

Pakistan Economic Growth Portfolio Evaluation

FINAL REPORT

Prepared for Department of Foreign
Affairs and Trade

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Acronyms and abbreviations

ACIAR	Australian Centre for International Agricultural Research
AEGIS	Australia Economic Growth Strategy
AIP	Aid Investment Plan
APARDS	Australia Pakistan Agriculture and Rural Development Strategy
AQC	Aid Quality Check
ASLP	Agriculture Sustainable Linkages Program
AusABBA	Australian Assistance to Agricultural Development in Balochistan Border Areas
AVCCR	Agricultural Value Chain Collaborative Research
BCI	Better Cotton Initiative
BPP	Business Partnership Platform
CIA	Central Intelligence Agency
DFAT	Department of Foreign Affairs and Trade
EGP	Economic Growth Portfolio
FAO	Food and Agriculture Organization
FAQC	Final Aid Quality Check
FATA	Federally Administered Tribal Areas
GDP	Gross Domestic Product

ICEWaRM	International Centre for Excellence in Water Resources Management
ICIMOD	International Centre for Integrated Mountain Development
IFC	International Finance Corporation
KPK	Khyber Pakhtunkhwa
MDF	Market Development Facility
MEDA	Mennonite Economic Development Associates
NGO	Non-government organisation
PAF	Performance Assessment Framework
PPISS	Pakistan Partnerships in Inclusive Seed Systems
PTIPP	Pakistan Trade and Investment Policy Program
SDIP	Sustainable Development Investment Portfolio
SMART Punjab	Strengthening Markets for Agriculture and Rural Transformation in Punjab
SRSP	Sarhad Rural Support Program
UNDP	United Nations Development Program
WEEMD	Women's Economic Empowerment and Market Development

Executive summary

This evaluation was commissioned to assist the Department of Foreign Affairs and Trade (DFAT) as it considers how to structure its engagement in economic growth in the next Aid Investment Plan (AIP) covering the period 2019 to 2024. The review is primarily formative in intent. It has examined the current economic growth portfolio and its component activities to derive lessons to help shape the aid programs' future engagement. But it was neither intended – nor resourced – to be a fully-fledged assessment of the portfolio and its components. The specific objectives of the review were to:

- make recommendations for DFAT's future inclusive and sustainable growth strategic narrative and portfolio management;
- review the objective of the current AIP that relates to growth, the narrative that supports it and the program portfolio; and
- review the activities currently being implemented to deliver the objective, using criteria of relevance, effectiveness, efficiency, monitoring and evaluation, gender and sustainability, where this helps provide an understanding of key issues with respect to achievement of the objective, or informs shaping the portfolio going forward.

The review was expected to conduct a conceptual analysis that looked at what theory and practice in Pakistan has to say about what might usefully be done by a comparatively small grant aid program with a modest in-country presence to foster inclusive and sustainable growth. This analysis and lessons from the current portfolio were to be used to inform recommendations for function, management and structure of the portfolio, including sectors where the portfolio should work and modalities to be used.

The terms of reference for the review are presented in annex A.

Findings – sustainable and inclusive growth in Pakistan

By many measures, including delivery of sustainable inclusive growth, Pakistan's economy has been underperforming for decades. Conflict on and within its borders has diverted resources and leadership attention away from the challenges of broad-based development. While the incidence of monetary

poverty has fallen significantly in recent years, other indicators show that a significant proportion of the population faces serious deprivation, especially women and girls.

The proximate causes of poor performance lie in low levels of investment and innovation and prevailing social norms and attitudes – especially towards the economic participation of women. But underlying this are serious problems with the disincentives for efficient investment created by trade, sectoral, natural resource and regulatory policies (and the way they are implemented). Many of these policies seem to be more focused on the creation and distribution of economic rents than the promotion of productivity growth and the efficient allocation and utilisation of resources. Poor delivery of public goods and services – linked in part to very low levels of government revenue mobilisation, the limited reach of the civilian institutions, and the yet-to-be resolved problems in devolution and its resourcing – contributes to the problem. In turn the lack of an overarching, inclusive social compact leads to unproductive competition for power and resources.

The context, therefore for a sustainable inclusive growth portfolio is daunting. The constraints are complex, pervasive and deeply rooted in the country's political economy. But given the compounding consequences of exclusion and poverty for social stability and national security, it is in Australia's interest to find ways to help Pakistan address the challenges.

Findings – the portfolio

This, albeit limited, review of the portfolio and its activities concludes that the portfolio is:

- **well-aligned** with Australia's interests in Pakistan, in that it addresses some of the causes and manifestations of instability and exclusion, even if in a very modest way;
- appropriately **targeted** on issues affecting achievement of sustainable inclusive growth in Pakistan, and on areas of significant poverty and exclusion. There are other things that, with more resources, the program could do, including choosing to work in different locations. But context-specific knowledge is as important as it is hard-won, and there is no obvious case for the program to have taken a different approach to targeting;
- demonstrating a high degree of **coherence** (due in part to the prior preparation of a clear portfolio strategy) and is successfully pursuing

collaboration across investments and with other development partner programs;

