDP hosting areas. Emphasis will also be placed on disaster risk reduction.</i>	€90 M (40%)

II	Focal sector II: Education and Human Resources Development <i>Support to the education sector (with a possible focus on primary education) on provincial and/or federal level. Intended is a continuation of planned and current support in Sindh and NWFP and support to curriculum development at provincial and/or federal level.</i>	€70 M (31%)
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	Non-Focal sectors:	65
a)	Governance and Human Rights <i>Support to capacity building, possibly in the areas of human rights, public financial management, democratic institutions, and civil security</i>	€50 M (22%)
b)	Trade cooperation <i>Support to EU-Pakistan trade and investment relations</i>	€15 M (7%)
	Total	225

The new MIP should allow sufficient flexibility to support Pakistan's development strategy, as outlined in the Poverty Reduction Strategy Paper. But flexibility might also be needed if security conditions continue to change rapidly and pose challenges for delivery in parts of the country, and if continued donor harmonisation efforts result in a clearer separation of tasks.

2. PART II – CONCLUSIONS OF THE MTR PROCESS

2.1. Internal and external political, social and economic developments

In October 2007 Pakistan and the European Commission signed a Multiannual Indicative Programme (MIP) for the period 2007-10, for an amount of €200 million in grants. The first focal area for assistance is rural development and natural resources management in North-West Frontier Province (NWFP) and Balochistan with a view to reducing regional disparities and promoting stability in Pakistan's provinces bordering Afghanistan. The second focal area is education and human resources development, which constitute a critical ingredient for developing a well-trained work force in a moderate and stable Pakistan.

The post-9-11 scenario triggered a geopolitical fallout in Pakistan, including challenges posed by non-state actors to the rule of the state and a gradual deterioration in law and order in the crisis-hit areas of the North West Frontier Province (NWFP) and the Federally Administered Tribal Areas (FATA). This situation is exacerbated by social inequities and a sense of deprivation among segments of society in these areas, which are a result of decades of weak governance and the inadequacy of social and economic service delivery systems.

Pakistan's external relations continue to be dominated by rivalry with India over the long-standing Kashmir issue. More recently, access to water under the Indus Waters Treaty has become a divisive issue. Ultimately, it may only be possible to make progress on détente with India or on regional security if Pakistan's democratic transition is consolidated and effective regional cooperation is stepped up.

Since the preparation of the CSP 2007-2013 and the MIP 2007-2010, and following the February 2008 parliamentary elections, Pakistan has returned to civilian democratic rule. However, democracy remains fragile and the civilian government is facing security challenges in several parts of the country, in particular in the north and west. Counter-insurgency operations in NWFP have resulted in a large number of internally displaced people. The worsening of the security situation has affected the preparation and implementation of EU programmes.

On a positive note, the judiciary, supported by civil society and a vocal lawyers' movement, was able to assert its independence with the re-instatement in March 2009 of Chief Justice Chaudhry, who had been dismissed during Musharraf's November 2007 emergency. Pakistan has increasingly diverse and vocal media.

The economic situation deteriorated sharply in 2008, against the backdrop of the international economic and financial crisis as well as a food crisis. There has been a decline in exports and private capital inflows. Inflation has risen sharply. The growth rate was 2% during the fiscal year 2008-09, which represents a marked slowdown from the 6.6% average in the previous five years. Whereas agriculture posted positive growth of 4.7% and the services sector grew by 3.6%, the industrial sector contracted by 3.6%. Faced with acute balance of payments difficulties, the authorities embarked on a US\$7.6

billion stabilisation programme with the IMF in November 2008 for (fiscal years) 2008/09–2009/10. The IMF increased this loan by US\$3.2 billion in August 2009. The programme aims to tighten fiscal and monetary policies significantly, to bring down inflation and strengthen the external position. Lately, there have been signs of the economy stabilising: the current account deficit has been reduced and foreign exchange reserves have risen. A big challenge for the government now is to strike a balance between stability objectives and social issues.

High inflation, also affecting basic subsistence goods, has contributed to increased poverty, which by some estimates has risen dramatically from 26% of the population during the last survey in 2004. The next detailed provincial- and district-level surveys of social and living standards will be carried out between 2009 and 2011. Pakistan's performance on MDGs remains uneven, and on average does not compare favourably with other countries in the region.

A 'Friends of Democratic Pakistan' group consisting of Pakistan's major international partners was set up in 2008 to mobilise international support for Pakistan and to act as a forum for policy dialogue. One result of the work of this group was the establishment of a World Bank-administered Multi-Donor Trust Fund for North West Frontier Province, the Federally Administered Tribal Areas (FATA) and part of Balochistan on the occasion of a 'Friends of Democratic Pakistan' summit in September 2009.

Pakistan has developed new strategies and policies (or revised existing ones) to define its future outlook. The Planning Commission has prepared a document outlining a Vision Pakistan 2030. A new education policy was introduced in 2009. The central document, however, is the Poverty Reduction Strategy Paper II (PRSP II), in its final draft version since early 2009. This is an updated version of the first PRSP dating back to 2002.

PRSP II draws upon lessons learnt during the implementation of PRSP I and takes into account recent political, economic and social events, both domestic and international. To steer Pakistan back on the path of sustained and broad-based economic growth and in order to create jobs and reduce poverty, the document argues that a prolonged period of macroeconomic stability, financial discipline and consistently transparent policies that place poverty reduction at the centre of the country's overall economic policies is required. While the PRSP II is an ambitious and comprehensive document that focuses on linking economic growth and poverty reduction, its links to other strategic documents of the government and governmental budgetary priorities need to be ensured. The PRSP process nevertheless offers orientations to the donor community on relevant country priorities. EU interventions will be aligned with the PRSP II.

Pakistan has increasingly suffered from power shortages. Pakistan has developed an integrated energy plan that envisages electricity generation through domestic resources, including oil, gas, coal, hydroelectricity and renewable sources. There are considerable gas reserves in Balochistan, which have become an issue regarding the distribution of resources between the centre and provinces. To note that the EIB is supporting the renewable energy sector through a €100 million loan, the agreement was signed in December 2009.

There have been substantial changes in donor presence within the country in recent years. Some of the major donors have substantially increased their engagement. Others have

reduced or adjusted their presence, mainly for security reasons. In terms of geographical orientation, some donors have increased their involvement in the border provinces with Afghanistan while others have relocated their activities either within those provinces or to other provinces. All donors have to a varying extent increasingly had to cope with a lack of access to certain parts of the country and the need for increased security measures.

2.2. Relevance of new EU policy initiatives

The Council's concerns about the need to reinforce democratic institutions and the elected government and to support Pakistan's economy were reflected in the GAERC conclusions of December 2008. A first EU-Pakistan Summit was then held in June 2009. The Communiqué issued on this occasion underlined the EU's intention to assist Pakistan in a broad range of areas, including trade, implementation of electoral reform, improvement in human rights protection, and rehabilitation and reconstruction in areas of the NWFP (Malakand) where the army has retaken control from Taliban elements. In parallel, the European Commission has undertaken to fund projects to assist the police and judicial authorities to improve their capacity to respond to extremism, through the Stability Instrument.

It was agreed to hold a second EU-Pakistan summit meeting on 21 April 2010 to monitor progress in establishing a closer relationship between the EU and Pakistan.

The first Joint Commission under the Third Generation Cooperation Agreement met in May 2007. Sub-groups were established on a) cooperation, b) trade and c) governance, human rights and migration. Joint Commission meetings now take place on a regular basis, thus reinforcing the cooperation dialogue.

Climate change is a key priority for the EU. Like in other Asian countries, awareness of climate change issues in Pakistan has risen tremendously in recent years. Pakistan faces multiple climate-change threats, including increased draught, shifts in weather patterns leading to reduced agricultural productivity, increased flooding, changes in freshwater supply, and an increase in extreme weather events. At the same time Pakistan is a semi industrialised country, ranking 48th as total GDP even if with a low GDP per capita. In terms of CO₂, the country can be considered as a fairly large emitter, ranking 30th as CO₂ total emission. Pakistan has established an Inter-Ministerial Committee on Climate Change reporting to the Prime Minister, and has set up institutional structures necessary for implementing Clean Development Mechanism (CDM) projects. The greatest potential for CDM exists in the energy sector, but there are also opportunities in the land use/agriculture, waste, and industrial sectors. In order to deal with the manifold effects of climate change, it will be increasingly important to integrate climate-change considerations across sectors. This will contribute to disaster risk reduction and to climate resilience in programming. Pakistan argues that developing countries need to be provided with adequate resources and technology to deal with the impact of climate change.

Disaster risk reduction should be given the same importance as given by the EU to other initiatives in developing countries prone to natural disasters. In Pakistan, the NDMA (National Disaster Management Authority), established following the South Asia earthquake, is clearly the agency responsible for dealing with these issues.

Pakistan has repeatedly stressed the need for regional cooperation, but *de facto* such efforts have been taken over by political issues. The European Commission has offered assistance to SAARC under its Regional Indicative Programme, but the conditions are not yet in place for such assistance to be utilised in an effective manner. Nevertheless, there is scope to support confidence-building measures in trade and investment with neighbouring countries, including with Afghanistan. Measures to strengthen regional transport and energy links, as well as customs and border management, were discussed at the 3rd RECCA (Regional Economic Cooperation Conference on Afghanistan).

The EU is Pakistan's main trade partner, accounting for 17.4% of total trade flows. Pakistan's total exports to the EU were worth €3.622 billion in 2008. Its main exports are textiles and clothing, which accounted for almost 70% of total exports to the EU.

Pakistan is a beneficiary of the EU's Generalised System of Preferences (GSP), through which the EU provides preferential access to its market in the form of reduced tariffs for Pakistani goods entering the EU market. As a result, almost 20% of Pakistan's exports enter the EU market duty-free, with another 60% at reduced duty rates.

Trade-related technical assistance will continue to receive great attention, as Pakistan and the EU have recognised the importance of a strong trade relationship and its links to economic prosperity and stability, and are jointly working towards further liberalisation of trade in goods and services with the aim of mutually enhancing market access and converging on regulatory matters. Pakistan understands the need to pursue diversification of its trade.

Civil society and migration issues have received increased attention, notably in the EU-Pakistan Sub-Groups on Cooperation and Governance, Human Rights and Migration. Cooperation with civil society has taken on a more prominent role in connection with the implementation of the EIDHR and Non-State Actors programmes. A Readmission Agreement with Pakistan was signed on 26 October 2009, defining an administrative framework with clear, efficient and rapid procedures for readmission. While taking steps against illegal migration, the EU is gradually adopting measures in the field of legal migration as well as reinforcing protection for those residing legally.

Following the February 2008 parliamentary elections, and in follow-up of the EU's Election Observation Mission and its recommendations, the European Commission has engaged in cooperation to strengthen the capacity of elected representatives and electoral reforms, to support institutional strengthening at the core of government. This is considered important to consolidate the transition to stable democratic rule.

Regarding the implementation of the aid effectiveness agenda, the European Commission, Member States and a few like-minded donors have been working to achieve better results under the Aid Effectiveness Agenda. Pakistan's Economic Affairs Division (EAD), the government's coordinating body for official development assistance (ODA), has been trying to advocate aid effectiveness. However, donor alignment is not fully ensured and will have to be improved. There appears to be limited interest on the part of some government line agencies in a more effective coordination process. Donor coordination tends to be *ad hoc* and a two-tier process, with some of the bigger donors occasionally showing a tendency to exclude others. There has also been some concern

that the ‘Friends of Democratic Pakistan’ process, which has shown some usefulness in engaging the Government of Pakistan in a policy and macroeconomic dialogue, should not undermine existing donor coordination mechanisms. The revitalisation of the annual Pakistan Development Forum (PDF) as a platform for a substantive policy dialogue between the government and its international partners on developing priorities is therefore a welcome development. As for the EU, a Blue Book providing an overview of activities by Member States and the European Commission was compiled in 2008, with a second edition in 2010.

In accordance with the EU Road Map for Pakistan, the aid effectiveness principles and the importance of donor coordination and division of labour, the European Commission launched in 2008 and 2009 a number of studies on EU cooperation with Pakistan. The main focus was on the health and education sectors, where most of the major EU donors are active. As a result, a proposal was made to distinguish lead, active and silent donors in both sectors, mainly at federal level. This approach will be assessed in 2010.

Donor coordination in education has significantly improved for both NWFP and Sindh. In NWFP, all active donors have committed to contribute to the education sector reform plan recently approved by the government of NWFP. There are now regular donor-government meetings that include all active donors. In Sindh, where fewer donors are active, there are monthly meetings between the two projects and the government to make sure they are aligned and complement each other.

2.2.1. The Plan for Strengthening EU Action in Afghanistan and Pakistan

Since July 2009, a review of the overall EU engagement in Pakistan has been carried out. The aim of this review was to better shape the EU’s approach in the region, to identify areas for enhanced EU engagement and to improve the effectiveness of the EU assistance. In October 2009, the GAERC advocated better alignment of the assistance offered by the European Commission and Member States and adopted a **Plan for Strengthening EU Action in Afghanistan and Pakistan**¹, declaring the EU’s renewed readiness to assist in meeting the challenges of the region, in cooperation with the countries concerned and the EU’s international partners.

For Pakistan, the Action Plan complements the MTR in so far as it focuses on EU support towards implementation of the Malakand Development Strategy, strengthening cooperation on the rule of law, strengthening cooperation on democracy and human rights, enhancing cooperation on socio-economic development (under the last category with particular emphasis on economic cooperation and trade, education, energy, and support to a multi-donor trust fund for the border regions), strengthening the EU Pakistan dialogue and partnership and enhancing regional cooperation.

The EU’s current engagement is in line with the Action Plan, with Commission programmes contributing either directly or indirectly to the achievement of the main

¹ http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/110789.pdf

priority areas. During the identification and formulation phase of programmes under the MIP 2011-13, the specific objectives of the EU Action Plan will be taken into account.

2.3. Assessments of results and performance of the CSP 2007-2013

A review of the results and performance of past EU cooperation in Pakistan reveals that the implementation of the MIP 2007–2010 is broadly on track, although the geographical focus on rural development and natural resources management in NWFP and Balochistan was affected by access and security issues, which led to some delays in programme formulation. Thus, assumptions in the CSP, such as easy access to all parts of the country for implementation and monitoring purposes, can no longer be taken for granted.

In the education sector in particular, significant results were achieved. Merit-based recruitment of teachers (in Sindh) was shown not only to be a convincing policy but was also applied effectively to correct past deviations. The capacity of provincial education reform units was considerably increased, along with the ability to bring active donors around the same table. Joint donor efforts facilitated the approach of the provincial government in formulating a response to the post-IDP crisis situation in NWFP, within the framework provided by the education reform plan. Last but not least, improvements in public finance management are starting to have effect.

It should be noted however that the targets defined in Pakistan’s 2011 Perspective Plan under the National Education Policy (91 % net primary enrolment ratio and 78 % adult literacy rate - 88 % male, 67 % female) are not likely to be achieved.

At the EU-Pakistan Sub-Group on Cooperation, held in March 2009, the Pakistan government said that it would like to see more sector budget support operations and more programmes being implemented through country systems. The European Commission stressed that a number of conditions had to be met before it could further engage in budget support programmes, notably in relation to public finance management.

A new priority that has arisen is to support Pakistan in bringing stability to the Malakand Division in the North West Frontier Province following counter-insurgency operations in the area. Most of the large numbers of internally displaced persons have since returned. The European Commission has committed substantial funds for humanitarian assistance and is determined to contribute to rehabilitation and reconstruction in the region. The government has devised a strategy for Malakand and has requested a Post Crisis Needs Assessment for NWFP, FATA and part of Balochistan, in which the European Commission is participating.

