



Australian Government

Department of Foreign Affairs and Trade



Aid Investment Plan

Pakistan

2015/16 to 2018/19

Strategic priorities and rationale

Australia has strong interests in Pakistan given its size, economic potential and strategic position in South Asia, and is committed to supporting Pakistan to build economic prosperity, and promote sustainable, equitable development.

Pakistan is at the heart of a regional market with a large population, diverse resources, and untapped potential for trade. However Pakistan faces a number of challenges to realising its economic potential. Economic growth continues to be constrained by energy and infrastructure deficits, skills shortages, regional instability and other barriers to trade. The Pakistan Government is making efforts to strengthen its economy, helped by lower international oil prices and the implementation of the IMF's reform program. GDP growth is now estimated at 4.5 per cent for 2015/16¹. If realised, large-scale Chinese investment in the China-Pakistan Economic Corridor over coming years will help to improve infrastructure, lift energy capacity and underpin economic growth in Pakistan. Pakistan's trade as a percentage of GDP, however, stands at around 31 per cent, well behind the average across South Asia of around 50 per cent².

While making some positive headway, more inclusive economic growth will be crucial to sustainable economic development. With Pakistan's population set to double by 2050, it needs to create approximately 1.5 million jobs a year to absorb the large number of young people entering the labour market each year³. Increasing Pakistan's female workforce participation from 25 per cent (compared to 83 per cent for men) is critical⁴. A job-enhancing and inclusive agriculture sector is important to Pakistan's growing economy. Agriculture comprises 44 per cent of Pakistan's labour force and 25 per cent of GDP⁵. Sustained and inclusive growth in the agriculture sector is undermined by weak markets, production inefficiencies, land ownership issues, unregulated labour conditions, adverse weather conditions, and serious water shortages. Improving water governance is pivotal for Pakistan to effectively manage its water resources.

Pakistan's access to a strong and healthy workforce is affected by high malnutrition rates, poor water and sanitation practices and other health issues, such as polio. At the same time, improving Pakistan's education outcomes and increasing access to education will be critical for Pakistan's human development. It is estimated that 45 per cent of Pakistan's adult population is illiterate and over 5.3 million children do not attend school, of which 57 per cent are girls⁶. Weak public health and education systems compound these issues.

Insecurity continues to undermine Pakistan's stability and development, particularly in provinces bordering Afghanistan where economic and human development indicators are amongst the poorest in the country⁷. The Pakistan government estimates the direct and indirect costs of terrorism over the last 13 years have been USD102.51 billion⁸. Frequent natural disasters further impede development outcomes and economic growth. Between 2000 and 2015, there have been 97 natural disasters, which have killed 83,000 people, affected nearly 48 million and caused some USD26 billion worth of damage⁹. Pakistan is still recovering from devastating floods in 2010 and 2011.

In this context, Australia's aid program aims to contribute to sustainable, inclusive economic growth and poverty reduction in Pakistan, through two strategic objectives:

¹ IMF Review Mission to Pakistan, Press Release No 15/375 August 7 2015

² World Bank: World Development Indicators: Trade as % of GDP 2014

³ World Bank. Rethinking Development Policy Choices: Contributions to the Emerging Agenda.

⁴ World Bank: Labor force participation rate, male (% of male population ages 15+) (modeled ILO estimate) 2013

⁵ World Bank: World Development Indicators: Agriculture and value added % of GDP 2014

⁶ World Bank, Pakistan Data (2012), "Adult Literacy Rates" (2011) and "out of school rates".

⁷ Government of Pakistan (2013), "Pakistan MDGs Report 2013", Planning Commission.

⁸ Government of Pakistan (2014), "Pakistan Economic Survey 2013-14", Ministry of Finance, Government of Pakistan, Islamabad, Annexure III, pp 1-2.