- directly working in critical growth and inclusion policy issues, and providing DFAT with a means to broker **policy engagement** by Australian agencies and experts. It has provided a resource – perhaps not fully utilised- to support DFAT’s own direct analytical and policy engagement work.
- in most cases, not placing undue demands on DFAT’s aid **management** resources. Given the complementarities across much of the portfolio, it is not clear that the number of activities has exceeded the Post’s management capacity, nor necessarily unduly attenuated its ability to focus on policy issues. However, it is apparent that the Post has limited capacity to deal with partnerships where engagement on substance is desirable.
 - across the whole portfolio, the most demanding call on management has come from one investment (AVCCR) that, in principle, should have required relatively limited management inputs from the Post. It has proven difficult to overcome differences in institutional cultures, time frames and delivery modalities to create productive partnerships in agricultural research and development. This is despite the fact that such work has the potential to address major institutional and productivity challenges in Pakistan and lay the longer term basis for sustainable inclusive growth in parts of the economy;
- generating significant **leverage** over critical growth constraints, including through leveraging of additional funding, and creating significant levels of Australian **value added**;
- ensuring, as a result of considerable support from within DFAT, that investments have credible **gender** frameworks and solid reporting on gender achievements, and, in a country with very conservative attitudes to the role of women, they are having a degree of success in bringing about the localized economic empowerment of women; and
- contributing to the other objectives of the AIP with regard to investing in people – especially women and girls - and supporting stabilisation and resilience.

It has made sense to focus on agriculture and the water-food-energy nexus given that this is where:

- significant degrees of exclusion, poverty and disaffection occur,
- Australia has reputational and technical comparative advantage, and
- benefits can be achieved with relatively small amounts of aid.

Sustainable inclusive growth in the new AIP

The review concludes that it is appropriate to focus the new AIP around the three policy areas of gender, water and agriculture.

- The situation of women and girls is one of the most pronounced areas of exclusion in Pakistan, gender is a DFAT-wide priority, there is an increasing appreciation of the importance of gender equality in Pakistan, and there is potential for significant increases in the incomes of poor households by removing impediments to women's entrepreneurship and employment.
- The majority of Pakistan's poor and excluded live in rural areas and depend on irrigated agriculture for their livelihoods, there is potential to significantly increase returns from smallholder and landless peoples' agricultural activities and to improve the incomes of the disaffected living in border areas, and this is an area where Australia has world class expertise.
- Water - and the nexus to food and energy security - poses one of the most critical challenges to economic, environmental and political sustainability in Pakistan, limited access to water is a key dimension of exclusion and poverty in rural areas, and Australia is confronting similar issues such as sharing water among federated states, the need for water predictive modelling, and allocating water across competing agricultural, energy, household, industrial and environmental demands.

The review recommends that the next AIP should have a sustainable inclusive growth pillar, working on two tracks:

1. supporting deprived beneficiaries in selected parts of the country to achieve higher levels of economic wellbeing and agency through improved agricultural livelihoods, market access, and associated capabilities; and
2. working to improve relevant market systems and the enabling environment affecting agriculture and rural economies, focusing primarily on agriculture and the use of water.

These two tracks are likely to have quite different time paths to delivering benefits to poor and excluded people. Investments in track 1 would be expected to deliver benefits during their implementation periods – and the benefits may be quite readily attributable to the investment. For track 2 investments, it may take considerable time before the changes they bring about deliver benefits, but they are likely to facilitate benefits on a much larger scale, even though attribution will be much harder.

Recognising the institutional imperative for consolidation to a small number of larger investments, the review recommends that the portfolio transitions to having three *main* investments.

- The **Market Development Facility**, because it:
 - provides a vehicle to work on key market system constraints related to agriculture and rural development;
 - provides a point of entry to influential private sector players and a platform for influence and policy engagement;
 - builds cross-portfolio expertise, added value, and learning;
 - can, because of its facility modality, attract and use additional funding, and has the potential to provide management support for related initiatives which align with its strategic priorities and mode of operation; and
 - places limited contract management demands on the Pakistan team in Islamabad and Canberra.
- The **Sustainable Development Portfolio's** Pakistan program, because it:
 - is engaging with one of the greatest existential challenges facing Pakistan;
 - addresses an area where there is scope to achieve major improvements in economic and technical efficiency of water use in agriculture;
 - uses Australia's well-regarded expertise;
 - provides an entry point for influence and engagement; and
 - is relatively 'management light' for the Pakistan Program.
- The **Australian Balochistan Agri-Business Program (AusABBA)**, because it:
 - is a highly regarded and effective model of community-driven development in a neglected and difficult operating environment;
 - directly targets areas of poverty, exclusion and disaffection;
 - provides the basis to move to a more encompassing partnership with the Food and Agriculture Organization
 - effectively integrates work on water, nutrition and food security at the household level; and
 - generates a solid 'Australian' profile with modest levels of management oversight.

This consolidation should not necessarily mean reducing the overall *number* of investments: there are avenues open to the program to support other partner's work in important areas without unduly adding to the management burden or diluting the program's focus on critical development policy issues. The program should, for example, track the efforts of the World Bank to develop a Sindh oriented counterpart to the Strengthening Markets for Agriculture and Rural Transformation in Punjab which is currently being supported by a contribution to a World Bank Trust Fund. And it would be useful to explore the potential to

support follow on work on trade policy on the conclusion of the Pakistan Trade and Investment Policy Program. It might be possible to bundle this kind of support together under a broader partnership with the World Bank.

The review also recommends maintaining an on-call specialist capacity to respond to emerging priorities that can be addressed by technical assistance, analytical work, program coordination and smaller scale, strategic collaboration with other partners.

The following table presents the review's recommendations and indicates where in the document the recommendations are discussed.