The implementation capacity of many government agencies leaves room for improvement, and the lack of reform policies limits the potential for sector-wide approaches. Some progress has been made in public finance management issues, as a core donor group consisting of the World Bank, ADB, DFID and the European Commission in cooperation with federal and provincial governments has launched public expenditure & financial accountability (PEFA) reviews for all four provinces and at federal level. Follow-up work in this area should be considered.

Institutional strengthening remains a major priority in Pakistan. The lack of accountability and the weak governance in general continue to present considerable

challenges for development cooperation and should be addressed more directly. The role of women in social development remains crucial, as agents of change within the family and at community level. As a consequence, gender mainstreaming needs to be stepped up wherever feasible.

There has been limited progress on human rights, and continuous support for initiatives in this field as well as democratisation remains a relevant non-focal area. Based on the recommendations of the EU Election Observation Mission of February 2008, there is scope for improving the framework and conditions for elections in line with international standards.

2.4. Conclusions of the mid-term review

After reviewing Pakistan's main political, economic, social and environmental developments, (the impact of) new EC/EU policy initiatives and commitments, and having assessed the results and performance of past and ongoing cooperation assistance for Pakistan, the conclusion is that the **CSP response strategy** for the period 2007–2010 remains valid, also in view of the Joint Statement of the EU-Pakistan Summit of 17 June 2009 and the Plan for Strengthening EU Action in Pakistan, endorsed by EU Foreign and Development Ministers during the GAERC on 27 October 2009.

An amount of €180,845 million has so far been committed under the MIP 2007–10.

For the period 2011–2013:

- The geographical focus of the focal sector dealing with rural development and natural resources management should be made more flexible by adding an option to work in other areas of the country and at federal level, i.e. not only in NWFP and Balochistan.
- At the same time, the EU should ensure a more coherent approach in its first focal sector, where rural development and natural resource management can no longer be considered without due attention to climate change, both adaptation and mitigation aspects. This will also allow national policies to be broadened in those sectors, as their scope is often considered too narrow, excluding mitigation of the effects of climate change. Disaster risk reduction and climate change need to be mainstreamed in programmes where useful and feasible, especially in rural development programmes. A separate climate change project is envisaged.
- IDPs, climate change and disaster risk reduction need to figure more prominently in the response strategy. On IDPs, an exit strategy from humanitarian to development cooperation, above all for rehabilitation and reconstruction work, should be kept in mind and integrated into future rural development and education. Nevertheless, the humanitarian situation will continue to be closely monitored, as the internal conflict is far from being over and may spread in other areas. Furthermore, the immediate and urgent needs of returnees or those who have stayed behind in the conflict zones should be addressed adequately according to humanitarian principles.
- The approach also looks at sectors where only a few donors are active and which are most likely to be considered in the post-conflict needs assessment (PCNA).

This assessment is, at the time of writing, being carried out by the Government of Pakistan, the WB, the ADB, the UN and the EU, and is planned to be completed by mid-2010. Particularly relevant here are the democratisation process, governance, human rights and the justice sector. The EU has already gained a significant comparative advantage in these sectors (for instance with the Election Observation Mission and the follow-up to its recommendations on electoral reform, initiated through the Instrument for Stability), and leads donor coordination in some of them.

- Corruption prevention, rule of law and public finance management issues should be given more weight in the non-focal sector dealing with governance.
- A project under the Instrument for Stability (IFS), focusing mainly on security issues, starts in 2010 and a follow up project in areas covered by the DCI could look at law enforcement and justice under non-focal sectors. An additional long-term intervention under the IfS is planned addressing counterterrorism at regional (South Asia) level inter alia by supporting a regional law enforcement centre planned to be located in Dhaka, which is expected to target regional capacity building including cooperation with Pakistani law enforcement.
- Following recommendations made by EU Member States during the Universal Periodic Review 2008, a human rights project with a possible focus on capacity building for selected institutions and/or improving links with civil society will be considered.
- The allocation for TRTA will be further increased. Possible measures to be considered include continued TA for quality and standards, including in the fisheries sector, and support for a newly established standards body in agriculture and fisheries. Cooperation on regulatory issues, including TBT, SPS, IPR, competition policy and investment, will be stepped up. Pakistan could also be supported in its efforts to diversify its international trade, especially exports, both geographically and at product level.

One difficulty in **planning the next MIP** (2011-2013) is the uncertainty about Pakistan's future development, as the situation remains volatile. Consequently, a certain degree of flexibility is required when formulating and implementing the cooperation programme in Pakistan.

Secondly, the implementation capacity of the EU has to be taken into account. Allocations to Pakistan from the DCI have increased from €15 million p.a. (before 2007) to €50 million p.a. (2007-2010) and €75 million p.a. (2011-2013), together with an increased focus on Pakistan by other instruments. This necessitates a more important role for the EU Delegation.

A third important factor is the need to improve coordination and harmonisation between donors and with the government according to principles of aid effectiveness. The European Commission will put emphasis on these coordination efforts, also in view of the plan for '**Strengthening EU Action in Afghanistan and Pakistan**' adopted by the October 2009 GAERC. Identification of the comparative advantages of different donors

and a clearer separation of tasks are crucial steps in this respect. In order to allow the EU to adapt to any possible improvement in donor coordination, a high degree of flexibility is needed in the current strategy.

3. PART III – MULTIANNUAL INDICATIVE PROGRAMME FOR 2011-2013

3.1. Context

The Pakistan CSP 2007-2013 has been subject to an in-house review incorporating an analysis of the current political, economic and social situation, including the impact of the challenging security situation and the domestic macroeconomic crisis, together with lessons learned and recommendations from the monitoring and evaluation reports of previous programmes and projects. Consultations have been conducted with civil society, EU Member States and development partners, and there has been continuous dialogue and consultations with the Government of Pakistan (GoP).

3.2. Indicative budget

The indicative financial allocation for 2011– 2013 is €225 million.

The *indicative funding breakdown* into focal and non-focal sectors is as follows:

Focal Sectors:		€160 M
1	Focal sector I : Rural Development and Natural Resources Management	€90 M (40%)
1.1	Restoration and Improvement of Rural Productive Sectors and Livelihoods	
1.2	Climate Change Programme	
2	Focal sector II : Education and Human Resources Development	€70 M (31%)
2.1	Sindh Education Sector	
2.2	NWFP Education Sector Reform Programme	
2.3	General Support to Education Reforms	
Non-Focal sectors:		€65 M
1	Governance and Human Rights	€50 M (22%)
1.1	Human Rights Programme	
1.2	Support to Democratic Institutions	
1.3	Public Finance Management Programme	
1.4	Justice and Law Enforcement	
2	Trade cooperation	€15 M (7%)
2.1	Trade Related Technical Assistance (TRTA) Programme	
Total*		€225 M

*) While the aim will be to implement the indicative allocations, **flexibility** with regard to annual allocation and between priorities will be essential. To this end, allocations may be adapted by +/- 20%.

The final amounts and indicative timeframe will depend on the needs assessed during the programme identification phase, on the absorption capacity of government systems, on the commitment to systematic reform and on the maturity of sector planning, donor harmonisation and sector programmes during the period of the MIP.

Implementation modalities will be defined and developed in the identification and formulation stages. They should comply with the EU's commitments on aid effectiveness.

The objectives of the **Plan for Strengthening EU Action in Pakistan** shall be taken into consideration and accommodated to the extent possible in the identification and formulation of projects under this MIP for the period 2010-13.

3.3. Priorities and actions

3.4. Focal Sector I: Rural development and natural resources management

3.4.1. Restoration and Improvement of Rural Productive Sectors and Livelihoods

3.4.1.1. Strategy, context and justification

Since August 2008, armed conflict between government forces and militants across FATA and NWFP has led to large numbers of IDPs, which by summer 2009 amounted to 2.3 million people. Since the official Voluntary Return Plan started on 13 July 2009, IDPs have started to return to their areas in the Malakand Division, including the Swat valley and Buner.

The challenge for these areas is to restore public services and livelihood opportunities. The NWFP government presented the Malakand Comprehensive Stabilisation and Socio-Economic Development Strategy in August 2009. The World Bank, UN, ADB and the EU subsequently engaged in a Post-Crisis Needs Assessment (PCNA), the results of which will be available by mid 2010. This assessment will give a better indication of needs in crisis-affected areas, including response to causes of conflict.

3.4.1.2. Objectives

The overall objective will be to support the Government of Pakistan's pro-poor development efforts to bring the poor and backward areas and communities in NWFP, and possibly Baluchistan, into the mainstream of development by improving access to resources, food security, incomes and livelihood opportunities and reducing existing inequalities in these areas. The specific objective will be to restore and improve productive sectors and livelihoods, rehabilitate physical infrastructure and enhance social cohesion within crisis-affected areas. The rebuilding of infrastructure and services will need to take environmental concerns into account in order to cope with changes in weather patterns and extreme weather events.

3.4.1.3. Expected results and main indicators

Expected results will include restored and improved livelihoods in productive sectors (e.g. agriculture, livestock), rehabilitated physical infrastructure (e.g. water and sanitation, irrigation), enhanced social cohesion and reduced environmental pressure in the affected areas.

Expected indicators include increases in average household income, number of physical infrastructure projects repaired or reconstructed, and number of successful initiatives with community participation.

More detailed results and indicators will be available once the assessments have been completed.

3.4.1.4. Cross-cutting issues

Major cross-cutting issues to be mainstreamed are gender, governance, sustainable natural resources management, human rights and lessons learnt to address the consequences of conflict. Climate change considerations will be integrated as appropriate.

3.4.1.5. Risks and conditions

The main risks are the security situation, potential regional conflicts and/or cross-border unrest, corruption, lack of political will and engagement on the part of the GoP. Unpredictable weather patterns, droughts and flooding also pose risks to successful rural development in the region.

3.4.1.6. Coordination with development partners and EU Member States

If the programme is implemented through a multi-donor trust fund in line with the Plan for Strengthening EU Action in Pakistan, it is expected that there will be significant coordination with donors, including Member States, at strategic level within the trust fund or outside it.

3.4.2. *Climate change programme*

3.4.2.1. Strategy, context and justification

Pakistan lies in a region highly prone to natural disasters, where the impacts of climate change are expected to be very pronounced. Glacial receding, erratic rains and prolonged droughts are expected to reduce the country's water resources, affect agriculture, livestock and poultry farming, and threaten mountain diversity. Furthermore, the region is vulnerable to recurrent flooding and earthquakes.

An adaptation strategy is needed for the country to adjust to and cope with these impacts. Disaster risk reduction (DRR) and adaptation measures are also needed. At present, the Planning Commission (through the Task Force on Climate Change and the Global Change Impact Studies Centre) is working on policy guidelines, and a Climate Change Action Plan but would need capacity support for this exercise. While adaptation to climate change and DRR should be the first priorities, interventions also need to focus on mitigation, for example on the elaboration of low-emission development strategies.

The proposed assistance activities would aim at three levels:

- 1) the national level to assist the GoP to assess the impacts of climate change and assist national planners and decision makers for strategic policy planning in alignment with the changing global environment;
- 2) the provincial level, in charge of implementation, where the climate change related assistance would focus more on concrete integration of adaptation measures in the implementation phase of projects and programmes; for instance in cooperation with Agriculture, Livestock and Food departments;
- 3) public stakeholders, including Civil Society Organisations (CSOs), for climate change awareness raising.

There could be a special emphasis on North West Frontier Province and Balochistan.

3.4.2.2. Objectives

The overall objective will be to enable the GoP to make progress towards sustainable development and to address climate change and DRR issues. The specific objective will be to increase the capacity of Pakistani authorities to develop a climate change policy and action plan; to integrate climate change mitigation and adaptation measures into relevant (rural development and natural resource management, incl. agriculture & food security) national and provincial policies, to implement these policies; and to increase the awareness on climate change adaptation and mitigation measures.

3.4.2.3. Expected results and main indicators

Expected results include increased capacity in government, local authorities and among civil society organisations in how to deal with climate change, inclusive and proactive strategies to address climate change including carbon market mechanisms, DRR and vulnerability impact assessments, information on communities' best practices (including low-cost adaptation measures), environmental impact assessments (at sector and project level), reduced pressure on natural resources in project areas, and decreased vulnerability to recurrent natural disasters.

In terms of climate change, indicators will include more sustainable production and consumption patterns and policies, better ability at institutional level to deal with climate change, DRR, vulnerability and environmental impact assessments completed, reduced CO₂ emissions, surface of better protected areas (DAC indicator 602), increased research, notably in the area of climate change adaptation/mitigation, including through an increased participation of Pakistani research entities in the 7th Framework Programme for Research & Development, and improved institutional capacities to deal with climate change in general.

In terms of disaster risk reduction, indicators will include enhanced resilience of communities to natural disasters and improved institutional capacities to deal with this issue in general.

3.4.2.4. Cross-cutting issues

Major cross-cutting issues to be mainstreamed will be governance, gender and institutional strengthening. The new EU backbone strategy for reforming technical cooperation will be adequately integrated.

3.4.2.5. Risks and conditions

The main risks include the deteriorating security situation, the IDP crisis, continued instability in parts of the country, governance issues, lack of political commitment from the GoP, and the impact of climate change itself — on infrastructure, institutional capacity, and agriculture.

3.4.2.6. Coordination with development partners and EU Member States

Climate change and DRR are key issues in development activities, so the need for donor coordination (Member States and other donors or development partners such as UN) is obvious. The EU will proactively advocate donor coordination in this sector.

3.5. Focal sector II: Education and human resources development

3.5.1. Sindh education sector

3.5.1.1. Strategy, context and justification

Taking the Plan for Strengthening EU Action in Pakistan into account, the EU will place continued emphasis on strengthening and improving the public education system. A major focus of education policy for 2009 is on developing a sector-wide approach. It takes note of the fact that the education sector has divided responsibilities at federal level and between the federal and other sub-national administrations.

The EU is already financing the Sindh Education Plan (SEP) programme with an amount of €39 million to improve the quality and accessibility of basic education. The focus is on strengthening governance, institutional capacity building and managing educational service provision in a transparent, accountable and participative manner. SEP builds on existing federal and provincial policy documents, articulated with a clear recognition of core sector and cross-sectoral issues.

The importance of EU assistance for the Sindh education sector is confirmed by the progress so far made in merit-based teacher recruitment and increased budget allocations for education. An indication of the interest in education issues is the fact that the Sindh education sector reforms are being steered at the level of chief secretary.

There is a continuing need for donors to assist the current reform process with a focus on capacity building, governance and public finance, particularly at sector level. The political will of the provincial government and success with the ongoing programme have led the EU to conclude that additional support for the education sector in Sindh is warranted.

3.5.1.2. Objectives

The overall objective is to contribute to improving the education system in Sindh and attaining education-related MDGs. The specific objective is to improve access to education and the quality of teaching in schools in Sindh and to support the government of Sindh's Education Sector Reform Programme, which will improve equitable access to primary education and its quality.

3.5.1.3. Expected results and main indicators

Expected results include:

- Strengthened institutions, human resources and governance systems in education at all levels in the province with regard to policy formulation, planning, budgeting, public finance management, monitoring and evaluation, personnel policy and professional development of teachers, stakeholder consultation, and donor coordination;
- Improved capacity of provincial and district government departments, institutions and local bodies to plan, implement and account for the delivery of education services;
- Increased efficiency and more rational use of available resources, increased accountability, and increased provincial and district effectiveness, in particular with regard to financial and personnel management;
- Effective Public Private Partnerships (PPP) with improved capacity of School Management Committees (SMCs);
- Upgraded systems for monitoring, research and evaluation, with gender-disaggregated data on education, including accurate and up-to-date Education Management and Information Systems (EMIS);
- Improved functioning of the education system at provincial, district and lower administrative levels;
- Improved quality of district education planning and budgeting of resources at all levels, guided by a medium-term budget and expenditure framework for education and minimum service standards;
- Access, relevance and quality of school education.