⁹ Emergency Events Database (as at September 2015), The International Disaster Database, "Pakistan Country Profile", <http://www.emdat.be/database>

1. **Generating sustainable growth and employment** through increased trade and investment, and improvements to agricultural productivity, water resources management and industry; and
2. **Investing in Pakistan's people** through health and education.

Through all of our aid investments Australia emphasises support for women's empowerment, stability and governance in Pakistan.

These objectives align with and support Pakistan's development policy, *Vision 2025*, which focuses on sustainable economic growth as a key driver for poverty reduction (see Mutual Obligations), as well as Australia's own development policy *Australian aid: promoting prosperity, reducing poverty, enhancing stability* and its six priorities: trade facilitation and international competitiveness; agriculture and water; effective governance: policies, institutions and functioning economies; education and health; building resilience; and women's empowerment.

Objective 1: Generating sustainable growth and employment

Generating economic growth is the centrepiece of the Pakistan *Vision 2025* statement. Achieving higher growth rates will depend on Pakistan's ability to address the structural and emerging constraints holding it back, including energy shortages and the need for comprehensive economic reform. Engaging women in economic growth is a priority of *Vision 2025*, and a core policy priority for Australia. Australia will focus its investments on women's economic empowerment through livelihood development, inclusive trade reform, access to finance, and by enhancing women's decision-making authority.

Pakistan has prioritised enhanced trade and investment with neighbouring countries and is committed to better exploiting its strategic location as a regional hub connecting South and Central Asian markets. Potential exists for greater regional connectivity in South Asia - the region is the world's least integrated measured by investment levels and intra-regional trade, and has the second highest intra-regional trade costs. The Ministry of Commerce is spearheading national efforts to promote and bolster exports and trade and has already made some important strides on regional economic cooperation. Australia is supporting the Ministry of Commerce to promote inclusive trade and investment through: strengthening trade policies and institutions; modernising customs systems; and introducing regulatory reforms to increase trade at key border posts, and support small to medium sized enterprises (particularly women owned).

Australia will support Pakistan to address constraints to job creation. In rural areas we will increase livelihood opportunities for poor men and women. Australia will draw on its world-class expertise to help Pakistan enhance agricultural productivity and expand revenue streams for farmers, including through improved water management practices, adding value to raw agricultural products and improved access to markets for those products. This will also contribute to improving Pakistan's food security and nutrition levels, and women's economic empowerment.

Through our support to the Market Development Facility, our development investments provide business and innovation support to the private sector in ways that benefit the poor through expanding jobs and lifting incomes, particularly for women. Australian-led collaboration between government, business and research bodies has been a leading force in the dairy sector in Pakistan, and provides a model for our future engagement in agriculture.

Australia will also explore further Pakistan's needs and opportunities to leverage Australian assistance in the energy and water sectors. Similarly, we will continue to explore policy and technical exchange opportunities for a well-governed resources sector in Pakistan.

Objective 2: Investing in Pakistan's people through health and education

Australia will invest in Pakistan's human development to improve education and health, particularly for women and girls.

In the health sector, Australia is focussed on improving nutrition outcomes. The Government of Pakistan has identified nutrition as a key policy priority and Australia is well positioned as a lead donor in this sector. Australia's investment in Pakistan's 2011 national nutrition survey led to the development of a World Bank multi-donor trust fund for nutrition, in which Australia was the founding donor. Australia's foundation \$40 million investment has attracted an additional \$100 million in donor funding for nutrition and nutrition-

sensitive programs. To complement these investments, Australia invests in nutrition-sensitive programs, such as school feeding programs, and adapting agriculture investments to improve nutrition and water and sanitation. Australia will also look for opportunities to support Pakistan and its development partners' efforts to combat infectious disease and threats to health security, such as polio, through its contributions to global and regional health initiatives.

Our education investments focus on supporting the government's capacity to deliver quality education in Khyber Pakhtunkhwa Province (KP). Australia, in partnership with the UK, is supporting KP to increase the number of girls and boys who enrol in and successfully complete primary and secondary education. Australia is an active participant in the KP Education Development Partners Group, which aims to ensure education donors are well coordinated with the government in KP. Australia chaired the group from 2013 to 2015.