Recommendations

<i>Recommendation</i>	<i>Page</i>
<i>Recommendation 1: The overarching policy area priorities should be: gender, agriculture and water</i>	<i>58</i>
<i>Recommendation 2: The program should have two pillars with defined objectives and outcomes</i> <i>1. Sustainable and inclusive growth in agriculture and rural economic activity</i> <i>2. A gender 'rights' pillars dealing with norms and policies</i>	<i>62</i>
<i>Recommendation 3: The economic growth portfolio should transition to having three main investments:</i> <i>1. The Market Development Facility</i> <i>2. The Sustainable Development Investment Portfolio's Pakistan program, with possible modifications</i> <i>3. AusABBA, with possible modifications/extensions</i>	<i>76</i>
<i>Recommendation 4: The economic growth portfolio should continue to have the ability to act on emerging opportunities with partners, commission analytical studies and other inputs, and have a facility to contract support for coordination and monitoring across investments. This could include funding a follow up to PTIPP</i>	<i>78</i>

<i>Recommendation 5: DFAT should explore the possibility of developing a facility based partnership with FAO (including the work of AusABBA)</i>	79
<i>Recommendation 6: DFAT should:</i> <i>1. actively search for local expertise to help expand and supplement capacity to engage on broader development policy issues, and</i> <i>2. resource investments to help DFAT make better use of the understanding of development policy issues that exists in the portfolio, and create opportunities for exchanges with investments in emerging development and context issues.</i>	81

1 Introduction

This document presents an evaluation of Australia's support to sustainable and inclusive growth in Pakistan. The evaluation was commissioned to assist the Department of Foreign Affairs and Trade to structure its economic growth portfolio over the period of the next Aid Investment Plan (2019-2024). While it examines the activities that are currently being implemented as part of the portfolio, it has not been asked – or resourced – to undertake a comprehensive assessment of each activity. Rather, it is expected to:

- help shape a coherent and consistent conceptual framework that can anchor dialogue and engagement in inclusive and sustainable economic growth in Pakistan; and
- draw on this framework to make recommendations about structuring the portfolio and suggest ways to implement these recommendations.

The framework developed in this document builds on:

- an analysis of the constraints to and opportunities for sustainable and inclusive growth in Pakistan;
- lessons from recent experience;
- evidence from Australia's current engagement with sustainable and inclusive growth; and
- the experience and knowledge of other partners and of Pakistani stakeholders.

The evaluation draws on the framework, the four tests of Australian aid as laid out in the 2017 Foreign Policy White Paper, and consideration of what kind of role Australian assistance is best suited to play in Pakistan to propose an underlying theory of change and objectives for the portfolio.¹

Scope and objectives

Specific objectives for the evaluation are as follows.

1 Many people assisted with this evaluation, but the author wishes to acknowledge the particular support from the Program's Rural Development Adviser, David Swete Kelly.

1. Make recommendations for DFAT's future inclusive and sustainable growth strategic narrative and portfolio management, with a particular emphasis on:
 - proposing a strategic narrative that will anchor dialogue and management decisions for the inclusive growth portfolio in the next AIP; and
 - providing recommendations on how to deliver this strategic narrative.
2. Review Objective 1 of the current AIP (*Generating sustainable and inclusive growth and employment through increased trade and investment, and improvements to agricultural productivity, water resources management*), the narrative that supports it and the program portfolio.
3. Review the aid activities currently being implemented to deliver Objective 1, using criteria of relevance, effectiveness, efficiency, monitoring and evaluation, gender and sustainability, where this helps to provide an understanding of key issues with respect to achievement of Objective 1 or informs shaping the portfolio going forward.

The evaluation's purpose is forward looking. It has both summative and formative elements, but the emphasis is on the formative to ensure it provides useful inputs to the preparation of the next AIP. The evaluation examines the current portfolio, to draw lessons that can inform the crafting of the narrative/theory of change for the *new* AIP. This examination complements and provides inputs into a more conceptual analysis that looks at what theory and practice in Pakistan tells us about what might usefully be done by a comparatively small grant aid program and a modest in-country representation to foster inclusive and sustainable growth. This analysis draws on discussions with key informants, to consider how to construct a framework to support decision-making and communication that takes account of the broader interests that shape DFAT's work in Pakistan.

The evaluation's recommendations on portfolio management also take into consideration DFAT's desire to consolidate the overall aid program in Pakistan, and to elevate the work of Desk and Post from managing agreements and investments to influencing at the policy and partnership level, supported by an increased use of a partnership approach (as recommended in the recent Aid Health Check, DFAT 2017a)).

Australia's engagement in Pakistan and the economic growth portfolio

Australia has a long-standing relationship with Pakistan: Australia was one of the first countries to establish diplomatic relations after partition from India in 1947. Security cooperation has played a significant role in the relationship: this deepened after Australia made its military commitment to the international forces in Afghanistan, and intensified in the wake of the Global Financial Crisis in 2008.

The Australian aid program in Pakistan has reflected an enduring concern about threats from violent extremism to internal security and the consequences of protracted conflict and instability on the country's borders. This has paralleled a broader interest in helping Pakistan address continuing problems of exclusion and deprivation amongst segments of its population.

Australia's strategic interests in Pakistan

According to the current Aid Investment Plan, Australia has strong interests in Pakistan given its size, economic potential and strategic position in South Asia. In recent years, Australia's engagement has been particularly influenced by successive governments' consideration of Pakistan's potential to influence security dynamics in the Middle East, Central and South Asia, and its proximity to key Indo-Pacific sea lines of communication.

Of particular concern are the risks that insecurity and terrorism pose for development in the provinces that border Afghanistan, and the challenges of internal insurgency to the functioning of democratic institutions.