Programme-specific indicators will be defined during the programme identification phases. Overall indicators for this project will take into account the MDGs for universal primary education. They will be linked to the four reform pillars: (i) improving the fiscal sustainability and effectiveness of public expenditure, (ii) improving education sector management, (iii) improving access to quality schooling, and (iv) improving the quality of teaching and student learning.

3.5.1.4. Cross-cutting issues

EU support for the Sindh education sector will place particular emphasis on access to education for girls. By contributing to education planning, budgeting and monitoring, the project will contribute to improving governance, which could also benefit other sectors.

3.5.1.5. Risks and conditions

Commitment on the part of the federal and provincial governments to achieving the MDGs for education, improved public financial management and governance in education, and higher public education budgets (and spending) are key assumptions for the success and sustainability of EU action.

3.5.1.6. Coordination with development partners and EU Member States

The EU is a member of the government-led education donor group at federal level and will actively continue to promote multi-donor and sector approaches in education. At Sindh level, the creation of a provincial donor group could be encouraged.

3.5.2. *NWFP Education Sector Reform Programme*

3.5.2.1. Strategy, context and justification

A sector programme to improve good governance and accountability in the provision of educational services was in the final stages of preparation in 2009, when the situation on the ground drastically changed due to counter-insurgency operations in the northern districts of the North West Frontier Province (NWFP), in particular the Malakand Division. In view of the urgency of the situation, the European Commission reoriented this programme towards the restoration of service delivery, including rehabilitation and reconstruction of educational facilities in areas affected by the crisis, which also corresponds to the objectives of the Plan for Strengthening EU Action in Pakistan, to strengthen and improve the public education system whilst at the same time exploring means to prevent the use of schools as incubators for extremism.

The present programme returns to its original intention, i.e. to support policy reform in the education sector in NWFP and improve educational outcomes.

3.5.2.2. Objectives

The overall objective is to contribute to human resources development in NWFP. The specific objective will be to contribute to improving the delivery and quality of education services in NWFP.

3.5.2.3. Expected results and main indicators

Expected outcome of the programme: improved access to schools and a reduced gender gap; improved quality of education; provision of adequate and suitable infrastructure; strengthened governance and supervision; enhanced public-private partnership and community involvement; more reliable, comprehensive, accessible and timely information on provincial and district government financial and fiscal transactions.

Programme-specific indicators will be defined during the programme identification phases. Overall indicators for this project will be linked to the four reform pillars: (i) improving the fiscal sustainability and effectiveness of public expenditure, (ii) improving education sector management, (iii) improving access to quality schooling, and (iv)

improving the quality of teaching and student learning. The MDG targets for universal primary education will be taken into account.

3.5.2.4. Cross-cutting issues

Gender issues will continue to occupy a central place in the field of education. Good governance will be focal in this intervention.

3.5.2.5. Risks and conditions

The security situation in parts of the province is expected to remain fragile, which could affect programme performance. Also, in view of the increased focus of all donors on NWFP, the absorption capacity of the NWFP public education system will need to improve rapidly, also in order to control the fiduciary risks.

3.5.2.6. Coordination with development partners and EU Member States

The consultative process between the government and donors under the leadership of the Department of Schools and Literacy is ongoing and improvingly effective. The EU is widely seen as one of the important players in the move towards a multi-donor approach. In line with the Paris Declaration on Aid Effectiveness, a general agreement has been reached to work towards harmonised support for the education sector in NWFP, preferably through a Sector Programme. All donors acknowledge the importance of aligning behind a single GoNWFP reform programme.

3.5.3. *General support for education reforms — teaching curriculum, text books and national education management information system (NEMIS)*

3.5.3.1. Strategy, context and justification

The National Education Assessment System (NEAS) 2007 points to significant quality deficits in Pakistan's education system. Improving quality requires action in the areas of teacher training, curriculum and pedagogy, text books, assessment approaches, and the learning environment and facilities. While most of the inputs in the system have an impact on quality, there are five major factors: curriculum, text books, teacher assessment, the institutional learning environment, and the relevance of education to practical life / labour market. Elementary schooling is facing many deficiencies in each of the input areas: action is particularly needed to improve teaching resources and the pedagogical approaches teachers employ. Improved teaching quality is a top priority of the Government of Pakistan as reflected in the 2009 Education Policy.

The scale of the problem and the ongoing reform efforts have led the European Commission to conclude that additional support is clearly needed to improve the curriculum, text books and teacher training. Strengthening education is a critical element in creating a stable, prosperous and democratic Pakistan, which is also expressed in the Plan for Strengthening EU Action in Pakistan. This will be important not only to support a moderate society but also to promote a flexible, well-trained workforce to enhance Pakistan's growth potential.

3.5.3.2. Objectives

The overall objective will be to improve the education system in Pakistan. The specific objective will be to contribute to improving the content of the education curriculum in schools and to bring about a behavioural change towards child-centred teaching methods.

3.5.3.3. Expected results and main indicators

Expected outcomes: a new, uniform curriculum consisting of standards, benchmarks and learning outcomes; a regulated system of competitive publishing of text books and learning materials; a revised curriculum for the elementary colleges of education; a strengthened system of data collection using a provincial Education Management Information System (EMIS), which would facilitate decision making for policy and management; and, lastly, strengthened educational planning and management to deliver training programmes for capacity building among education managers and teachers.

Programme-specific indicators will be defined during programme identification and formulation. Overall indicators for this project will be linked to action in the areas of teacher quality, curriculum and pedagogy, text books, assessment approaches, and the learning environment and facilities.

3.5.3.4. Cross-cutting issues

EU support for this project will have a strong focus on integrating relevant cross-cutting issues, including gender, human rights, good governance, environmental sustainability and disaster risk reduction.

3.5.3.5. Risks and conditions

Commitment on the part of the federal and provincial governments to educational reform will be a key assumption for the success and sustainability of EU-donor action. Risks remain with regard to the often unclear and evolving position of the government on curriculum contents, the low capacity of the Ministry of Education, and continued underfunding of the education sector.

3.5.3.6. Coordination with development partners

The EU is a member of the government-led education donor group at federal level and will actively continue to promote multi-donor and sector approaches in education.

3.6. Non-focal Sector I: Human Rights and Good Governance

3.6.1. Human rights programme

3.6.1.1. Strategy, context and justification

Pakistan has made significant commitments to international human rights treaties, and was elected as a member of the reconstituted UN Human Rights Council in 2006 and re-elected in 2008, occupying one of the 13 seats reserved for the Asian Group until 2011. Pakistan underwent the Universal Periodic Review in 2008, receiving and accepting a

number of recommendations by EU Member States. The newly elected government hosted a visit of the UN High Commissioner for Human Rights (UNHCHR) in June 2008. That year, the government also set up a human rights division as part of the Ministry of Law, Justice and Human Rights, and in November established a federal Ministry of Human Rights. Despite this, Pakistan's international human rights commitments will have little practical effect unless the government translates them into nationally implemented legislation and action plans and makes sure that these are enforced. There have been limited efforts to translate these international commitments into a national policy agenda. For example, efforts to reform or repeal some of the laws that discriminate against religious minorities and women have been repeatedly blocked by strong politico-religious interest groups in parliament.

Since 2003 the EU has been supporting and strengthening the role of civil society in the promotion of human rights, pluralism and democratic participation and representation in Pakistan through EIDHR. This support will be complemented by a new programme aiming to build the capacity of governmental actors (key government institutions such as the Ministry of Law, Justice and Human Rights, the Ministry of Human Rights, the Ministry of Minorities), along with parliamentary committees responsible for oversight of human rights and the independent HR Commission (if established), and to improve links with civil society, corresponding with the objectives of the Plan for Strengthening EU Action in Pakistan in this area.

3.6.1.2. Objectives

The overall objective will be to enhance the promotion and protection of human rights in Pakistan. The specific objective will be to assist the GoP in increasing its capacity to address human rights issues and fulfil its international human rights obligations

3.6.1.3. Expected results and main indicators

The expected results from this programme include: stronger institutional arrangements regarding human rights issues and ultimately better human rights protection in Pakistan; increased institutional capacity of the Ministry of Human Rights; Human Rights Commission established and able to work in an independent manner; enhanced capacity in fulfilling international human rights obligations; and strengthened links between the GoP and civil society in the promotion of human rights, pluralism and democratic participation and representation in the country.

The indicators monitoring these results will include: ratification and effective implementation of international human rights conventions/obligations; increased confidence on the part of the public (including minorities) in the ability of relevant institutions to address human rights issues; and lastly, the ability of the state to protect the human rights of Pakistani citizens.

3.6.1.4. Cross-cutting issues

The proposed project aims to promote the universal values of democracy and human rights by mainstreaming the rights of minorities, the rights of women and children and actions on human rights and democracy issues in areas covered by EU Guidelines on Human Rights and Humanitarian Law.

Civil society organisations will as much as possible be associated and consulted in the identification and formulation of the programme. Governance issues are also expected to be taken into account.

3.6.1.5. Risks and conditions

There could be further deterioration of the security situation in the country, a worsening of the domestic macroeconomic crisis (leading to the prioritisation of economic sectors at the expense of governance/human rights issues), political instability, and a lack of commitment on the part of the GoP to the protection and promotion of human rights.

3.6.1.6. Coordination with development partners and EU Member States

The EU will coordinate with other donors in a spirit of partnership, especially with EU Member States (active participation in the EU Human Rights Working Group). This will permit the identification of areas for capacity building within the GoP and prevent duplication of efforts. In particular, coordination will be sought with the Asia Foundation's project 'Human Rights Fund' (funded by the Royal Netherlands Embassy in Islamabad), which has a component for capacity building in the GoP through technical assistance and training.

3.6.2. *Support for democratic institutions*

3.6.2.1. Strategy, context and justification

The EU has consistently supported democracy in Pakistan, for example by sending two election observation missions (EOMs) in 2002 and 2008.

Further to the recommendations put forward by the EOM in 2008, the European Commission currently supports parliamentary capacity building under a project on Support for Electoral Reforms, which aims to improve electoral legislation to meet international standards.

Under the MIP 2007-10, it is providing further support to elected representatives and institutions in Pakistan through the programme 'Improving Parliamentary Performance', which aims to improve the three main strands of parliamentary action: law-making, oversight and representation.

The assistance under the MIP 2011-2013 is intended to provide the necessary follow-up to these activities, contributing to further stabilising democracy in Pakistan, taking forward the commitments in the area of democracy and human rights as expressed in the Plan for Strengthening EU Action in Pakistan. The results of the mid-term evaluation of the Improving Parliamentary Performance programme (due in 2012) will be taken into account. Activities at federal level (National Assembly/Senate) could be complemented by support for provincial assemblies, provided this does not overlap with assistance provided by other donors such as USAID.

3.6.2.2. Objectives

The overall objective will be to enhance democratisation in Pakistan by supporting its elected representatives and institutions. The specific objectives will be to support parliament by addressing identified weaknesses and to enhance its institutional performance.

3.6.2.3. Expected results and main indicators

Improved management capacity of elected representatives, secretariats and selected committees; an improvement in parliamentary transparency and access; an increase in the capacity of parliament to promote international human rights standards and to play an oversight role in the electoral reform process; increased interaction between Pakistani elected assemblies and the European Parliament and Member State parliaments; and, lastly, increased confidence of Pakistani citizens in parliament.

The main indicators for monitoring these improvements include: enhanced organisational capacity of parliament at federal and provincial levels; the number and quality of laws passed and amended; the capacity of individual members of parliament to professionally interact with the media; and the extent to which parliament is held accountable to citizens.

3.6.2.4. Cross-cutting issues

The issues of democracy promotion, good governance, gender equality and human rights will receive particular attention throughout the formulation and implementation of the programme.

3.6.2.5. Risks and conditions

Major risks and conditions include: the further deterioration of the security situation in the country; political crises deflecting attention from institutional development; weak absorption capacity in parliament; and vested interests and lack of ownership preventing far-reaching reforms.

3.6.2.6. Coordination with development partners and EU Member States

Ongoing donor coordination efforts by the National Assembly (future establishment of aid coordination committee) and by donors (USAID, UNDP/IPU) are to be followed closely.

3.6.3. *Public finance management programme*

3.6.3.1. Strategy, context and justification

Weaknesses in governance systems and corruption, especially in the area of public finance management (PFM), undermine the efficiency and effectiveness of public service delivery in many developing countries, including Pakistan, thus adversely affecting both poverty reduction efforts and donor confidence in using Pakistani systems to channel

their development assistance. The *PEFA (Public Expenditure and Financial Accountability) Assessment of Federal Government* in June 2009 and PEFA assessments carried out earlier in Pakistan's four provinces have been a collective effort by the Government of Pakistan and some development partners (WB, ADB, DfID and EU) to give a baseline assessment of the current status of PFM systems in Pakistan at both federal and provincial level. The Federal PEFA indicates that Pakistan has overall a sound basic PFM system that plays a central role in economic and social management, but which could be greatly enhanced by building on current reforms and addressing remaining weaknesses in a sustained and comprehensive way. The PEFA assessments for the provinces point to more or less similar strengths and weaknesses as at federal level. A coordinated approach to PFM reform would be highly desirable, possibly through some form of provincial representation in the national PFM reform process.

3.6.3.2. Objectives

The overall objective will be to improve governance processes in the public sector in Pakistan. The specific objective will be to assist the GoP at federal and provincial level to implement PFM reforms with a view to improving the overall effectiveness and efficiency of systems, enhancing oversight and reducing corruption.

3.6.3.3. Expected results and main indicators

Expected results from this programme include: better planning and transparent execution of budgets; reduced leakages, more value for money in procurement systems; improved checks and balances in PFM systems; and increased trust among Pakistani citizens and donors in the use of Pakistan's country systems.

Suggested possible indicators are: better scores in future PEFA assessments at both federal and provincial level; core PFM reforms carried out and rolled out to provinces; budgeting and budget implementation more in line with plans; external audits delivered on time; procurement reforms enacted and rolled out; and increased donor confidence in using Pakistan government systems for channelling development assistance.

3.6.3.4. Cross-cutting issues

The programme directly targets governance issues. It will be gender-sensitive and will contribute to improving sector policies in all areas covered. It is also expected to have a positive impact on decentralisation issues.

3.6.3.5. Risks and conditions

Major risks: further deterioration of the security situation in the country; political instability in Pakistan; vested interests in GoP bureaucracy and rent-seeking behaviour preventing far-reaching reforms; lack of willingness of government ministries to work together; recentralisation of public policies in Pakistan; lack of appropriate human resource development policies in government agencies; and lack of interest among members of parliament in exercising parliamentary oversight.

3.6.3.6. Coordination with development partners and EU Member States

Donor coordination on PFM issues is well-established practice, involving the World Bank, ADB, DfID, USAID and the EU.

3.6.4. *Justice and law enforcement*

3.6.4.1. Strategy, context and justification

A more effective judicial system delivering high-quality services to all citizens is of paramount importance for enhancing public confidence in the rule of law and empowering the poor. Provision of justice in Pakistan rests to a large extent with the provincial authorities. Punjab is regarded as the country leader on legal reform. The government has taken some encouraging steps in the justice sector: it has provided funds to upgrade infrastructure, increased judicial salaries, introduced prosecution office and public defender systems, and made provision for alternative dispute resolution. There is continued commitment and demand on the part of the provincial government for donor support in the judicial sector.