Australia will continue its Australia Awards program and will continue to build an active alumni network which brings together both scholarship and fee paying students to create new business and people-to-people links. We will align Australia Award scholarships with our aid program objectives to build knowledge and skills in targeted sectors. We will make particular efforts to support women's career advancement and leadership development through our alumni engagement. Australia will also explore innovative ways to connect Australia and Pakistan's universities including through institutional partnerships and technical exchanges, in order to contribute to human resources development and economic growth.

Multi-sectoral policy priorities and approaches

Australia's support to Pakistan is underpinned by three important cross-cutting themes – women's empowerment, stability and governance. We recognise that progress in these areas is critical to Pakistan's ability to realise its development and economic objectives.

Women's empowerment

Gender equality is a core policy priority for Australia, and is centred on women's economic empowerment, women in leadership and the elimination of violence against women. We will ensure our aid investments and economic and public diplomacy efforts promote women's empowerment and target areas of key disadvantage in Pakistan.

A focus on women's economic empowerment, especially through women's involvement in market development and trade, will help women lift themselves and their families out of poverty and participate more in the country's growing economy. Our aid investments in education and health provide girls with the foundational skills for productive lives.

Australia has zero tolerance towards violence against women and girls. It is a fundamental barrier to the rights of women and girls, undermines a country's social fabric, and costs billions of dollars in health care and reduced economic productivity. Australia supports the elimination of violence against women and girls in Pakistan through improved access to services such as shelters and medical services as well as income generation support. Our support also strengthens the capacity of police, medical institutions and the judiciary to respond to cases of violence, and supports parliamentarians to influence policy and legislation to protect women from violence.

Stability

Pakistan's stability is critical to both economic growth and human development, and regional security. Instability undermines economic growth, discourages private sector investment and results in high unemployment rates, particularly among youth. Pakistan's *Vision 2025* policy links peace, security, and stability approaches with development interventions, and Australia will work to support stability through its current and future investments. Where possible, Australia will prioritise its support to Pakistan's insecure border areas - Khyber Pakhtunkhwa, the Federally Administered Tribal Areas (FATA) and Balochistan. These areas are amongst the most insecure and disadvantaged in Pakistan. Our investments promote human development, economic growth and prosperity in these regions, and help build the capacity of community organisations and government to deliver services, especially after crises.

In times of crisis, Australia will support Pakistan's most vulnerable through additional humanitarian assistance. The World Bank managed Multi-Donor Trust Fund for Border Areas is a key investment to support crises-affected communities to access health, finance, livelihoods and rebuild critical economic

infrastructure. It supports establishment of an ongoing and legitimate state presence in KP, FATA and Balochistan by building the capacity of the border area governments to deliver services and support economic development.

The focus on stability in our development program reinforces the work of other Australian government agencies supporting Pakistan to counter terrorism and violent extremism. Our aid investments help strengthen government accountability and community engagement, and support alternative pathways through education and livelihood opportunities.

Governance

Australia's support to Pakistan is underpinned by the important cross-cutting theme of Governance. Poor governance affects virtually all aspects of a country's prosperity. An effective public sector and functioning, predictable institutions provide the foundations for economic growth, private sector investment and trade. Well-functioning institutions generate revenue and redistribute income. They deliver and implement appropriate policies in fields such as education and health and deliver services that are essential for building a skilled, productive and healthy workforce. As many of these services are delivered at the provincial level in Pakistan, the Australian aid program supports provinces to deliver critical services in education, nutrition and rural infrastructure. Similarly, the Multi-Donor Trust Fund for Border Areas supports cross-sectoral governance reforms. Our aid investments also work at the local level to empower communities to prioritise and address development problems, while our policy dialogue focuses on the critical role that leaders, networks and coalitions play in promoting reforms and achieving development outcomes.