Australia is also aware of China's influence in the region and the implications of the China Pakistan Economic Corridor (CPEC) on the dynamics of regional trade, investment and strategic relations.

Australia's commercial and trade interests in Pakistan are rather limited – two way trade between the two countries amounted to just \$1.68 billion in 2016-17 (DFAT 2018).

The Aid Investment Plan, the program and the economic growth portfolio

The original Aid Investment Plan for the period 2015-16 to 2018-19 was developed in 2015. It aimed to contribute to sustainable, inclusive growth and poverty reduction in Pakistan through two strategic objectives related to sustainable growth and employment and investing in human development. The Plan also identified three multi-sectoral policy priorities and approaches: women's empowerment, stability and governance. The plan outlined implementation approaches that recognised the challenge of delivering relatively small amounts of assistance in a large and complex country. These specified an emphasis on effective partnerships, strategic policy dialogue and coordination and collaboration with other donors.

After a review in 2016-17 in the light of changes in the Pakistan context, consolidation in the program and its investments, and evolution in Australian priorities, the strategic objectives for the program were modified. The modifications included a more explicit focus on agriculture, inclusiveness and women and girls, and the addition of an objective related to stabilisation and resilience.

Table 1.1 presents the strategic objectives and outcomes for the program as articulated in the 2016-17 Aid Program Performance Report.

1.1 Strategic objectives and outcomes for the Pakistan program at 2017

<i>Strategic Objective</i>	<i>Outcomes</i>
1. Generating sustainable and inclusive growth and employment through improved agricultural and market development, increased trade and investment, and water resources management.	1 Selected value chains are more inclusive 2 Governments, enterprises and smallholders are adopting evidence-based agriculture, water and trade policy reforms as a result of Australian investments
2 Investing in Pakistan's people with a focus on women and girls	3 Women and girls have better access to nutrition, counselling and support services 4 Governments are adopting policy reform around inclusive education, nutrition and EAW (ending violence against women) as a result of Australian engagement
3. Supporting stabilisation and resilience	5 Enhanced stability in Pakistan's border areas 6 Enhanced resilience in Pakistan's border areas

Source: DFAT 2017b

In addition to the strategic objectives, the program was given four cross cutting policy priorities, each with a defined outcome. They are:

1. Australian Awards Alumni are using their skills, knowledge and networks to contribute to sustainable development in Pakistan;
2. Improved integration of gender equality into aid investments;
3. Improved integration of disability in Australian aid investments; and
4. Pakistan aid program is more consolidated over time.

The economic growth portfolio currently comprises a group of investments, some of which are funded from the bilateral Pakistan budget, and others funded from regional or DFAT wide programs. The portfolio employs a number of different modalities, and works with a range of partners and delivery entities. Some investments are continuations of or successors to earlier projects. Table 1.2 summarises the current investments.

1.2 The portfolio's current investments

<i>Activity</i>	<i>Funding source</i>	<i>Investment</i>	<i>Partner/delivery agent</i>	<i>Precursor</i>
Women's Economic Empowerment and Market Development (WEEMD)	Bilateral program	\$5.0m (2015-18)	Sarhad Rural Support Program - local NGO	SRSP Livelihoods Program
Market Development Facility (MDF) Phase II	Bilateral and central program	\$15.3m (2018-22)	Palladium - Managing Contractor	MDF Phase I
Agricultural Value Chain Collaborative Research Program (AVCCR)	Bilateral program	\$9.0m (2016-20)	ACIAR - Australian government agency	Agriculture Sector Linkages Program (ASLP)
Australia Balochistan Agri Business Program (AusABBA)	Bilateral program	\$22.0m (2017-23)	FAO - UN agency	Australian Assistance to Agricultural Development in Balochistan Border Areas (AusABBA phase 1)
Pakistan Trade and Investment Policy Program (PTIPP)	Bilateral program	\$9.9m (2015-18)	World Bank and IFC	-
Sustainable Development Investment Portfolio Program (SDIP)	Bilateral Program contribution to regional program	\$11m (2017-20)	Consortium of Australian and international research institutions – CSIRO, ICIMOD, TAF, iFC and ICEWaRM,	SDIP phase 1
Strengthening Markets for Agriculture and Rural	Bilateral program	\$0.6m (2017-20)	Government of Punjab through P4R operation with World Bank	-

Transformation in Punjab
(SMART Punjab)

Better Cotton Initiative (BCI)	Agency wide \$0.5m program – (2017-2018) Business Partnership Platform	Australian private sector - entity (Cotton Australia) and international NGO/private sector initiative (Better Cotton)
Pakistan Partnerships in Inclusive Seed Systems Initiative (PPISS))	Agency wide \$0.5m program – (2018-19) Business Partnership Platform	Pakistani multinational - (Engro) and international NGO (MEDA)
Innovation Exchange Telenor (IXC Telenor) (now managed under MDF)	Agency wide \$0.3m program (2017)	MDF and local private - telco (Telenor)