So far, concrete EU involvement in the sector is based on the DCI project concerning access to justice for poor and vulnerable groups in Punjab. The implementation of the project will start in 2010 (indicative timeframe 2010-2014). This project aims to encourage the poor and vulnerable to claim their legal rights by strengthening the capacity of bar associations/NGOs to provide quality aid to the poor, raising public awareness of rights and strengthening governmental justice providers.

A project under the Instrument for Stability focuses on the institutional development of the police and on support for criminal justice in North West Frontier Province and Punjab. It will start in 2010 (18-month implementation period).

Continued EU commitment through the MIP 2011-2013 would play a vital role in consolidating and building on the results achieved by these two projects and in accompanying and helping sustain the government's efforts in the field of justice and police reform, also in accordance with the Plan for Strengthening EU Action in Pakistan. It would ultimately underpin the EU's drive to secure donor coordination for the sector in Punjab.

3.6.4.2. Objectives

The overall objective will be to improve the rule of law and good governance in Pakistan. The specific objective will be to build the capacity of selected Pakistani institutions, such as the police and judiciary, to enable them to improve the delivery of justice and domestic security while respecting human rights.

3.6.4.3. Expected results and main indicators

Expected outcomes from this project include: improved institutional capacities of certain police agencies and judiciary institutions dealing with criminal justice; improved criminal

justice delivery; increased accountability of the police and the judiciary; and improved public confidence in the police and judiciary.

Suggested indicators are more rapid processing of criminal justice cases, increased respect for the rights of the accused, and rigorous observance of due process.

3.6.4.4. Cross-cutting issues

The issues of gender equality, human rights (especially the rights of the accused) and the rights of minorities will be given appropriate attention throughout the formulation of EU intervention measures. The EU backbone strategy for reforming technical cooperation will be adequately integrated.

3.6.4.5. Risks and conditions

Major risks that may adversely affect the project include: further deterioration of the security situation in the country; political instability; lack of political commitment on the part of the Government of Pakistan and Punjab to fundamentally reform the judiciary and police; vested interests preventing far-reaching reforms; and lack of willingness among the judiciary and the police to work together.

3.6.4.6. Coordination with development partners and EU Member States

Coordination with EU Member States as well as other donors active in this field will be sought through the establishment of a formalised donor coordination group. The EU is prepared to play a leading role in donor coordination in Punjab.

3.7. Non-focal Sector II: Trade cooperation

3.7.1. Trade-Related Technical Assistance (TRTA) Programme

3.7.1.1. Strategy, context and justification

At their summit in June 2009 the EU and Pakistan committed to working jointly towards further liberalisation of trade in goods and services to mutually enhance market access. It was also agreed to increase cooperation in the field of trade-related capacity building with a view to further enhancing the bilateral trade relationship, which is particularly appropriate in view of the aim to support economic cooperation and trade within the context of the Plan for Strengthening EU Action in Pakistan.

As a result, implementation should follow on from the TRTA II and III projects, with an enhanced focus on improving and deepening trade relations with the EU and within the region by building the capacity of both the private and public sectors.

Increasing economic growth and fostering trade integration offers Pakistan an important strategy for sustainable economic development, to be supported by proactive policies to attract foreign investment. Areas where particular progress is needed are IPR, competition policy, investment regime, export diversification and business-to-business relations. Pakistan is also likely to continue to have significant capacity development

needs in the area of sanitary and phyto-sanitary standards (SPS) and product standards in general.

3.7.1.2. Objectives

The overall objective of the programme will be to foster Pakistan's integration within global and regional trade systems. More specifically, the programme will support the development of EU-Pakistan trade and investment relations, thereby helping to reduce poverty and ensure sustainable development.

3.7.1.3. Expected results and main indicators

This programme will support the development of a long-term vision and strategy for Pakistan's trade policy.

Expected results: increased institutional capacity of major players in trade policy and practice; increased competitiveness of Pakistani export industries; well-functioning domestic competition policy; well-functioning IPR legislation as well as enforcement of IPR; improved standards regime responding to EU health and safety requirements; and improved investment climate/framework.

Suggested indicators that could be used to monitor these results include: increase in Pakistani exports to the region and worldwide; reduced rejection rates for Pakistani SPS exports; improved rating of Pakistan in international competitiveness surveys; efficiency of established and implemented competition policy; increased confidence in Pakistan among foreign investors; increase in the share of female entrepreneurs involved in export activities; number of Pakistanis employed under decent work standards; increase in the speed of IPR registration, its proper enforcement, and awareness of IPR; increase in business-to-business contacts; and, lastly, increase in investment.

3.7.1.4. Cross-cutting issues

Implementation will place emphasis on sustainable development and pay particular attention to governance, human resource development, environmental and gender issues, and compliance with decent work standards. The EU backbone strategy for reforming technical cooperation will be adequately integrated. The project will seek to mainstream climate change in industrial policy and trade agreements.

3.7.1.5. Risks and conditions

Risks include: further deterioration of the security situation in the country, political and macroeconomic instability in Pakistan, protectionist tendencies in other countries; lack of willingness of government ministries and agencies and the private sector to work together; and lack of appropriate human resource development policies in government agencies. Also (to facilitate the programme) an appropriate coordination mechanism within the Government of Pakistan should be established before the start of the programme.

3.7.1.6. Coordination with development partners and EU Member States

Coordination with EU Member States as well as other donors active in this field is to be sought through the establishment of a formalised donor coordination group. The EU is prepared to take the lead in donor coordination in TRTA.

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Annex 1 Indicative Allocations for Pakistan 2007-13

MIP 2007-10: €200 million			
Sector	Intervention Areas	Indicative Allocations (€million)	% of MIP
FS 1	Rural Development and Natural Resources Management	108	54%
FS 2	Education and Human Resources Development	64	32%
NFS 1	Trade Development and Economic Cooperation	13	7%
NFS 2	Democratisation and Human Rights	13	7%
NFS 3	Anti-money Laundering	2	1%
Total		200	100%

MIP 2011-13: €225 million			
Sector	Intervention Areas	Indicative Allocations (€million)	% of MIP
FS 1	Rural Development and Natural Resources Management	90	40%
FS 2	Education and Human Resources Development	70	31%
NFS 1	Governance and Human Rights	50	22%
NFS 2	Trade Cooperation	15	7%
Total		225	100%

Annex 2 Country at a glance

Macro-economic indicators		2005	2006	2007	2008^e	2009^e	2010^f	2011^f
Basic data								
1	Population (in 1000)	153.96	156.77	159.6	162.4	165	n/a	n/a
	- annual change in %	1.9	1.8	1.8	1.7	3	n/a	n/a
2a	Nominal GDP (in million €)*	89059.1	99794.7	104216.7	114512.5	111322.3	n/a	n/a
2b	Nominal GDP per capita (in million €)*	596.16	654.85	671.21	725.80	701.04	n/a	n/a
2c	- annual change in %	7.7	6.2	5.7	2	3.7	n/a	n/a
3	Real GDP (annual change in %)	9	5.8	6.8	5.8	2	n/a	n/a
4	Gross fixed capital formation** (in % of GDP)	16.64	19.78	21.1	16.5	17.1	n/a	n/a
International transactions								
5	Exports of goods and services (in % of GDP)*	14.9	13.4	11.8	11.5	10.2	n/a	n/a
6	Trade balance (in % of GDP)*	-7.54	-7.44	-10.41	-12.16	-10.23	n/a	n/a
7	Current account balance (in % of GDP)	-1.4	-4	-4.8	-8.4	n/a	n/a	n/a
8	Net inflows of foreign direct investment (in % of GDP)*	1.32	2.76	3.59	3.13	1.82	n/a	n/a
9	External debt (in % of GDP)	31.1	28.2	27.3	27	28.9	n/a	n/a
10	Service of external debt (in % of GDP)	10	10	9	9	7	n/a	n/a
11	Foreign exchange reserves (in €million)*	8473.4	10095.17	11193.56	6233.67	n/a	n/a	n/a
Government								
12	Revenues (in % of GDP)	13.8	14.1	15	14.6	13.8	n/a	n/a
	- of which: grants (in % of GDP)	3.7	3.6	4.7	4.4	3.8	n/a	n/a
13	Expenditure (in % of GDP)	17.2	18.4	20.6	22.1	18.3	n/a	n/a
	- of which: capital expenditure (in % of GDP)	13.3	13.6	15.9	18	14.3	n/a	n/a
14a	Deficit (in % of GDP) including grants	-3.4	-4.3	-5.6	-6	-4.5	n/a	n/a
14b	Deficit (in % of GDP) excluding grants	-7.1	-7.9a	-10.3	-11.9	-8.3	n/a	n/a
15	Debt (in % of GDP)	33.5	30.7	30.1	31.4	30	n/a	n/a
	- of which: external (in % of GDP)	28.4	25.8	24.7	24.5	24.4	n/a	n/a

		2005	2006	2007	2008e	2009e	2010f	2011f
Other								
16	Consumer price inflation (annual average change in %)	n/a	5.9	8.3	7.5	17.8	n/a	n/a
17	Interest rate (for money, annual rate in %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
18	Exchange rate (annual average of national currency per 1 €)	75.53	72.86	79.17	92.17	89.61	n/a	n/a
19	Unemployment (in % of labour force, ILO definition)	6.2	5.3	5.2	n/a	n/a	n/a	n/a
20	Employment in agriculture (in % of total employment)	n/a	43.6	44.7	n/a	n/a	n/a	n/a

2008, 2009: estimates (e)

2010, 2011: forecasts (f)

Sources:

- Asian Development Bank
 - <http://www.adb.org/statistics>
 - http://www.adb.org/Documents/Books/Key_Indicators/2008
 - http://www.adb.org/Documents/Fact_Sheets/PAK.pdf
- Economic Survey of Pakistan 2008-09

Annex 3 Donor matrix

Sectors and DAC Code	110: Education	120: Health	130: Population Policies	140: Water Supply and Sanitation	150: Government and Civil Society	160: Other Social Infrastructure and Services	210: Transport and Storage	230: Energy Generation and Supply	240: Banking and Financial Services	250: Business and other Services	310: Agriculture, Forestry and Fishing	320: Industry, Mineral Resources and Mining, Construction	330: Trade and Tourism	400: Multi-sector / Cross-cutting	500: Commodity Aid and General Programme Assistance	600: Action related to Debt	700: Emergency Assistance and Reconstruction	820: Support to NGOs	999: Unallocated / Unspecified	Total by donor
All present EU donors																				
Czech Republic																				0
Netherlands	46			34,9	6,9							4		12,5						104,3
Finland																	11,7	1,3		13
Greece	0,335	0,316		0,036		0,087								0,016			0,425			1,315
Austria	0,049	0,1				0,072											0,071			0,534
Germany/KfW/GTZ	33	74,25	6,1			8,627		265,629	17							165	17,1			618,216
France	14,31	1,37		19,5	2,4	31,5		252,6						90			10	0,36		390,54
Italy	20	1				3,779			40	9,168	2,8					80	4,99			161,737
Denmark					5,374												3,447		0,269	9,09
Poland																	0,3			0,3
EC	49,35	3,88	4,93	0,448	5,8	6,19		0,15			16,052	2,525	5,096	1,489			41,26	0,007	0,115	195,9
Major non-EU donors																				
Canadian High Commission/CIDA																				34,037*
Japan/JICA	77,037	39,38		65,433	0,955	12,366	719,03	292,096		0,148	398,661	0,784					31,007		1,36	1,638,26
AusAID	4,854	3,957				0,799					0,909						5,686			17,99
USAID	104,61	56,67				35,5		**	**	**	**		**	0,127	1,627		34,49			309,98
International organisations																				
ADB	13,19	93,59		131,46	102,85		702,19	568,84	557,88		233,5	8,588		495,06			163,85			3,070
IMF																				5,206,92
UNODC		1,52				8,01														9,53
UNIFEM						1,26														1,26

* No breakdown in categories available

** Total of 78.71m EUR in those 5 categories

N.B. Above-indicated figures reflect ongoing projects and commitments in million EUR. The information is based on what donors/aid agencies indicated to the EC; thus some data from other donors/aid agencies may be missing.

Annex 4 MTR dialogue process

During the CSP/MIP mid-term review exercise, formal consultations were held with the Federal & Provincial Governments, Local Authorities, Civil Society, EU Member States and other major donors. Consultations with the Federal & Provincial Governments and Local Authorities were coordinated and organised by the Economic Affairs Division (EAD). Federal level participation was lower than expected. Ministry of Environment, which is a key relevant ministry for focal area 1, was not invited by EAD for the consultation. Ministry of Finance though invited did not attend. LA representation was not very satisfactory. Consultations with civil society, EU Member States and other donors were well attended. The level and depth of discussion at all the consultations were very good.

Objective of the consultations was to present to the stakeholders the 2007-2013 CSP and 2007-2010 NIP, the results so far achieved, to solicit their views on the key elements of the CSP/MIP in the current country context and to seek their views on how to further improve implementation of EU-Pakistan cooperation. The consultation process was structured around three key topics: (a) CSP/ MIP Achievements, (b) CSP Analysis, and (c) The EU Response Strategy & Revised MIP. The following is a summary of the consultations:

CSP/MIP Achievements: Almost all the stakeholders except for civil society representatives expressed satisfaction over the implementation progress under the CSP/MIP. Civil society expressed reservation over the slow pace of funds commitment (38%) and suggested to use the uncommitted funds through non-state actors, and NGOs. The GoP suggested that the European Commission should put in place mechanisms to quantify its achievements. However, the European Commission pointed that the main constraint in this regard is the availability of timely, relevant and authentic data.

CSP Analysis: During all consultations the participants agreed that the updated analysis is valid, comprehensive, and covers political, economic and social developments including Pakistan's MDGs performance since the version of 2005 included in the 2007-2013 CSP. The GoP representatives stressed that the security situation, in particular in NWFP and Balochistan, needs to be taken into account while exploring funding options. The EU MS also referred to the deteriorating security situation and emphasized that it should be reflected in the political analysis. GoP also suggested that EU should expand its geographical focus for RD and NRM to include poverty stricken areas of Punjab and Sindh. The GoP representatives proposed that EU should also focus on aid delivery modalities and on adopting sector-wide approaches for project implementation based on lessons learned from existing projects. EU MS proposed that since security and terrorism are critical areas for improving overall stability, innovative ways could be found to work on these areas e.g. a programme for support to police. It was also proposed that support should be provided for strengthening governance by supporting the Parliament and Administration. The EU MS indicated that the EC could consider reducing the non-focal sectors by adopting the aid effectiveness strategy and to focus on areas where it has a stronger comparative advantage.

Some donors suggested that, in order to achieve the MDGs, donors including the EU should focus on all areas of Pakistan instead of concentrating on NWFP or Balochistan. It was expressed by other donors that EU should continue to support the trade sector as not many donors are working on it in Pakistan. Most of the participants agreed that comparative advantage is one of the criteria to be used for prioritization. Civil society representatives expressed the need to update the analysis frequently, preferably every six months, to take cognizance of the rapidly changing situation and that it could further be expanded to cover issues such as IDPs, increasing Talibanisation, and the security situation, which are not reflected in the analysis.