Implementation approaches

Australia's development assistance is small relative to Pakistan's large economy and total aid flows to Pakistan. Therefore, Australia will continue to work alongside the Government to maximise the impact of Pakistan's own development expenditure. To achieve our aid objectives, we will partner with proven organisations, engage in strategic policy dialogue and coordinate our work with other donors. Where it makes sense and is feasible, we will adopt longer-term investment timeframes with trusted partners and adopt effective, conflict-sensitive approaches to development assistance.

There are no low-risk options for aid delivery in Pakistan; however the risks of failing to engage are also high. Programming decisions will be determined by whether the investment is effective and aligns with Australian Government development policy; achieves value for money, is supportive of the government of Pakistan's priorities, leverages Australian expertise (such as agriculture, water resources and education); and is catalytic in leveraging financial, political and technical support from the Pakistan Government, its development partners, and the private sector.

Our ongoing management of this Aid Investment Plan will be supported by: development of an Economic Growth Investment Strategy, to better integrate and guide current and future investments (against strategic objective 1); and a comprehensive Gender Action Plan and Strategy encompassing Australia's foreign policy, trade and development engagements in Pakistan.

Effective partnerships

Australia partners with a range of efficient and effective actors to enable us to define and enhance investments in areas of common strategic interest. We work with multilateral organisations to achieve strengthened outcomes through pooled donor funding, and local and international NGOs to deliver large scale, high quality and innovative programs. Australia will continue to work with likeminded donors, such as our partnership with DFID to reform KP's education system. Relevant Australian expertise in agriculture and water management is provided by the Australian Centre for International Agriculture Research (ACIAR) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO). We will align our aid for trade efforts with trade development and promotion led by Austrade. Our programs in the border areas will complement existing efforts by the Australian Federal Police and Department of Immigration and Border Protection to assist Pakistan to counter terrorism and extremism and support refugees and displaced persons.

We will explore innovative ways to promote private sector growth and engage the private sector to achieve development outcomes, and will continue to work through and advocate for a strong civil society. Australia will also explore opportunities for future partnerships with new and emerging partners in Pakistan, Australia, and the region, including: academic institutions; think tanks; civil society; the private sector; and business councils.

Strategic policy dialogue

Australia maintains policy dialogue as a key component of our aid program. Wide ranging bilateral policy discussions with Pakistan underpin our aid investments and reinforce our role in donor coordination groups. We seek leadership roles in policy dialogues, enabling Australia to shape policy development in key areas of interest to us.

To assist Pakistan to accelerate economic growth, Australia will focus our policy engagement on job creation, women's economic empowerment, improved rural productivity and regional trade and economic integration. We will support Pakistan to reform its regional trade and agriculture policies and establish a National Water Commission. Australia-led collaboration between government, business and research bodies has been a leading force in the dairy sector in Pakistan, and provides a model for our future engagement. In this regard,

work by Austrade has already commenced to encourage market demand and private sector interest which can be used to inform our development projects in these areas.

Weak provincial government capacity to plan and manage services is an ongoing challenge in Pakistan. Australia will continue to support national and provincial governments to better plan and manage the education and health sectors, by taking leadership positions in policy fora and providing valuable technical support.

Donor coordination

Australia will maintain its strong focus on effective donor coordination and better collaboration between partners and aid investments. Australia will maintain regular dialogue with likeminded development partners and the Government of Pakistan to ensure our investments are complementary, and to share lessons learned. Where gaps exist, for example in water resources management, Australia will look for opportunities to establish and lead new donor coordination groups.