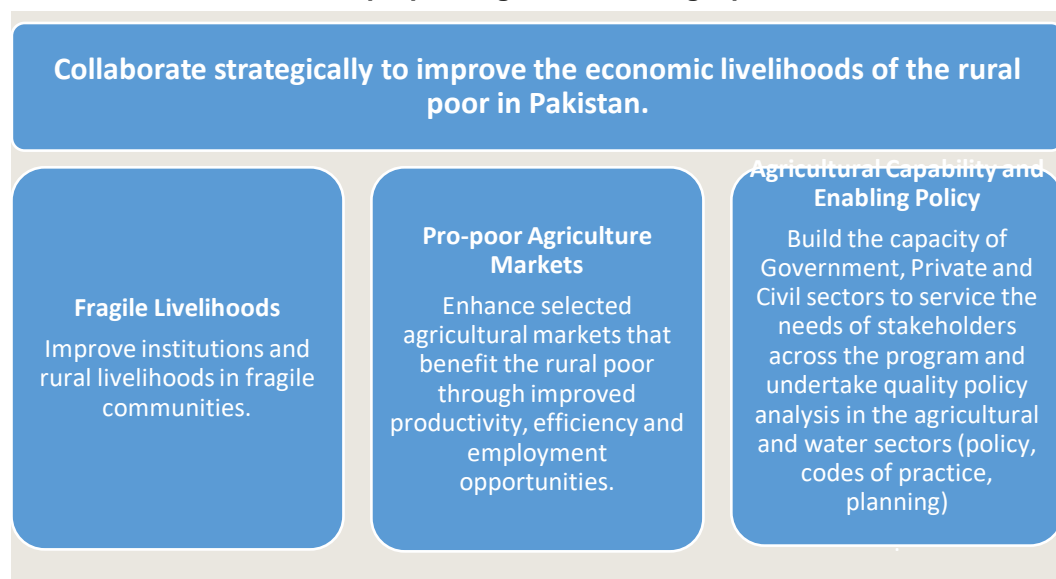
These economic growth investments are complemented by investments of the broader aid program in:

- Education, with the Khyber Pakhtunkhwa Education Sector Program
- Ending gender-based violence, with the Pakistan Ending Violence Against Women Program
- Maternal and infant health, with the Integrated Maternal Newborn Health Program
- Nutrition, with the World Bank Multi-Donor Trust Fund Partnership for Nutrition
- Stabilisation-focused post-crisis reconstruction and service delivery, with the World Bank Multi-donor Trust Fund Balochistan, FATA and KPK

The structure of the current economic growth portfolio has been influenced by work undertaken to develop a strategy for investment in agriculture and rural development. The Australia Pakistan Agriculture and Rural Development Strategy (APARDS) was developed in 2011 to establish clarity, coherence and continuity in Australian efforts to improve livelihood systems for the rural poor in Pakistan. It was never formally approved, but was regularly used by DFAT, ACIAR and AusTrade to inform investment and activity choices. Subsequently, in 2015, it was used to propose a new strategic framework (the Australian Economic Growth Investment Strategy (AEGIS)) for investments to achieve the inclusive growth strategic objective of the current AIP. Once again, AEGIS was not formally adopted.

The proposed goal and strategic pillars proposed in the APARDS/AEGIS frameworks are presented in chart 1.3

1.3 APARDS/AEGIS - proposed goal and strategic pillars



The framework proposed a focus on those livelihood systems on which the majority of poor people in Pakistan depend, and it expressed an intent to craft multiple collaborative partnerships across the agriculture and rural sectors, targeting those areas where investment both drew on Australia's technical competence and contributed to a reduction in rural poverty.

As is discussed in the rest of this report, this conceptualisation provides a strong foundation for framing the economic growth portfolio for the next AIP.

Evaluation questions and criteria

Questions

This evaluation is not being asked to undertake a comprehensive assessment of the current activities in the economic growth portfolio. Rather, it is being tasked with helping DFAT to develop a coherent narrative and framework for the next AIP to guide decision making about the portfolio, and to shape how the Department uses its investments in growth to support Australia's broader engagement with Pakistan. Because it is being asked to make recommendations on how DFAT can *deliver* on the proposed strategic narrative, it must also examine the current portfolio, how well it contributes to the growth-related objective of the current AIP, and draw lessons about sectoral choices, aid modalities, partner performance and making effective use of Post resources.

To this end, the evaluation investigates:

- the nature of poverty and exclusion in Pakistan;
- the key opportunities for and constraints to sustainable and inclusive growth;
- how Australia's overarching interests in Pakistan and approach to aid as articulated in the recent Foreign Policy White Paper (DFAT 2017c) - in particular the four tests of Australian aid (see box) - should inform the framework for choices about what the economic growth portfolio should do;
- what lessons can be drawn from how well the current portfolio has been structured to deliver sustainable and inclusive growth and how well it has contributed to the AIP growth objective, considering sector, modality and partner choices and relevance to Australia's comparative advantage;
- the management demands placed by the portfolio, and how well it has been used to support policy dialogue and relationship management; and
- how well the portfolio has interacted with other parts of the program and supported the pursuit of other program objectives, especially with respect to gender.

The four tests for allocating development assistance

1. Is this in our national interest?
2. Will this promote inclusive growth and reduce poverty?
3. Does Australia's contribution add value and leverage partner funding?
4. Will this deliver results and value for money?

In developing recommendations for future Australian engagement in inclusive and sustainable growth in the next AIP, this evaluation draws on key considerations from the conceptual framework, lessons from current portfolio, the four tests of Australian aid and overarching foreign policy objectives. It considers issues of the relative size of the program, the trade-offs to be made in selecting issues, sectors and locations to work on, how to make use of Australia's technical and institutional comparative advantage, achieving synergies across the whole program, and what to look for in assessing performance.

It also considers how the concerns of the Aid Health Check should be addressed – in particular, how DFAT can create space for development policy dialogue and how it structures and uses the portfolio to sustain dialogue. In turn, it considers

what needs to be done to strengthen and support DFAT's ability to engage in, and influence policy dialogue.