The EU Response Strategy & Revised MIP: The GoP expressed that it would prefer to have budget support as the aid modality for all European Commission funds as it would indicate EU's confidence in the government. The European Commission responded that for this, a fiduciary assessment of the situation in Pakistan needs to be undertaken which in turn implies that the country should have a well established Public Finance Management System in place. The European Commission informed that governance/Public Finance Management (PFM) could be included as a non-focal area. Some work is already in progress at the provincial and federal level through the PEFAs. If progress would be made in this area, then more effective utilisation of the money spent by all the donors could be ensured which in turn will improve the Government's credibility for all the donors. Another issue is the limited implementation capacity of the Government. In addition, security is emerging as one of the main concerns for the EU for effective project implementation and monitoring. GoP emphasised that energy should be considered as one of the main focal areas for poverty reduction in Pakistan and that the EU should focus on projects that directly benefit the grassroots level. It was shared that the European Commission will start a project on renewable energy in NWFP and Balochistan. However, the European Commission does not have a high comparative advantage in energy sector and donors such as ADB and WB should be consulted for this.

The EU MS and some other donors expressed that donors, including the European Commission, need to focus more on reform issues than providing support for basic assistance programmes. They consented that donors should work only in accessible areas. It was termed important to consider the modalities of assistance. Budget support is effective if a lot of money is available for funding. Another option is to work in collaboration with other donors through joint funding if SWAP or budget support is to be adopted as aid delivery modality. However, it is practically very difficult to work through joint funding due to continuously changing policies of different agencies. The EU MS representatives expressed that significant work needs to be done to improve EU visibility.

Majority participants of the consultations agreed on keeping the same 2 focal areas but to move education as focal area 1. Civil society representatives suggested that allocation for NRM shall not be reduced but additional allocation be made for education and secondary and non-formal education shall also be included and that youth shall be given specific importance. Civil society representatives proposed that under non focal sectors, the European Commission shall focus on additional themes like media involvement,

commerce, human rights, youth, governance, access to justice, civil service reforms, health, and non-formal education. It was also suggested that geographical coverage of the CSP shall be extended to include other deprived areas of Sindh and Punjab. It was also expressed that deteriorating security is becoming a crucial concern for programme implementation and shall be strongly reflected in the response strategy. Governance issues and poor implementation capacity were termed as the key concerns and it was proposed that the European Commission shall assist to address them. Capacity building of state institutions specifically human rights and women ministries was emphasised.

Key Conclusions:

- The EU Delegation should use accessibility and need as criteria while selecting the geographical location of projects and expand the geographical focus to include poverty stricken areas of Punjab and Sindh.
- Themes under the non focal sectors could be revisited in view of comparative advantage of other donors.
- The EU Delegation should not work on both RD and NRM but make a choice between the two. The sectors need more thematic focus in view of other donor's comparative advantage.

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 on average. It comprises diverse landscapes, with high mountain ranges, 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. The fast degrading ecosystem is also facing increased stress due to the changing climate. Model shows that Pakistan will grow warmer by about 1 degree C by 2030 (CICERO Report 2002), and could even reach 4-5 in the last three decades of this century. This would reduce yields of cereal crops especially in the rain fed areas. Climate change will also have an impact on wildlife and their habitat. Range lands, forest and their types, and biodiversity will be under even greater threat.

These problems are mainly **caused by a combination of poverty**, one of the highest rates of **population growth** 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 utmost 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 m³ 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 (a Climate Change Action Plan and policy guidelines are being drafted). 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 EU 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. In addition introduction and promotion of strategic environmental assessment is of paramount importance.

Recognizing 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 EU support to Pakistan's environmental policy could address this demand while alternatively, continued support for Pakistan's civil society should 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, 940³ 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 tropical, sub-tropical temperate ecological zone. The climate is generally arid, characterized by hot summers and cool or cold winters, with wide variations between extremes of temperature at given locations. In most of the areas 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 generalizations should not, however, obscure the distinct differences existing between particular locations. For example, the coastal area along the Arabian Sea is usually warm and humid, whereas the frozen snow-covered ridges of the Karakorum 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

The Government of Pakistan has approved the Environmental Policy in 2005, which highlights environmental issues, and suggests possible measure to deal with these issues. Environmental legislation however requires enforcement.

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 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</i>
Maintaining soils in croplands	Clean air	Water management and conservation	Fresh water, sanitation, slums and squatter
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 management	Desertification
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
Integrating population & environment		Trade	Cross sectoral environmental concerns
Preserving cultural heritage		Poverty	Trade and environment
		Local Governance	Human resource
			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 on 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 re-focus 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. **EU AND OTHER INTERNATIONAL DEVELOPMENT ASSISTANCE**

4.1 *EU cooperation from an environmental perspective*

Objectives such as 'Protection of the Environment and Natural Resources' as well as 'Sustainable Development' are mentioned in the European Commission's Country

Strategy (CSP) 2002-2006. 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 the European Commission’s 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.

During much of the period covered under the CSP 2002 – 2006 however, the European Commission 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 EU development cooperation within the environment sector is seen as desirable.

Table 3: European Commission environmental cooperation projects

<i>Project Title</i>	<i>Euro million</i>	<i>Status</i>
Environmental Rehabilitation in NWFP	25.0	Closed
Palas Valley Conservation	4.8	Closed
EU-FAO, IPM Programme on Cotton in Asia (Regional)	12.0	Closed
Tropical Forest Programme (Regional)	2.0	Closed
NGO Co-financing, WWF Coastal Livelihoods Project	0.73	Closed
NGO Co-financing, WWF Thirsty Crops (Cotton & Sugarcane) Project	0.75	Closed

An effective procedure to consider cross cutting environmental issues, for other areas of intervention was only applied in a limited way and needs to be reinforced. For instance, in the education sub-sector the European Commission 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; and over-arching adverse impact to human and ecosystems from climate change
- 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 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 Migration profile

1. General Assessment

Though no exact figures are available, it is estimated that at least 450,000² Pakistani nationals migrate abroad each year, of which an average of 150,000 migrate through licensed Overseas Employment Promoters (OEPs). The remaining share of those yearly 450,000 migrants migrate through irregular channels, including through human smuggling and trafficking networks, due mostly to their lack of skills and lack of knowledge on the available legal migration channels.

For those migrants aiming at reaching Europe through irregular means, identified migrating land routes include the usual Pakistan-Iran-Turkey-Greece corridor and more recently the Sub-Saharan/Maghreb trail via Niger, Mauritania or Morocco. The people migrating to Europe include students, skilled and non-skilled workers as well as family members for re-union.

1.1 Labour Migration

Out of those migrating legally, it is estimated that while 70 to 80% of Pakistani semi-skilled labour migrants go to the Gulf region to work in the construction industry, the big majority of the country's highly skilled labour, whose share is not more than 10% in the total migrating labour, usually migrates to Europe, USA and other western countries, sending home the biggest portion of remittances. Recent data shows that Pakistan's level of remittances reached a record level of \$6.451³ billion for the year 2007-08 alone, bringing in a significant boost to the country's economy, badly affected by the overall unstable domestic political situation and armed conflicts in the tribal border areas.

With media reports highlighting the laid off of Pakistani migrant workers in the Gulf Cooperation Council (GCC) countries as a consequence of the financial crunch, it is apprehended that the increasing number of returned jobless migrants might lead to a rise of irregular migration with potential migrants looking for better economic opportunities abroad through informal channels or being lured, out of despair, by false promises offered by traffickers.

1.2 Refugees

Pakistan has been host of one of the world's largest refugee populations for more than 27 years. It is not party to the 1951 Refugee Convention or the 1967 protocol, but Pakistan has generally respected the principles of international protection. Since March 2002, nearly 3.2 million Afghans have repatriated with UNHCR's assistance. According to UNHCR, total refugees residing in Pakistan are 1,780,935⁴. Of these, the asylum seekers

² Human Rights Commission of Pakistan Report 2006.

³ State bank of Pakistan

⁴ Total refugee figures for Pakistan include recognized Afghan refugees (2,000), registered Afghans in refugee villages who are assisted by UNHCR (764,900), and registered Afghans outside refugee villages who are living in a "refugee-like" situation (1,015,200).

are 2,951. The refugees originating from Pakistan are 32,403, of which, the asylum seekers are 6,254.

1.3 IDPs

Since early May 2009, armed conflicts between government forces and militants in the North West Frontier Province's (NWFP) districts of Swat, Buner and Lower Dir generated more than 2 million registered IDPs⁵. While some 260,000 of the displaced stayed in 21 camps in Mardan, Swabi, Nowshera, Peshawar and Charssada districts, the vast majority were being accommodated with host families, in rented houses or in school buildings. UN Agencies, International Red Crescent (IRC), Government and several international and local NGOs distributed assistance packages to displaced people staying in host families or in school buildings. The government started the first stage of a four-phase programme to return internally displaced persons (IDPs) to some areas of the districts of Buner and Swat from 13 July 2009. The displaced people staying in camps were the first to be given an opportunity to return to their homes. Government officials say more than half of northwest Pakistan's 2.3 million people have now returned to their homes.⁶ There has been significant damage in some areas of conflict. Another major issue is the presence of mines and unexploded ordnance, which constitute a real threat for the returning population, especially children.

As of early September, more than 80,000 displaced people (11,000 families) from South Waziristan had been registered by local authorities in Dera Ismail Khan and Tank. In October 2009, there have been new outflows of people (around 15,000 people) from Pakistan's South Waziristan region. As a result of full-scale military operations, the numbers of displaced people are likely to rise significantly. Meanwhile, there are fresh waves of displacement from Bajaur agency, also in the Federally Administered Tribal Areas (FATA), with reports that an estimated 1,000 families have already left the area.⁷

1.4 Gender Perspective

Proportion of female migration is very low in Pakistan. In 2006, Pakistan sent 183,891 workers, of which, 0.04 percent was women. Typically females migrate as dependent spouses of male migrants. Very low number migrates as professionals or students.

2. Key Issues

2.1 Governance

The Government of Pakistan lacks a migration policy which clearly defines its strategy with regard to all aspects of legal and illegal migration and the effective management of those flows. Whereas Pakistan has signed overseas employment agreements with some countries including Qatar, UAE, Jordan, Malaysia and South Korea, effectively managing legal migration flows to Europe appears to be more challenging as most of the EU-based

⁵ UNHCR; www.unhcr.org

⁶ <http://www.unhcr.org/4a92855d9.html>

⁷ <http://www.unhcr.org/4ad84e799.html>

Pakistani workers are unregistered by Pakistani authorities⁸. The Overseas Employment Promoters (OEP) mainly cater for the GCC/ Gulf, Korea and Malaysia and produce manual data for the BOE. On the irregular migration front, the government has only data of people intercepted at Pakistani borders or deported back to Pakistan from GCC and European countries. Except from the numbers, there is also lack of disaggregated data on the causes, means of irregular channels, reasons for deportation and lack of procedures to identify victims of trafficking of human smuggling cases. Any data on age, sex, gender and means of exploitation is also not available. There is also lack of capacity, manpower and resources in the government to effectively deal with migration issues (legal or illegal) and implement policies on combating human trafficking and smuggling. The government has promulgated Prevention and Control of Human Trafficking Ordinance 2002 and launched its Action Plan to Combat Human Smuggling and Trafficking in 2005, but little implementation is seen on the ground. No research/ study has been conducted by a University or a research institution in Pakistan on migration and related issues. No data is available on the number of people migrating permanently. However, as the share of remittances is higher for people in USA and Europe, it can be assessed that there are more permanent migrants in those countries than in GCC and South East Asia.

2.2 Migration and Development

Though the State Bank of Pakistan has announced another significant rise over this past year in remittances being sent home by overseas Pakistanis, not enough thought is going into how to maximise the potential development impact of this significant contribution. Most migrant families are not able to save or invest the remittances being sent to them due to a lack of awareness and the non-existence of investment opportunities at the grassroots level. They are thus instead used primarily for meeting private consumption needs, which have limited macro-socio-economic benefits.

2.3 Migrant Rights Protection

Besides economic discrimination, the human rights of migrant workers from countries like Pakistan are also at stake due to the absence of anti-discrimination legislation and indifference on the part of policy makers to ensure protection of the migrant workers. There is a need to develop a comprehensive migration policy for the Government of Pakistan. To promote legal channels of migration, need is to create awareness about legal channels and risks of illegal migration. Moreover, the Government needs to facilitate the migrants as currently they have to pay huge fee to process their emigration. There are relatively less chances for Pakistani Labour force as labour is available at much cheaper rates especially in GCC (as labour from Bangladesh, India etc. charge less).

3. Main Actors

The main migration actors include Ministry of States and Frontier Regions (SAFRON); Ministry of Labour, Manpower and Overseas Pakistanis; Commissioner for Afghan Refugees, National Database and Registration Authority, UNHCR, IRC, American Refugee Committee, International Medical Corps, Basic Education and Employable

⁸ Bureau of Emigration

Skills Training, Basic Education for Afghan Refugees, Catholic Relief Services, Church World Services (USA), International Rescue Committee (USA), Save the Children Federation (USA), International Medical Corps, *Médecins Sans Frontières*, Mercy Corps International, Qatar Charity⁹ and some local NGOs.

⁹ UNHCR: www.unhcr.org

Annex 7 Governance profile - Pakistan

Pakistan has undergone changes to several areas of governance since 1999, including a major one, i.e. the decentralisation of functions, powers and funds to local governments. It has an ambitious and comprehensive programme of reforms to accelerate growth and poverty reduction. Governance reforms, particularly in the areas of tax administration, procurement, financial management and devolution of power to local governments are key features of the programme. However, the deteriorating security situation and the global economic meltdown, coupled with high energy and food prices, has had a disastrous effect on the economy. Poor governance has added to the misery of the people. The Government seems to be moving from crisis to crisis, which leaves little time to tackle governance problems in depth.

According to the latest governance indicators, evaluated by the World Bank¹⁰ for all its Member States, governance in Pakistan deteriorated to the lowest ebb in 2007. Pakistan falls in the negative zone for all six governance indicators. For the political stability indicator Pakistan is placed even behind Afghanistan; only Iraq and Somalia score worse. The indicators also show a worsened situation for accountability, regulatory quality and rule of law. The control of corruption and government effectiveness indicators marginally improved.

1. Internal and external security

The security situation in Pakistan has deteriorated substantially. The stability and very survival of the state is threatened from within by militant groups who claim to adhere to extreme forms of an Islamic ideology. Some of these have a local agenda whereas others advocate global jihad. In large parts of the North West Frontier Province (NWFP) and the Federally Administered Tribal Areas (FATA), the Government had effectively lost control. Moreover, in Balochistan, there are long-standing demands for devolution of power or autonomy. Such demands now increasingly find their expression through armed struggle. In Karachi, there is a high level of violence, ranging from criminality to ethnic (Muhajir-Pashtun) or party (MQM-ANP) conflict. Since the summer of 2007 (the Red Mosque – Lal Masjid operation) the number of suicide attacks and other forms of terrorism have increased dramatically – not just in NWFP and FATA, but also in major urban areas, including Lahore and Islamabad. Whereas the military, the police and other symbols of the Government remain the primary targets, there are also examples of kidnappings and targeted killings of foreigners.

Regarding external security, Pakistan's links with the outside world is a two-way street. Pakistan has been hugely affected by the ongoing conflict in Afghanistan. The combination of a non-recognised border without any effective border control, strong cross-border ties between Pashtuns on both sides, an abundance of drugs and weapons, and international forces fighting in Afghanistan, is lethal to the two countries. Relations with India are dominated by mutual mistrust, the issue of Kashmir, as well as memories

¹⁰ Governance Matters VII, <http://info.worldbank.org/governance/wgi/index.asp>

and myths from before partition and the wars fought since. This has pulled the two countries into a nuclear arms race to the detriment of development and trade agendas. Attempts at conflict solving through a “composite dialogue” were brought to a halt following the terror attacks in Mumbai in November 2008, but recently there have been signals from both sides that this dialogue needs to be restarted. Pakistan also complains about frequent violations of its airspace by unmanned US drones, allegedly used to fire missiles against militants in FATA.