Performance management

2015-16 Performance benchmarks

Indicator	2015-16 Benchmark
Objective 1: Generating sustainable growth and employment	
1. Increased employment opportunities through the establishment of value chains linking farms to markets	Leverage USD800,000 in additional private sector investment through business partnerships to facilitate the development of pro-poor value chains
2. Strengthened capacity to promote cross border and regional trade	Complete a review of the Ministry of Commerce including recommendations to improve trade policy implementation
Objective 2: Investing in Pakistan's people through health and education	
3. Number of children (disaggregated) directly supported by the program, enrolled in basic education	23,000 children, including 10,000 girls
4. Eligible women and children in target districts receive nutrition-related services	Nutrition experts are deployed in the Fortification Alliance Offices of the Federal Government and 4 Provincial Governments to support implementation of the nutrition and fortification agenda
5. Numbers of women survivors of violence accessing quality support services in target areas	1000 women
Management Efficiency	
6. Consolidate the program to focus on fewer, larger investments	17 initiatives

Mutual obligations

Australia is committed to working in partnership with Pakistan to promote sustainable economic growth and reduce poverty in line with Pakistan's development strategy, *Vision 2025*. Pakistan's strategy has seven pillars identified as the key areas of work to drive growth by 2025. These include: developing human and social capital; achieving sustained and inclusive growth; improving governance and institutional reform; addressing energy, water and food security issues; encouraging private sector-led growth and entrepreneurship; developing a competitive knowledge economy; and modernising Pakistan's transport infrastructure and improving regional connectivity.

We will work closely with national and provincial governments to ensure our development assistance supports *Vision 2025*. Where appropriate we will also seek a co-contribution to our investments from the Government of Pakistan. Our progress towards achieving shared development outcomes is discussed at bilateral senior officials talks and we will monitor how Australia and Pakistan are mutually performing on key objectives through the program Performance Assessment Framework.

Pakistan's *Vision 2025* recognises the country's formidable security challenges and acknowledges that without peace and security, economic development is not sustainable. Pakistan seeks to place in the top 50th percentile for Political Stability (from bottom 1 percentile) and to be free from violence and terrorism (from bottom 1 percentile) as measured by the World Bank's Governance Indicators. Australia is supporting

Pakistan in its border areas to achieve this goal through rehabilitation of public infrastructure, rehabilitation of livelihoods, support to internally displaced persons with a focus on women and girls and fostering trust between citizens and the state.

In line with *Vision 2025*, Pakistan is committed to creating a modern, efficient and diversified agriculture sector, including through improvements in food production and supply chains. Australia's investments are supporting this goal by improving agricultural productivity through better production techniques, agricultural inputs and technologies, agricultural policies, and improving agribusiness opportunities. The success of Australia's existing investments has led to Pakistan investing in complementary programs to enhance agricultural research and development. Pakistan is also committed to investing in methods and technologies to improve efficient use and allocation of water resources including by establishing a National Water Commission. In support of this broader agenda, Australian scientific expertise is being shared with Pakistan in water resource management to support the Government of Pakistan to model the Indus River Basin which will enable Pakistan to more effectively manage its water resources.

Pakistan is committed to enhancing market competitiveness, including through reducing the time and cost of trading across borders, improving collaboration between private firms, government and academic institutions, and developing value chains. Australia will support this goal through its aid for trade programs by strengthening Pakistan's trade-related institutions and policies, promoting trade at key border posts and developing agricultural value chains.

The Government of Pakistan has committed to raise public health expenditure to 3 per cent of GDP by 2025. It has also committed to addressing food insecurity and malnutrition. Australia's investment in nutrition will support these goals through the provision of technical support to provincial governments to effectively develop and deliver their nutrition plans and encourage provincial governments to meet their 20 per cent funding commitment to those plans. Australia will also support additional policy level technical support to create an enabling environment for wheat flour fortification through the World Food Programme.

Vision 2025 also commits Pakistan to raising government expenditure on education to 4 per cent of GDP, increasing primary school enrolment, completion and literacy rates and improving teacher training and education governance. Our education investment in KP will contribute to this goal by targeting school enrolment rates, particularly among girls, training teachers and school officials to improve the quality of education and increase literacy and retention rates.