These questions are further elaborated in the Evaluation Plan in annex B. They are addressed in the remainder of this report.

Criteria

Discussions with stakeholders in Pakistan and Australia, and consideration of what aspects of portfolio performance are most relevant to decisions about the next AIP have informed decisions about the criteria to be used in the summative elements of this evaluation. The criteria used are as follows.

- Alignment – with Australia's and Pakistan's priorities.
- Targeting – of problems and sectors.
- Coherence, complementarities and synergies within the portfolio.
- Policy dialogue and strategic engagement.
- Manageability and influence over portfolio directions.
- Leverage and value addition.
- Gender.
- Results and value for money.
- Whole of aid program contribution.

The evaluation against these criteria incorporates consideration of relevance, effectiveness, efficiency, monitoring and evaluation, gender and sustainability of activities in the portfolio.

Methodology

The purpose of this evaluation dictated the use of an independent utilisation-focused approach tailored to the Pakistan Program's specific requirements and the fact that the intended users of the evaluation, the Pakistan Desk and Post, were concurrently engaged in the AIP formulation process which the evaluation was intended to assist. Because the evaluation was required to propose a conceptual framework, informed by recent experience with the growth portfolio, it needed a strong theoretical foundation bonded to an understanding of practical experience and contextual appreciation. Because of significant time and resource limitations, real-world evaluation methods were adopted.

Method

The evaluation involved consultations in Australia with the Pakistan Desk and relevant DFAT advisors (for example, gender and rural development advisers), and five days of field work in country spread over the period 21-25 May. The main ways that the evaluation gathered information were document reviews, roundtable and group meetings with stakeholders, and key informant interviews. Interviewees were selected purposively, and the sampling was shaped by the ability of stakeholders to interact with the evaluation in Islamabad and Lahore, which virtually precluded any interaction with beneficiaries. Secondary quantitative information was used to provide context and summarise assessments made by researchers, development partners and DFAT staff.

Because of delays in obtaining visas, the field work was delayed by a month, requiring changes in the original approach to data gathering and preparation of intermediate outputs. In particular, the evaluation prepared a draft theory of change for the portfolio in the new AIP in advance of the field work, drawing on the document review and draft conceptual framework laid out in a report on key pre-field work findings and consultations with DFAT staff and program advisors.

Limitations

There are a number of limitations to this evaluation, reflecting the tailoring of the approach and methodology to the priority needs of DFAT with respect to preparation of the next AIP, and limitations of time, resourcing and access. Key limitations relate to:

- **Time and resources:** the rigour of the data gathering and analysis processes for this evaluation was constrained by the time available. In particular, the limited time for fieldwork and tight deadlines imposed by the need for the report to make a useful input into the preparation of the next AIP, meant that effort was focused on the priority objectives. This in turn meant that the evaluation does not present a thorough evaluation against DAC criteria of the growth portfolio and its component activities.
- **Judgements:** this evaluation primarily used rapid qualitative methods of inquiry, and relied heavily on the professional judgement of the consultant to interpret stakeholder perspectives.
- **Access and security:** The evaluation was not able to visit activity sites (other than some of the Market Development Facility activities) because of security, access and time constraints, and the interaction with activities was mainly

through meetings with activity managers in Islamabad and Lahore. Interviews were used to triangulate findings from the document/literature review and perceptions arising from each interview, but the scope for more sophisticated validation of conclusions was extremely limited.

This report

The following sections of this report present an analysis of factors shaping Pakistan's ability to achieve sustainable inclusive growth (section 2), an assessment of the current portfolio using the criteria presented above (section 3), and recommendations on the objectives, structure and approaches for delivery of the portfolio in the next AIP (section 4). Annexes present the terms of reference, the evaluation plan, a mapping of relevant donor activities, and an assessment of portfolio performance against the performance assessment framework of the current AIP.

2 The challenge of achieving inclusive growth in Pakistan

By many measures, including delivery of sustainable inclusive growth, Pakistan's economy has been underperforming for decades. While the incidence of monetary poverty has fallen significantly in recent years, other indicators show that a significant proportion of the population faces serious deprivation, especially women and girls.

This deprivation has two way links with the security challenges facing the country, but the problem also has deeper policy, institutional, political economy and cultural/norm causes. As the Government of Pakistan has itself pointed out, slow growth exacerbates these underlying causes:

Besides the obvious implications of lagging behind other similar countries, slower growth also tends to be associated with heightened social frustrations and conflict, lower quality of social services, poorer health conditions, enormous gaps in essential resources (especially water, energy and food security), and lack of national autonomy. (Planning Commission, 2014)

This section examines the nature of the inclusive growth challenge in Pakistan. It highlights the opportunities for and constraints to sustainable and inclusive growth, with a view to suggesting which aspects of the challenge that the Australian aid program could engage with in the economic growth portfolio.

The development context and recent economic performance²

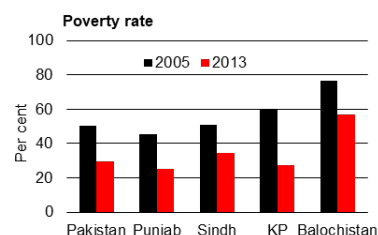
- **Pakistan's growth performance has been weak** (real per capita GDP has grown by only 2 per cent a year in the last two decades), and while poverty measured at the national poverty line has fallen by 20 percentage points in the last decade, the



² Note – data for charts in this section come from the World Bank's Development Indicators data base. *Pak* – Pakistan, *BGD* – Bangladesh, *Ind* – India, *Npl* – Nepal, *SL* – Sri Lanka, *LMC* – Lower Middle-Income Countries.

incidence of poverty is still very high, especially (at 57 per cent) in Balochistan.