The excessive resources, by global standards, going to the armed forces have taken a toll on development, including education and health. A narrow focus on military security has made the people of Pakistan pay a heavy price in terms of deteriorating human security.

2. Democratic governance

2.1. Constitution and political system

According to the 1973 Constitution, Pakistan is an Islamic Republic. It could be argued that the preamble limits the political authority of the people, and by extension of the Government, by stating that it is exercised "in accordance with Quran and Sunah". Thus, the Constitution is strongly influenced by Islam as a political/social concept. Pakistan is a federal Republic, which consists of five provinces, the Federal Capital of Islamabad, the Federally Administered Tribal Areas (FATA), and the Pakistan-controlled part of Kashmir (Azad Jammu Kashmir, AJK).

At federal level, the Parliament consists of two houses – the National Assembly (342 seats) and the Senate (100 seats) – and the President. Each of the provinces has its Provincial Assembly (with the number of seats varying from 65 in Baluchistan to 371 in Punjab). AJK is not included in the Pakistan Constitution and is not represented at the federal Parliament, but has its own legislative assembly.

While the political system as outlined in 1973 was essentially parliamentary, a large number of amendments (17 in total) have reduced the power of the elected representatives while strengthening the Presidency. The President currently holds extensive powers, including that of dissolving the National Assembly in certain circumstances (Art. 58.2 (b)); such a decision will need to be approved by the Supreme Court. The President also has the right to appoint the Provincial Governors, after consultation with the Prime Minister (Art. 101). In addition, the President has the right, in consultation with the Prime Minister, to appoint people to senior posts in the armed forces, including that of Chief of Army Staff (Art. 243).

Parliament has been marginalized and has not been adequately involved in checking executive activities and in contributing to and conducting oversight of public policy formation. From 2002-2007, the National Assembly passed only 50 bills, whereas 121 presidential ordinances were promulgated. The current Parliament is trying to take a stronger and more assertive role and has taken new initiatives to improve parliamentary functioning.

Pakistan has universal adult suffrage, and those 18 years of age and older are eligible to vote. The 2008 general elections saw the transition from a strong military influenced government to a civilian one. The EU Election Observation Mission's (EOM) report concluded that the election process was competitive and achieved increased public confidence in comparison with previous elections. In particular, media and civil society played a significant role by providing greater scrutiny of the process. However, serious problems with the election environment and framework remain. The EU EOM made 83 recommendations for electoral reform, of which only a few have been (partially) implemented to date. Although the Election Commission of Pakistan has released a series of recommendations for reform, regrettably the consultation process with other relevant stakeholders has not been very transparent and limited so far, thus ignoring one of the main recommendations of the EOM, namely to increase accountability and transparency.

Throughout its existence, Pakistan has suffered from a lack of an independent judiciary. On several occasions, the Supreme Court has justified military coups and other unconstitutional decisions, by referring to the "doctrine of necessity". Attempts in 2007 by then Chief Justice Iftikhar Chaudhry to challenge decisions taken by President Musharraf led to a fierce political battle between the two. It was only in March 2009 that the Chief Justice was reinstated. As an outcome, the judiciary is widely seen as having strengthened its position vis-à-vis the executive power.

Constitutional issues, notably regarding the power of the President and the independence of the judiciary, remain high on the political agenda. Future decisions will have real impact in terms of personal and party politics. In May 2006, Benazir Bhutto (Pakistan Peoples Party – PPP) and Nawaz Sharif (Pakistan Muslim League – PML-N) signed a Charter of Democracy calling for the removal of the 17th amendment to the Constitution. So far, the PPP-led federal Government has not tabled any proposal for this to happen. President Zardari has twice invited the Parliament to form a Committee to take this issue forward, and after the outcome of the Senate elections in 2009, PPP and PML-N could easily take such a proposal through Parliament. Reducing the power of the President is likely also to have some internal repercussions on the relative power within the leading party PPP.

Finally, one may recall that Pakistan has been dominated by military rulers for a large part of its history. The new democratically elected Government is facing substantial challenges, not least in the economic and security fields, and the military remains a very powerful force in Pakistani society.

2.2. Devolution

The Government of Pakistan, in 2001, embarked on a devolution plan. The basic objective was to devolve the administrative responsibility and financial authorities to the district level. A constitutional body, the National Reconstruction Bureau, was created to steer and advise the process. In addition to the National Finance Commission, which

regulates the flow of resources from the federal Government to the provinces, Provincial Finance Commissions were created to regulate the flow of resources to the districts.

In the devolved system, the main responsibilities for the delivery of education, health, water and sanitation, roads and transport and agriculture services were transferred to district and sub-district level. This functional devolution has been accompanied by political, fiscal and administrative changes which have proceeded at different paces and have resulted in an overlap of responsibilities between provincial and local governments. Administrative decentralisation remains the most contentious area. While formally authority over recruitment and career management over local government staff has been transferred, both the local and provincial governments are de facto exercising authority over local staff, which results in dual accountabilities that undermine incentives for performance.

The system has its merit; however, devolution continues to face challenges. The main issue is that the provincial governments never welcomed the new system, but perceived it to be imposed from federal level. After the February 2008 general elections and change in the Government, all the provincial governments have come out openly against the devolved setup and expressed their preference for the previous system. So far, no clear position has been taken by the federal Government. The uncertain structures also have a negative impact on development planning.

2.3. Human rights

The new Government after the February 2008 elections brought some positive novelties in the field of human rights. In March 2008, the Government released scores of political activists detained during the state of emergency imposed in November 2007 and freed judges held under illegal house arrest. In April 2008, Pakistan ratified the International Covenant on Economic, Social and Cultural Rights, and signed the International Covenant on Civil and Political Rights and the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. However, no concrete timeline has been set for the ratification of these instruments and the consequent alignment of some national laws is still pending. Moreover, a Ministry for Human Rights and a Ministry for Minorities – both headed by federal-level Ministers – have been established, but they are not yet fully functional due to the lack of adequate resources.

Pakistan has adhered to relatively few international criminal, human rights, humanitarian and refugee law instruments. No progress has been made in relation with the signature of other fundamental instruments that the international community (and the EU in particular) have been encouraging Pakistan to sign, notably the 1951 Convention on Refugees, the Convention on the Rights of Persons with Disabilities and the International Convention for the Protection of All Persons from Enforced Disappearances¹¹.

¹¹ In May 2008 the government announced that Pakistan would accede to this convention, but has not done it so far.

While the new Government has been keen to promote civil liberties and human rights, many observers note that its rhetoric has not always been matched by action. In its 2008 Annual Report, Amnesty International considers that Pakistan has “failed to fulfil many of its promises to ensure human rights protection. Torture, deaths in custody, attacks on minorities, enforced disappearances, ‘honour’ killings and domestic violence persist. After the new Government announced that it would commute death sentences to life imprisonment, it executed at least 16 people; at least 36 were executed throughout the year.”

Several drafts of a bill for the establishment of an independent Human Rights Commission have been circulating for the last ten years. The latest attempt was made at the end of 2008 but the draft bill has not yet been passed by the Parliament. The Human Rights Commission of Pakistan (HRCP), an independent non-profit organization that is not associated or affiliated with the Government or any political party, has performed the human rights watchdog role in the country. HRCP has loudly condemned the practices of the military and political parties and has secured its role as one of the leading organizations fighting for human rights and democratic development in Pakistan.

Other civil society organisations (NGOs, community-based organizations, think tanks, trade unions, cultural groups and informal citizen organizations) have also been challenging the different Pakistani governments in their struggle towards the protection of human rights and fundamental freedoms. Because the political space afforded to civil society organizations is small, these organizations have limited impact on policymaking and implementation but their work is fundamental for reporting and monitoring human rights abuses.

2.4. Civil society

Pakistan’s emerging civil society is playing a crucial role in democratisation. Although its influence on policymaking and implementation is still limited, civil society increasingly challenges the state by providing expert information, conducting scrutiny activities and undertaking advocacy. Throughout Pakistan’s existence, it has borne the brunt of repeated military interventions and has regularly been subject to state repression.

Civil society tends to be very heterogeneous. Civil society organizations (CSOs) can broadly be categorized into two different types: urban and modern CSOs and rural CSOs based on ethnic, sectarian or clan organizations. While the Government not only appreciates, but also is dependent on the service delivery of social NGOs in order to mitigate the social gap of under-investment in human development, it finds the advocacy role of the modern NGOs with regard to fundamental freedoms quite unsettling. Traditionally the state has refrained from interfering with the activities of religious CSOs such as madrassas, seminaries and jirgas.

According to a Civicus Report of 2001, there are around 10-12,000 active and registered NGOs in Pakistan out of which 59% are located in Punjab. There are more than 60,000 unregistered NGOs. In addition, there are around 8,000 trade unions. CSOs can be

registered under six different laws. Although several initiatives have been launched during the 1990s to collect data on various dimensions of civil society, no comprehensive analysis has been undertaken so far. The available data are sketchy and sector- or area-specific, most of them focus on NGOs, and it is difficult to estimate the total funds administered by the Pakistani CSOs. Moreover, with a few exceptions, CSOs do not have well-defined governance, transparency and accountability structures. They often lack internal democracy and participatory decision-making.

Community organizations have been showing considerable dynamism to organize development initiatives at the local levels as some incentives have been allocated to them under the devolution process. They have been important in facilitating citizen participation and interest in public affairs. However, the regulatory environment for these organizations is uncertain as the future of devolution has not yet been clarified under the new Government.

Pakistan has a history of vibrant, private and independent media. Print media are published in eleven languages, most of them in Urdu, Sindhi and English. Most print media are privately owned and the press publishes free from censorship, but journalists often exercise self-censorship as a result of arrests and intimidation by governmental and societal actors. As more than half of the population is illiterate, print media fail to reach a significant segment of the population, in particular in rural areas. Thus people have long depended on state-run radio and television channels for information in the absence of any private broadcast media in the country. Initially, former President Musharraf opened up the market for private broadcast media. There are estimated to be approximately 200 licensed private radio stations and 100 private licensed TV channels.

The new and young broadcast media came into conflict with the President in March 2007. The media showed live coverage of events as they unfolded when President Musharraf tried to sack Chief Justice Chaudhry stirring a public outcry, which eventually resulted in the reinstatement of the judge. After President Musharraf declared a state of emergency in November 2007, he ordered a media blackout and new laws were imposed to curb the media.

Journalists face personal and professional risks, in particular in some parts of the country. According to the May 2008 report by the journalism watchdog group Internews Pakistan, fifteen journalists got killed between May 2007 and May 2008, the highest number in any one year reported since Pakistan's independence. The report further states that government authorities arrested and abducted journalists and attacked media properties, and Islamabad emerged as the "media threat capital" of Pakistan. Yet, "the media has emerged as one of the key stakeholders on the political scene", it asserts.

3. Rule of law

Pakistan's legal system is derived from English common law and is based on the 1973 Constitution and Islamic law (sharia). The Supreme Court, provincial high courts and other courts have jurisdiction over criminal and civil issues. The President appoints the Supreme Court's chief justice and formally approves other Supreme Court justices as

well as provincial high court judges on the advice of the chief justice. The Supreme Court has original, appellate, and advisory jurisdiction, and high courts have original and appellate jurisdiction. The Federal Shariat Court determines whether laws are consistent with Islamic injunctions. Special courts and tribunals hear particular types of cases, such as drugs, commerce and terrorism. Pakistan's penal code has no jurisdiction in tribal areas, where law is largely derived from the Frontier Crimes Regulation and tribal customs.

Pakistan's legal commitments often do not match the realities on the ground. The Constitution states that "all citizens are equal before law and are entitled to equal protection of the law", and Pakistan has ratified several international human rights instruments such as the Universal Declaration of Human Rights and the Convention on the Elimination of Discrimination against Women (CEDAW). Yet, the provision of justice is hampered by inadequate funding, inadequate training, lack of supervision and oversight, large case backlogs and very credible allegations of corruption. Furthermore, the Government has constitutional authority to limit civil liberties in accordance with Islamic doctrine, national security and other circumstances.

Pakistani courts can in theory impose the death penalty, and some crimes are punishable by lashing or amputation, although these punishments rarely occur. The judiciary has limited independence from the executive branch, and the legislative and executive branches often attempt to remove themselves from judicial oversight.

Following the lawyers' movement for restoration of an independent judiciary and supremacy of law and the Constitution in March 2009, momentum for reform of the justice sector was created. Under the guidance of Iftikhar Chaudhry, chief justice and chairman of the National Judicial Policy Making Committee, the National Judicial Policy 2009 was formulated. Its key features are i) strengthening the independence of the judiciary, ii) fighting misconduct and corruption, and iii) expeditious disposal of cases (with priority for criminal, fundamental rights, financial/rent, drugs/terrorism and family/juvenile cases).

Adherence to law is crucial to protecting the disadvantaged segments of society. However, the poor and vulnerable have very limited access to justice. Popular mistrust of the justice system causes people to resort to extreme alternatives. Lack of access to justice thus contributes to rising violence, human rights abuses and radicalisation. Furthermore, in the absence of a functioning formal justice system people tend to resort to informal justice, with the most prominent example being recent developments in the Swat valley.

Within Pakistan's federal system of government, the provision of justice services falls overwhelmingly to the provincial government. Police, prosecutors, magistrates, district and session judges and prison officials work for the province. Every province differs with respect to the context of the provision of justice. While laws are usually similar, the economic, social and ethnic reality and institutional problems can differ widely.

The primary source of legal aid at present comes from civil society, whether through the bar associations or NGOs in the justice sector. Lawyers are among the most cohesive and dynamic groups existing in Pakistani civil society. However, bar associations are institutionally weak and the quality of legal services provided by lawyers is often low. The regulation of the practice of law in a province, the administration of a bar examination for new entrants, and sanctioning of ethical violations rests with the provincial bar council, a quasi-governmental body with leadership elected by members of the bar. Bar councils also lack institutional capacity. NGOs are small in number and often institutionally weak or associated with an individual.

Other key stakeholder in the justice system are prosecutors, whose functions are to critically examine cases *before* charges are filed, to seek dismissal of cases in which evidence does not warrant prosecution and to act as a check on the police. Pakistan has no tradition of an independent prosecution service. At present, the majority of Pakistanis held in prison have never been and will never be convicted of any crime. In recent years, Punjab has taken the lead in setting up an independent prosecution service. It has been, however, largely ineffective thus far. Plans to create a public defender system make Punjab a role model for advancing the justice system in other provinces as well.

4. Government effectiveness

4.1. Bureaucracy

At independence in 1947, Pakistan inherited a well-organized bureaucracy with a strong capacity for policy formulation and execution. However, the capacity and influence of the bureaucracy has substantially diminished, leading to incoherence between policy formulation and implementation and to poor governance. This is also attributable to weak and incoherent policy formulation under successive military and civilian governments combined with deliberate efforts to undermine the power and legitimacy of bureaucracy.

This process accelerated during Zulfikar Ali Bhutto's regime when constitutional safeguards in relation to remuneration and conditions of service were abolished under the administrative reforms in 1973. Subsequently, elected and military regimes have used lateral entry as a way to directly appoint their supporters in government positions. These provisions have enhanced political control over the bureaucracy and have curtailed its autonomy, especially at higher level. According to the recent DFID Drivers for Change Study, it is estimated that 1,200 senior appointments in the civil service and public sector enterprise were awarded to serving military officers between 1999 and 2004 (i.e. under the Musharraf regime).