The Government of Pakistan has committed to establishing centres for survivors of violence and women in distress across Pakistan. Australia's support for an initiative to reduce violence against women aligns with Pakistan's commitment by supporting victims of violence in select provinces through shelters, counselling, legal and medical services and strengthening the capacity of officials to respond to gender-based violence cases. Through its policy engagement, Australia will also encourage KP and Sindh Province to pass and enforce legislation that protects women against violence.

Monitoring, review and evaluation

Australia manages its investments in Pakistan in line with the Government's performance framework for the Australian aid program *Making Performance Count: Enhancing the accountability and effectiveness of Australian aid*. DFAT staff monitor aid investments actively, and have regular performance discussions with partners. We use performance benchmarks to track our progress towards the strategic objectives outlined in this Aid Investment Plan and to assess results.

Our performance assessment processes inform Australia's annual dialogue with Pakistan on progress against the Aid Investment Plan, and Pakistan's own progress towards meeting its *Vision 2025* commitments. As Australia is committed to working in Pakistan's border areas, we will continue to focus on ways to overcome the challenges of assessing results in difficult contexts where data is incomplete or unreliable, where security concerns and logistical difficulties arise, and where volatile and unpredictable environments persist. We will ensure our program performance management is conflict sensitive and closely integrated with risk management strategies.

We seek to harmonise our performance assessment with partners. This includes undertaking joint performance assessment, using partners' systems and ensuring our processes align with partners' systems to avoid duplication and to ensure partners' expectations and assessments of progress are aligned.

Program management

Governance and resource management

In accordance with *Australian aid: promoting prosperity, reducing poverty, enhancing stability*, Australia is committed to delivering high quality aid programs that are well-managed and produce value for money and results. In Pakistan, we have enhanced the focus and efficiency of the aid program by consolidating investments, pooling a significant proportion of program funds with other donors and focusing our bilateral expenditure on sectors relevant to our strategic objectives.

Australia's aid program to Pakistan is led by the Department of Foreign Affairs and Trade, with strategic direction determined jointly by our High Commission in Islamabad and the Department in Canberra. Other agencies, including the AFP, DIBP, ACIAR, CSIRO and Austrade, make contributions to policy development, delivery and oversight in relevant sectors.

DFAT's First Assistant Secretary, South and West Asia Division, has overall responsibility for aid policy, strategy and program budget, while the Head of Mission, Islamabad, is responsible for leadership of the development relationship and delivery of the bilateral aid program. We work closely with other DFAT bilateral and regional programs and diplomatic posts to coordinate and collaborate on regional policy and development issues impacting Pakistan.

DFAT staff at post and in Canberra work together to ensure our aid program delivers real results for Pakistan. We will maximise flexibility in the use of human resources across Canberra and Islamabad so that we can deliver a highly effective and efficient program.

Risk management

Australia will continue to work with partners able to effectively manage risk. Ensuring our partners have sound monitoring arrangements in place is a major component of Australia's risk management strategy.

Some of the areas in which we operate have high security risks. Aid program activities, including staff and consultant travel, are subject to timely risk assessments, and security risks to aid investments are monitored at the country program level and treated accordingly. External shocks such as natural disasters could also have a large impact. While these events may be beyond our control, we will retain some flexibility in our program to provide emergency assistance when needed.

Some development projects entail risks of unintended social and environmental consequences. We work with development partners to minimise this risk. This includes applying robust social and environment safeguards policies and processes (including child protection), and additional monitoring when required.

Australia maintains a zero tolerance to corruption and fraud in our aid program. We will continue to monitor our systems and processes regularly and make use of our comprehensive fraud control and risk management frameworks to help prevent, detect and control fraud. DFAT has developed a Pakistan program fraud control and anti-corruption strategy to support our risk management approach.

Risk monitoring and communication

Process	Frequency
Update of program-level risk register	Quarterly
Update of sector-level risk registers	Quarterly
Post senior management team discussion on progress of risk treatments, escalation of country aid risks and any new risks	Monthly
Country program senior management team discussion on progress of risk treatments, escalation of sector risks and any new risks	Monthly