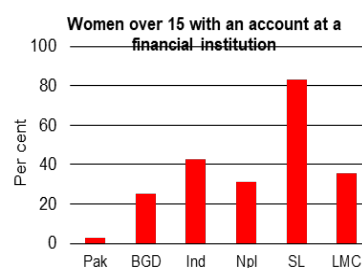
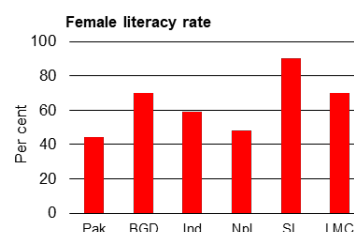
- Such growth that has occurred has been good for reducing monetary poverty, but has done little to address Pakistan’s high levels of inequality or non-monetary aspects of deprivation. In 2014, 39 per cent of the population were estimated to be experiencing multi-dimensional poverty³.



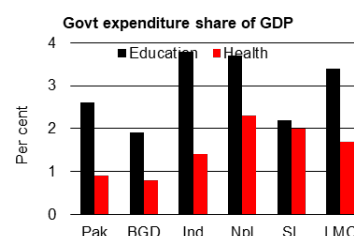
- **Women’s economic participation is low**, and women face strong cultural constraints to empowerment. (Pakistan was ranked 130 out of 159 countries on the UNDP’s 2015 gender development index, and in the lowest quintile for gender development (UNDP 2018).)



- Progress on women’s economic empowerment has occurred, but from a very low base. Female labour force participation increased from 19 per cent in 2005 to 25 per cent in 2014. However, young women in Pakistan have the highest level of idleness in the world⁴. Female literacy is improving in some parts of the country: on average, there are now seven literate women for every ten literate men, but in Balochistan, there are only 4 literate women for every ten literate men. Gaps in women’s access to finance are huge – in 2014, only 3 per cent of females aged 15 and above had an account at a financial institution.



- **Health and education outcomes are poor**
 - Government spending on health and education is exceptionally low by lower middle-income country standards, and public spending on health is low compared to the rest of South Asia. Pakistan spends

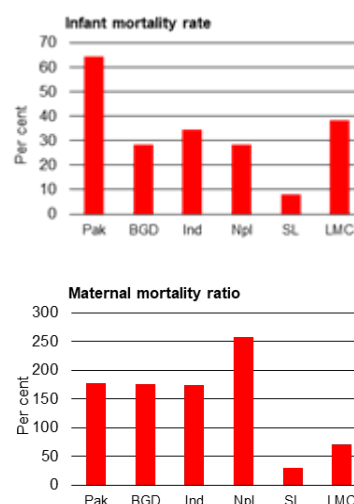


³ Multi-dimensional poverty uses 15 indicators across three dimensions (education, health and living standards) to create a single index measure deprivation.

⁴ As measured by the proportion of women aged 15-24 who are not undertaking education, working or seeking work (World Bank 2013).

about the same share of GDP on the military as it does on health and education combined⁵.

- Literacy rates have stagnated at under 60 per cent, and gross enrolment rates for middle and secondary school remain low at 60 and 58 per cent respectively.
- Pakistan has just 60 nurses and midwives per 100,000 people, compared to 205 for India and 175 on average for lower middle-income countries
- Maternal and infant mortality rates are improving slowly, but remain very high.
- Much of the population faces nutrition and food security deficits
 - Fifty-five per cent of Pakistani children are under-nourished. Pakistan has the third highest number of stunted children in the world and the 8th highest prevalence of stunting. The prevalence of stunting has actually increased over the last two decades.
 - Over 60 per cent of the population is food insecure.



Where are the poor, and what is the extent of vulnerability?