Bureaucratic decline allowed individual administrators to increase their discretionary powers, while ineffective performance management measures leave such actions unchecked. Low salaries exacerbate rent-seeking tendencies and contribute to low morale and poor performance. Politicians have difficulties to enforce accountability on the part of bureaucrats, while at the same time failing to provide an over-arching policy framework and appropriate set of incentives to guide bureaucratic behavior. Moreover,

the devolution process has weakened federal and provincial bureaucracies without strengthening the competence of local governments.

4.2. Corruption

Corruption remains a major obstacle to political, social and economic development. It is to a certain extent institutionalised and has increasingly assumed endemic proportions. Pakistan has consistently performed poorly on the Corruption Perception Index of Transparency International¹². In 2008, it ranked on place 42 out of 180 countries.

Pakistan has initiated several anti-corruption measures that have had little impact due to limited political will. Petty corruption in the form of bribery is prevalent in law enforcement, procurement and the provision of public services. It cuts across federal, provincial and local administrations and affects the private sector and business environment.

The policy framework is laid down in the National Anti Corruption Strategy (NACS) of 2002. The legal framework for addressing corruption includes the Pakistan Penal Code of 1960, the Prevention of Corruption Act of 1947 and the National Accountability Ordinance (NAO) of 1999. The NAO has been criticised for excluding important categories of officials. The National Reconciliation Ordinance issued by President Musharraf in October 2007 circumscribes the NAO and has granted immunity for past corrupt actions, shielding many public officials and members of the Government from prosecution, including President Zardari.

Pakistan has a plethora of oversight institutions, which contribute to the monitoring and accountability in different sectors. The main institutions mandated to prosecute corruption-related offences are the National Accountability Bureau (NAB) at the federal level and the four anti-corruption establishments at the provincial level. The Auditor General of Pakistan and the Office of the Ombudsman share responsibility in engendering public accountability in the spheres of financial management and ensuring that public institutions follow legal regulations and procedures. The public accounts committees fulfil the primary oversight function.

The numerous laws aimed at controlling corruption are inconsistent. The institutional framework is weak and the agencies involved have overlapping jurisdiction, creating opportunities for misuse of power and rent-seeking. A more transparent anti-corruption framework is required, as well as more effective provincial institutions and mechanisms to strengthen accountability in local governments.

In particular the NAB has been accused of politically motivated prosecutions under the former Government. Hence, when the new Government came into place, it transferred some of its responsibilities to the Federal Investigation Agency (FIA). A new Accountability Law has been drafted which is currently being discussed in the National Assembly. So far, no agreement could be reached as the opposition identified several

¹² http://transparency.org/policy_research/surveys_indices/cpi/2007

loopholes in the legislation and claims that it is adversary to Pakistan's international commitments.

In terms of international norms, Pakistan has endorsed the ADB-OECD Anti-Corruption Action Plan in 2001, ratified the UN Convention against Corruption in 2007 and signed, but not yet ratified, the UN Convention against Trans-national Organised Crime in 2000.

4.3. Public financial management, procurement and revenue collection

The Government has taken important measures to strengthen the public financial management systems and procedures in recent years. The budget classification system that is now used in federal and provincial budgets is consistent with international accounting standards. Improved standards for financial reporting and auditing have also been introduced. Annual final accounts for the federal Government are now being produced in a timely manner.

A Public Procurement Regulatory Authority was established in 2002 and new procurement rules were enforced in 2004. A Fiscal Responsibility and Debt Limitation Law, 2005 supports fiscal discipline by defining limits for government borrowing and the fiscal deficit. The Freedom of Information Ordinance of 2002 strengthens transparency in financial management through improving state accountability and governance.

However, substantial improvements are still needed. ADB identifies in its Country Partnership Strategy 2009-13 the need for multiyear budgets, with greater attention paid to expenditure prioritisation and operational efficiency, better legislative oversight of budgetary processes, greater public access to fiscal information and better reconciliation between monetary and fiscal balances. Internal controls and elimination of delays in clearing of audit reports by public accounts committees along with expedited follow-up on these reports have further been identified. A clear delineation of responsibilities between the offices of the Controller General of Accounts and the Auditor General are also required. In addition, internal audit as a management tool to manage financial risks is hardly understood in Pakistan's government and even less put in practice.

The federal procurement system lacks a credible complaint and review mechanism or procedures to address grievances. Provincial purchase manuals do not contain any mechanism of complaints. While the annual requirement of funds is reflected in the national budget, a mechanism for multiyear procurement planning is missing both at the federal and provincial levels. The procurement system is not integrated with the financial management system. It lacks a procurement information system. The procurement audit system is minimal due to the lack of capacity of the Auditor General of Pakistan.

In recent years, data sets show robust performance in revenue collection, albeit from a low base. Despite this, there is a consistent shortfall between revenue collection and budgetary requirements. This reflects both structural problems as well as widespread collusion between tax officials and taxpayers. The revenue collection process is undermined by substantial amounts of discretion left to tax officers (favouring

corruption), unclear rules and appeal mechanisms. Tax collection targets are routinely being missed and overall the tax base in Pakistan is very narrow.

The establishment of budgets follows a relatively structured and timely process with sufficient transparency but it is not easy to find all relevant information, making appropriate scrutiny more difficult for Parliament and civil society. Military spending only represents one line in the budget and does not fall under parliamentary scrutiny; budget execution is characterized by low level of compliance with initial forecasts.

Pakistan has carried out with the assistance of Development Partners (WB, ADB, DFID, EU) Public Expenditure and Financial Accountability Assessments for the federal level and all provinces. The results of these studies could show the way for the design and implementation of Reform programmes.

5. Economic governance

5.1. Private sector development

Since the inception of Pakistan, its private sector has been a producer of goods and services. In the early 1970s it witnessed a crippling shift towards a command economy and a subordinated private sector manifested through a policy of nationalization. In the 1980s and onwards, it witnessed a complete reversal of this paradigm. Beginning in the early 1990s, the Government of Pakistan pursued a strategy of privatisation, deregulation, liberalization and good governance to promote private sector development. However, macroeconomic instability and political turmoil and uncertainty stood in the way of the successful implementation of this strategy. Under the military government in 1999, major structural, governance and economic reforms began to be implemented with a focus on generating macroeconomic stability and creating an enabling environment. This encouraged the private sector to obtain a key role in the economy.

The improved economic conditions and investment climate generated both the fiscal space and opportunities for private sector led economic growth through acceleration of the process of privatisation, enhanced private sector investment and greater foreign direct and portfolio investment. As a result of the successful experience with privatisation, today over 77% of the commercial banking sector, 100% of the textile and telecommunications sector and a significant part of the cement, sugar, automobile and fertilizer sector are in the private sector. Within infrastructure development, the private sector has been active not only in telecommunication but also in the power generation sector.

However, due to acute energy shortage, high cost of doing business and a lack of adequate policies to boost competitiveness, which is crucial for the country's export regime, the private manufacturing sector is in doldrums since 2007. This has adversely impacted the overall growth of the economy. A key constraint to private sector growth is the critical infrastructure deficit, particularly in the power sector.

5.2. Access to capital market

Until 2006-07, Pakistan had access to international financial markets by issuing Eurobonds, Global Depositary Receipt (GDRs) and exchangeable bonds, as well as through non-residents' portfolio investment in domestic securities. However, Foreign Direct Investment (FDI), which is the primary source of external inflows, appears to be holding up despite the recent sharp slowdown in other flows. It is expected that Pakistan can regain access to international capital markets and see a significant pickup in FDI in two to three years, provided the adjustment effort is successfully implemented under the Stand-by Arrangement with the IMF.

In 2008, Pakistan witnessed negative market sentiment due to an extremely bad economic situation and acute foreign exchange shortages, which posed a risk of default on international commitments including the above-mentioned instruments. The negative sentiment was further reinforced when Standard and Poor's downgraded Pakistan's debt rating from B+ to B and its long-term local currency rating from BB to BB-. Moody's quickly followed suit. This market pessimism translated into a risk premium of 912 basis points on the spread of sovereign bonds by 19 August 2008, and consequently plans to access international capital markets through sovereign bond issuance and global depository receipts were deferred. However, Pakistan managed to secure IMF funding and funding from some other IFIs enabling the country to secure its foreign exchange reserves and fulfil its financial commitments under the 2006-07 bond issuances.

5.3. Land reform

In the arena of human development, land reforms play an important role in reducing poverty and empowering the poor, especially farmers and the agricultural class.

In Pakistan, the power of the class that owns land has served as a barrier to social and economic progress for the poor. Through land reforms, landlords' far-reaching power on the local political and economic power is reduced and more power can be given to the poorer workers on the land.

An additional benefit of land reforms is that it would help to solve the problems caused by the fact that farmers often use relatively inefficient capital-intensive techniques due to distorted factor market prices and that small farmers do not have access to the liberal credit subsidies on imported machinery and capital equipment.

6. Social governance

6.1. Social conventions

A key factor in Pakistan's poor growth performance is its low level of human development. Pakistan has always under-invested in the social sectors. However, accelerating human development is as much an issue of increasing expenditure on social sectors as of improving the effectiveness of spending through better governance. Every

year, the Government allocates a relatively higher amount for human development in its budget, compared to the preceding year. Yet, the actual impact of the spending on the poor and vulnerable remains far from visible.

Pakistan has ratified 35 ILO Conventions related to labour, employment and gender equality. The federal Government has developed several policy documents such as the National Policy and Plan of Action for Elimination of Child Labour (2000) and the National Policy and Plan of Action for the Abolition of Bonded Labour (2001). If properly implemented, these could be a right step towards affirmative action and equal employment opportunity. However, like most policy documents, they suffer from weak implementation. Unequal employment opportunities, bonded labour and child labour are common. Data on the labour force and child labour is unreliable. Enforcement of child labour laws is hampered by the lack of manpower and expertise in the Department of Labour and a general acceptance of child labour. The Government asserts that labour inspectors are empowered to carry out regular visits to all employment places covered under the Employment of Children Act 1991 to check on their compliance with the law. To date, the Act remains essentially unimplemented and does little to promote much needed enforcement mechanisms.

Pakistan is a signatory to conventions that specifically pertain to women's rights and freedoms, most importantly the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW), ratified in 1996. Efforts by the Government include the establishment of an inter-ministerial Group for supporting women empowerment and gender equality, a women Parliamentarians Caucus to liaise and build working relationship with key state and civil society institutions and organizations and a gender crime cell to take action against violence against women. The SAARC Convention on Trafficking in Women has also been ratified.

6.2. Human Development

The Government of Pakistan lags behind in its efforts to eradicate poverty, reduce child mortality, improve maternal health and ensure environmental sustainability. The Millennium Development Goals (MDGs) indicators show that out of 34 indicators adopted, Pakistan is ahead in 7, on track in 16 and lagging in 11. If the current trends continue there is no chance that Pakistan meets the MDG targets.

7. Regional cooperation

Pakistan is a member of the Asia-Europe Meeting (ASEM) since 2007 and of the South Asian Association for Regional Cooperation (SAARC) since 1985. As a founding member of the SAARC, Pakistan's role in the regional cooperation is mainly characterised through its active role in the SAARC summits and activities.

At the 14th SAARC Summit in 2007 in New Delhi Pakistan emphasised the development goals, social agenda, enhancement of trade and regional connectivity. More recently, in

February 2008, the Foreign Ministers of the SAARC member states declared regional cooperation in combating terrorism.

Pakistan is signatory to the following important documents on regional cooperation:

- Additional Protocol to the SAARC Regional Convention on Suppression of Terrorism 06/01/2004
- Agreement on South Asian Free Trade Area (SAFTA) 06/01/2004
- Islamabad Declaration 06/01/2004
- Social Charter 04/01/2004

Additional Protocol to the SAARC Regional Convention on Suppression of Terrorism

The purpose of the Additional Protocol is to strengthen the SAARC Regional Convention on Suppression of Terrorism, particularly by criminalizing the provision, collection or acquisition of funds for the purpose of committing terrorist acts and taking further measures to prevent and suppress financing of such acts.

Agreement on South Asian Free Trade Area (SAFTA)

The objectives of the SAFTA are to promote and enhance mutual trade and economic cooperation among its member states by eliminating barriers to trade in and facilitating the cross-border movement of goods, by promoting conditions of fair competition in the free trade area, and by ensuring equitable benefits.

Islamabad Declaration

It emphasizes regional cooperation in the areas of economy and trade development, poverty alleviation, science and technology, SAARC social charter, environment plan of action and combating terrorism.

Social Charter

The Social Charter of SAARC is known as one of the fundamental documents of this organization in which its goals and principles are reflected. Its main objective is to promote the welfare of the peoples of South Asia, to improve their quality of life, to accelerate economic growth, social progress and cultural development and to provide all individuals the opportunity to live in dignity and to realize their full potential.

In practice, SAARC has remained a largely ineffective organization, which can be explained by lack of decision-making authority and tensions between India and Pakistan.

8. Quality of partnership

The European Commission and the Government of Pakistan signed the Third Generation Cooperation Agreement in 2001. Its objectives are to promote trade in accordance with the WTO Agreements, to foster sustainable economic and social development policies, to promote investment, economic and cultural links and to build Pakistan's economic capability to interact more effectively with the EU. It calls for respect for human rights and democratic principles as laid down in the Universal Declaration on Human Rights. Due to the delayed entering into force of the EU-Pakistan Readmission Agreement, only

two Joint Commissions were held so far: the first took place in Islamabad in May 2007, the second in Brussels in March 2009. The European Commission is also a member of the Friends of Democratic Pakistan Group. The Joint Commission creates a good forum for discussions on a wide range of issues, including economic and development cooperation.

The European Commission is considered to be a credible development partner without any hidden agenda. The 2008 EU Election Observation Mission has even further reinforced this image. In terms of delivery of aid, the lack of adequate capacity and commitment of the Government and the deteriorating security situation have a negative impact and delay the implementation of programmes and projects.

Annex 8 Report on budget support

1. EU budget support to Pakistan - Overview

As EU policy in general favours, where and when possible, the adoption of sector-wide approaches (SWAp) and budgetary support wherever feasible, the European Commission has provided sector budget support (SBS) to Pakistan in the past in the areas of education, health and financial services. Currently the European Commission's SBS is limited to the education sector (in Sindh Province and the North West Frontier Province (NWFP)), and with possible future support for a sector-wide approach in rural development (RD) and natural resource management (NRM) in NWFP and Baluchistan (a TA project to assess the possibilities in cooperation with the respective provincial Governments is planned to start in 2010). The following programmes were carried out in the past through a SBS modality:

- Social Action Programme Project (SAPP), €71 million for the period. 1999 to 2002
- Financial Sector Reforms Programme, €50 million for the period 2003 to 2007

The following are ongoing SBS programmes in Pakistan:

- Sindh Education Plan Support Programme, €9 million for the period 2007 to 2011
- NWFP Education Sector Reforms Programme, €20 million for the period 2008 to 2013

2. Evolution of budget support in term of eligibility criteria

a) Existence of a well-defined sectoral policy and strategy

The Government of Pakistan (GoP) is committed to increasing development expenditure as a percentage of GDP, and this includes increasing support to the education budget by about 15% per year, albeit starting from a low of 2% of GDP. The GoP recognises education as the single most important factor contributing to national economic growth and stability and for reducing chronic poverty, as indicated in the Medium Term Development Framework 2005-2010. Moreover, education is a budgetary priority for the reform programmes of the Provincial Governments.

The GoP revised and adopted its National Education Policy in August 2009 and the Provinces were required to develop sector plans based on this revised national policy. The education sector reform programmes and plans of the provincial Governments of Sindh (GoS) and the NWFP (GoNWFP) seek to improve access and quality of education with a view to achieving the education-related Millennium Development Goals (MDGs). The GoS and the GoNWFP have introduced a range of policy initiatives to expand school enrolment and attendance, especially among girls. The key demand-led policies to increase school attendance are the provision of free education and free textbooks. In addition, the Government is implementing a phased programme to reduce supply-driven

constraints, especially for children in rural areas, by providing essential missing school facilities - such as classrooms, sanitation, water, and boundary walls (for security); increasing the number of primary school teachers; and seeking to promote public-private partnerships in education to enhance access. The European Commission assisted both the governments of Sindh and NWFP in the development of their respective education sector plans, which guide the implementation of these major reform efforts.

The combination of demand-led and supply-driven initiatives has enabled the GoS to make promising progress in increasing enrolment, especially among girls, in recent years. Specific interventions are under implementation to reduce gender and regional disparities, and to improve sector management and governance. The focus so far has been on the primary sector. However, the government sees the need to adopt a holistic and sequenced sector approach covering the entire school sector.

b) A stability-oriented macroeconomic policy framework

According to the IMF Article IV Consultation with Pakistan, carried out in March 2009, the Executive Directors commended the authorities for the progress achieved under the stabilization programme. The Directors observed that fiscal consolidation and improved coherence between fiscal and monetary policies have helped to tackle the root of the large imbalances, while structural reforms have progressed broadly as envisaged. As a result, the exchange rate has broadly stabilized, inflation has come down, and foreign reserves have strengthened.

The recent trends, as reflected in the 'Review of the Economic Situation' (published by the Ministry of Finance, Government of Pakistan), in most macroeconomic variables show that the disciplined implementation of the macroeconomic stabilization programme has started to bear fruit. From July 2008 to March 2009 the fiscal deficit remained around 3.1% of the projected GDP for 2008-09, which is consistent with an annual fiscal deficit target of 4.3%.

The trade deficit, over the last nine months of the fiscal year 2008/09, was reduced by almost \$2 billion. Moreover, the month of February 2009 witnessed the first monthly current account surplus since June 2007. This improvement allowed for a build-up of the country's foreign exchange reserves of more than \$11 billion.

c) A credible and relevant programme to improve Public Financial Management

A number of pro-active and wide ranging PFM and procurement reforms are being institutionalized by the Federal and Provincial Governments. The GoP initiated a World Bank-financed project, 'Project for Improvement of Financial Reporting - (PIFRA)' whose implementation is well under way at all levels of Government (including Federal, Provincial and District). The positive impact expected through the implementation of PIFRA on key PFM aspects - such as budget formulation, preparation, compilation, accounting and internal controls, financial reporting, and external auditing - has started to surface.

The provincial governments have also promulgated their Public Procurement Laws. A PEFA based Public Financial Management Accountability Assessment was carried out

for the Provinces in 2008 (and updated in 2009) and at the present moment for the federal level. The initiative was carried out with the support of the European Commission, the WB and the Department for International Development, UK. The assessments were carried out to benchmark performance against various aspects of PFM system. The respective provincial governments are committed to following recommendations for the improvement of the PFM system.

The PEFA PFMAA updates for NWFP and Sindh note that while there is no significant negative development, some areas of performance have shown positive development, while for others the status has remained the same.

3. What does the EU achieve with budget support in terms of policy dialogue?

Policy dialogue with the GoP (at federal and provincial levels) is guided by a Policy or Strategy agreement, or a Medium Term Development Framework (MTDF). Pakistan has a Planning Commission at the Federal level and Planning and Development Departments at the provincial level which regularly work on this framework and provide updates for policy dialogue that may go well beyond broader preferences of the partners, and would specify sector objectives, outcomes and sub-sector outputs as well as the compliance triggers for SBS tranche releases. This has been particularly relevant for the education sector programmes.

The policy dialogue at provincial level for the education sector programmes in Sindh and NWFP is captured by the respective policy matrix indicators (and triggers for tranche release) which are grouped under four areas / pillars;

- (1) Improving fiscal sustainability, effectiveness of public expenditures, and adherence to the agreed fiduciary and PFM standards;
- (2) Improving education sector management;
- (3) Improving access to quality schooling;
- (4) Improving the quality of teaching and student learning.

The education sector programmes are managed at inter-departmental level through a Steering Committee chaired by the Chief Secretary, with membership of the Secretaries of the Finance, Education, and Planning and Development Departments. A Reform Support Unit is established within the Education Department and it is this unit which facilitates, coordinates or directly implements the reforms.

The policy dialogue between donors and the provincial governments is conducted on the basis of progress reports submitted by each provincial government.

a) EU Education Sector Budget Support for Sindh and Additionality

European Commission Budget Support to the Sindh education sector totals Euros 33 million. The first BS tranche of €9.5 million and the second of €8.5 million were duly channelled through the Central Bank, to the Federal Government, and subsequently to the

Provincial Government of Sindh. Tranches 3 and 4 (of Euro 7.5 million each) are scheduled for release in 2010 and 2011.

The European Commission sector budget support is additional to the GoS's education sector budget, thus providing additional revenue and fiscal space for accelerated education sector development. There is an increase of 15% in the total education sector budget allocation from FY 2007-08 to FY 2008-09. The Sindh Education Reforms Programme (SERP) contains a set of specific education sector demand-pull and supply-push incentives; i.e. provision of conditional grants to districts to improve and expand their school infrastructure; provision of free textbooks; provision of grants to School Management Committees (SMCs); and the provision of stipends for girls. SERP contains a range of policy reform measures, the most important being adherence to the recruitment of teachers on merit.

As a result of SERP the education sector budget has increased over time and shown a growth of 14.6% in FY 2009-10. Free textbook allocations increased by 64.2% in FY 2009-10. There is a 10% increase in the budget allocation for grants to SMCs in FY 2009-10. Finally, the allocation for stipends for girls increased by 66% in FY 2009-10 (this increase is also due to the increase in the rate of normal stipends from Rs. 1000 to Rs. 2400 and an increase in the differential cash stipends from Rs.2400 to Rs.3600).

To facilitate the implementation of the reforms agenda, the European Commission provides capacity-building technical assistance (TA) to the GoS. The TA is provided over the period 2007-2011 with 322 person/months of national and international TA support, an institutional support budget, and a human resource development and training support budget. The European Commission TA interventions are linked to the four SERP intervention areas / pillars and address the SERP objectives.

b) EU Education Sector Budget Support for NWFP

The NWFP Education Sector Plan has just entered the implementation phase where the policy matrix is being finalized with the GoNWFP. However, during the dialogue process the European Commission along with other donors, in particular Germany has been able to influence the GoNWFP in finalizing the Education Sector Plan which has now been approved by the Chief Minister of the province.

Another important achievement has been the agreement among all the donors, in dialogue with the provincial government, to work in line with the GoNWFP's education sector plan and to strengthen donor coordination in the province. All education donors have committed to align support with the approved reform plan.

4. Donor Coordination towards a Sector Wide Approach

In general, donor coordination in Pakistan needs strengthening. Currently information sharing amongst donors is good but, with regard to input coordination, there are issues of differing geographical and political priorities as well as assorted financing modalities from province to province.

Sindh province

In Sindh there are three major donors in Education; the WB, the EU and USAID. The EU delegation led the donor roundtable in Sindh in 2004 to formulate Sindh's Education Sector Plan and since then has remained a dominant member of the Sindh Education Donors Group.

The WB and the EU have regular consultations through their Joint Review Missions (JRM) of the Sindh Education Plan Support Programme, whilst coordination with USAID is at project level (for example out of the 23 districts in Sindh, it has been agreed that USAID will upgrade the education management system of 11 districts and European Commission funds will do the same for the remaining 12).

NWFP province

In NWFP, all donors including Germany, the WB, AusAid, USAID, DFID, the Netherlands, JICA, and Norway assisted the GoNWFP in finalising a fully costed Education Sector Plan. Moreover, all donors have agreed to align assistance and support the reform plan.

5. What results are achieved due to the EU budget support?

The Delegation's experience in providing SBS has generally been positive, particularly with regards the Sindh Education Plan Support Programme (SEPSP). However, prudence is still required as there remain multiple PFM and other fiduciary issues to be addressed. As already mentioned, Pakistan is moving forward on this with a number of pro-active and wide ranging PFM and procurement reforms being institutionalized by the Federal and Provincial Governments.

Some key achievements, mainly with regard the SEPSP, include:

- The Government has increased its oversight and control over the sector programme by strengthening the RSU, and the staff of the RSU, and through a political and bureaucratic leadership that has shown clear ownership of the reforms agenda.
- An overall and specific understanding of the reforms incentives, and systems to deliver these incentives, has developed over time due to better documentation that has allowed the development of routines.
- The GoS has demonstrated its understanding and commitment to the significance of multi-year budgeting and has ensured the adoption of rolling Medium-Term Fiscal and Budgetary Frameworks.
- There is an increase in education sector budgetary allocations that can be qualified as additional.
- Coordination and partnership between the Provincial and District levels has improved.
- The GoS has improved their Procurement Legal and Regulatory Framework, successfully introducing a new Procurement Act that will improve procurement practices.

- Implementation and management reforms in the education sector, aimed at increased delivery of quality education services, have been introduced.

6. Recommendations from the evaluation of the European Commission's co-operation with Pakistan:

By and large in the social sectors the Government is the major service provider and as such BS for these sectors is very relevant in meeting the MDGs. SBS remains a preferred option for the EU Delegation in Pakistan but the European Commission is the only donor in Pakistan to work through SBS. However, the situation needs constant assessment at both federal and provincial levels; the Delegation's experience reveals that, as the provinces are responsible for implementation, SBS is more workable at provincial level than at federal level. Finally, before moving ahead with providing more budget support it is advisable to first address the multiple PFM issues in Pakistan and a group of donors, namely the EU, DfID, the WB, and the Netherlands, are currently focussing on this (USAID has recently expressed interest in this area as well). Some recommendations for the sector support programmes in Sindh and NWFP follow:

- There is a strong indication of the need to continue, and increase, financial allocations beyond the current programme period to sustain the momentum being developed and to provide time and sustained fiscal space for the maturation of the processes of the GoS and the GoNWFP with routine practices. So, donors may be required to continue and / or increase their contribution in the form of sector budget support.
- The European Commission, along with the GoS and the GoNWFP, should ensure the regular and timely availability of annual funds under the existing financing agreements to comply with the need for increased predictability in public finances.
- Continuous and field-based support is required to strengthen the monitoring capacity in the districts of Sindh and NWFP.
- Greater attention is required for school management committees to empower them to fully reap the benefits of mobilized communities.
- The GoS and the GoNWFP need to follow the findings of the PEFA updates to ensure more effective and efficient planning, budgeting, implementation and monitoring systems and a better utilization of public funds.
- Systemic district-based assessment should be carried out to provide for strengthening of the district-based PFM systems for the effective use of funds.
- Impact assessment studies need to be carried out by the GoS and the GoNWFP to assess the outcomes and impact of the respective sector budget support programmes.
- Donor coordination efforts need to be strengthened to ensure better and more effective input coordination.

Annex 9 Millennium Development Goals - Targets & Achievements

Target & Indicators	Definition	1990/91	2000/01	2002/03 ²	2005/06 PRSP Targets ³	2011 Perspective Planned Targets	2015 MDG T
1. Eradicating Extreme Poverty and Hunger							
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% ¹	32.1%	n/a	28%	15%	13%
Prevalence of underweight children under 5 years of	Proportion of children under 5 years who are underweight for	40% ⁵	41.5% ⁶	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% ⁷	n/a	n/a	15%	13%
2. Achieving universal primary education							
Net primary enrolment ratio (%)	Number of children aged 5-9 years attending primary level classes i.e. I-5, divided by the total number of children aged 5-9 years, multiplied by 100.	46% ⁸	51% ⁹	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% ¹⁰	68% (M: 72, F: 65) ¹⁰	72 ¹⁰	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:)
3. Promoting gender equality and women empowerment							
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% ¹¹	8.9% ¹²	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% ¹³ Senate: 1/87=1% ¹³	National Assembly 72/342=21% ¹³ Senate: 17/100=17% ¹³	National Assembly 72/342=21% ¹³ Senate: 17/100=17% ¹³	n/a	n/a	n/a
Under-five mortality rate	No. of deaths of children under five years of age per thousand	140 ¹⁴		03	80	65	52
Infant mortality rate	No. of deaths of children under 1 year of age per thousand live	102 ¹⁶		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% ¹⁸	53% ¹⁹	55%	82%	90%	> 90%
Proportion of under 1 year children immunized against	Proportion of children 12 months of age and received measles	80% ²⁰	% ²¹	7%	0%	90%	> 90%
Prevalence of under weight children (under 5 years of	Proportion of children under 5 years who are underweight for	40% ²²	41.5% ²³	0%	3%	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-	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. ²⁴	33.6%	55%	83%	92.2%	100%
5. Improving Maternal Health							
Maternal mortality ratio	No. of mothers dying due to complications of pregnancy and delivery per 100, 000 live births	550 ²⁵	350 ²⁶	350-400	300-350	180	140
Proportion of births attended by skilled birth attendants	Proportion of deliveries attended by skilled health personnel (MOs, midwives, LHVs).	18% ²⁷	40% ²⁸	40%	75%	90%	> 90%
Contraceptive prevalence rate	Proportion of eligible couples for family planning programmes using one of the contraceptive methods	12% ²⁵	30% ²⁵	33%	41.7%	53%	55%
Total fertility rate	Average number of children a woman delivered during her reproductive age (15-49)	5.4 ²⁹	4.1 ²⁹	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% ²⁷	31% ²⁷	35%	50%	75%	100%

Target & Indicators	Definition	1990/91	2000/01	2002/03 ²	2005/06 PRSP Targets ³	2011 Perspective Planned Targets	2015 MDG T
6. Combating HIV/AIDS Malaria and other diseases							
HIV prevalence among 15-24 year old pregnant women	n/a	n/a	n/a	n/a	n/a	n/a	n/a
HIV prevalence among vulnerable group (e.g. active sexual workers)	n/a	n/a	0.03%	n/a	n/a	n/a	n/a
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%
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%	0%	41%	5%	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%

1. 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.

2. Not a HIES year.

3. All PRSP targets are taken from Accelerating Economic Growth and Reducing Poverty: The Road Ahead. Poverty Reduction Strategy Paper, Government of Pakistan, December 2003.

4. Ten Year Perspective Development Plan 2001-2011, govt. of Pakistan, Planning Commission, September 2001.

5. 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 19888-89 survey.

6. 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 19888-89 survey.

7. Planning Commission

8. Pakistan Integrated Household Survey (PIHS) 1991 and 2001-2002

9. Sub-committee headed by the Director, Pakistan Institute of Development Economics. However, the National Educational Management Information System (NEIMS) reports 66%.

10. Ministry of Education

11. Labour Force Survey 1991-92

12. Labour Force Survey 2001-02

13. Women and Men in Pakistan, Federal Bureau of Statistics

14. Progress in Agenda for Health sector Reforms, Ministry of Health, May 2003
15. Pakistan Reproductive Health and Family Planning Survey 2000-2001
16. Planning Commission
17. Pakistan Demographic Survey 2001
18. Planning Commission
19. Pakistan Integrated Household Survey 2000-01
20. Planning Commission
21. Pakistan Integrated Household Survey 2000-01
22. National Nutrition Survey 2001-02, Planning Commission
23. National Nutrition Survey 2001-02, Planning Commission
24. The LHW Programme started in 1994 with 30,000 LHWs
25. Progress in Agenda for Health Sector Reforms, Ministry of Health, May 2003
26. National Institute of Population Studies 2003
27. Agreed in Advisory Committee meetings organized by the Planning Commission during July 2003-February 2004
28. Pakistan Integrated Household Survey 2000-01
29. Pakistan Demographic