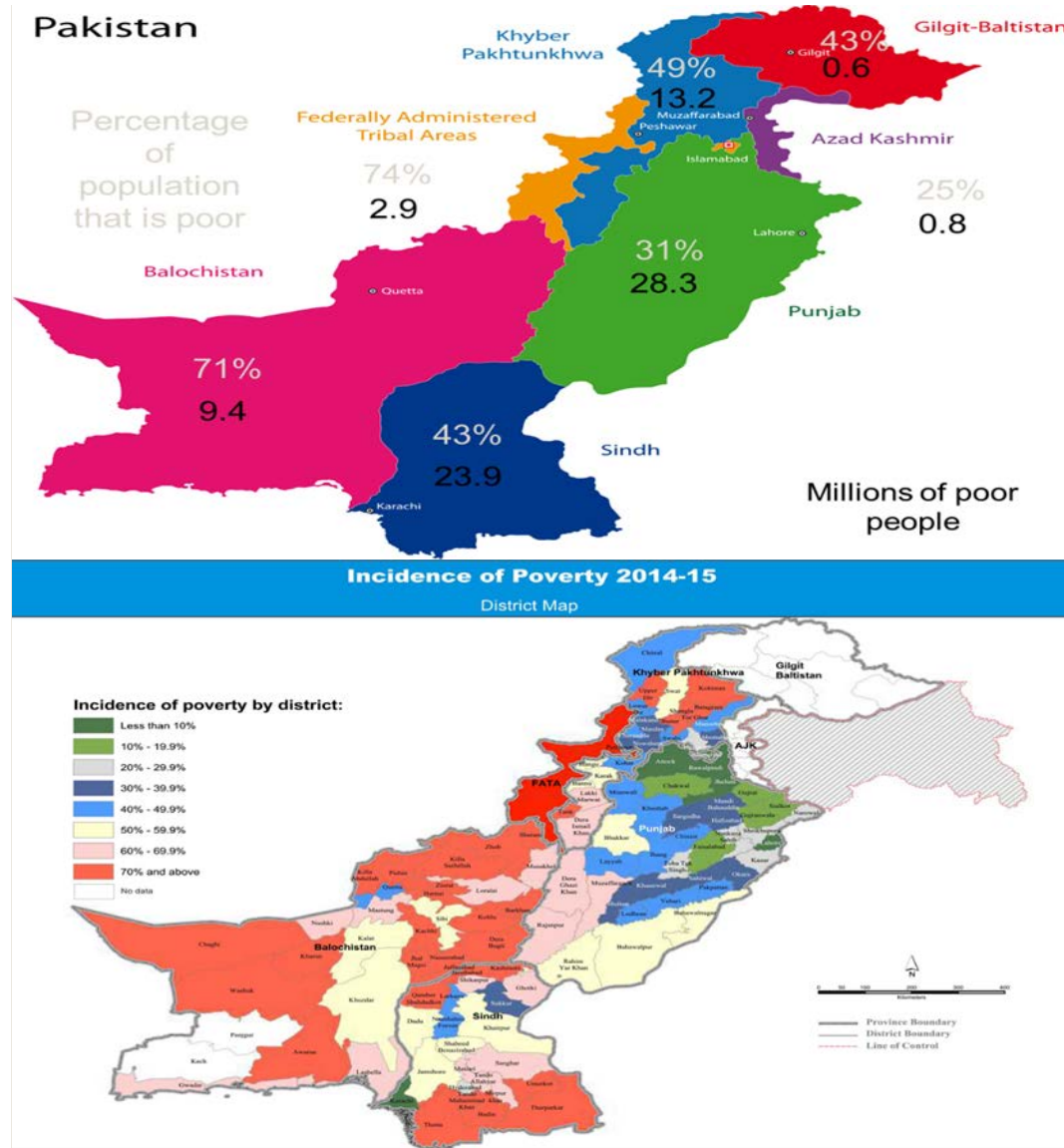
While urban poverty is a growing issue, the majority of the poor (defined using the measure of multi-dimensional poverty) live in rural areas (92 per cent or some 71 million people). The incidence of poverty is particularly high in Balochistan and the Federally Administered Tribal Areas (FATA), where over 70 per cent of the population is estimated to live in poverty (Chart 2.1, upper panel). However, 66 per cent of Pakistan's poor people live in Punjab and Sindh, and there are districts in both of these provinces where over 60 per cent of the population is classified as living in poverty (Chart 2.1, lower panel).

Recent estimates have suggested that just over half of the population of Pakistan was vulnerable to income poverty in 2016. Importantly, 34 per cent of the population that was above the poverty line was considered to be vulnerable to falling into poverty (Social Policy and Development Centre 2016). This suggests that there are significant risks to the sustainability of recent reductions in

⁵ According to the CIA World Factbook, in 2016 military spending amounted to 3.6 per cent of Pakistan's GDP (CIA, 2018), slightly more than the share of GDP (3.5 per cent) represented by government spending on health and education

poverty. Recent reductions in overseas remittances may place some households at particular risk.

2.1 Multi-dimensional poverty in Pakistan



Data source: UNDP, 2016, Report on Multi-dimensional poverty in Pakistan

Why has growth been so poor, and non-inclusive?

Pakistan's poor growth performance is not due to lack of opportunity as indicated by Pakistan's:

- proximity to two of the largest and most rapidly growing economies in the world, China and India, which should in principle provide many opportunities for integration-led growth. Pakistan has good and expanding sea access to international markets that would also make an export led expansion logistically feasible;
- rapidly growing, young labour force which ought to provide opportunities for both labour and skill-intensive economic expansion;
- large inflow of remittances which should provide an easily used resource to finance investment;
- large informal sector which indicates a strong entrepreneurial culture that could drive investment and growth;
- potential for significant productivity improvements in agriculture to increase rural incomes and savings;
- availability of technically simple (if politically daunting) structural reforms to unleash the country's entrepreneurial capabilities;
- large diaspora with excellent connections to the world's largest and most sophisticated economies, world class skills and access to finance;
- potential created by the massive investment in infrastructure under the China-Pakistan Economic Corridor program (see box 2.2); and
- unexploited natural resources (for example, hydrocarbons, minerals and hydropower potential), land and water that could be much more efficiently utilised.

2.2 The China-Pakistan Economic Corridor Program

The China-Pakistan Economic Corridor (CPEC) is an ambitious (\$62 billion at last count) collection of infrastructure projects aimed at modernising Pakistan's infrastructure and providing China with a direct transport and shipping link into the Indian Ocean. CPEC is part of China's larger Belt and Road Initiative.

- CPEC includes large scale investments (by private as well as state entities) in road, rail and port infrastructure, as well as electricity generation and gas transmission. Investments in the Gwadar port, the Western Alignment part of the road network, and selected power generation plants could have significant impacts on connectivity for Balochistan, Khyber Pakhtunkwa and Gilgit-Baltistan provinces where the Australian aid program is currently working. Construction is reported to be having an effect on the local economies, and the new generation capacity installed as a result of the Corridor is already bridging Pakistan's energy generation gap.
- At the same time, concerns have been expressed about the impact on Pakistan's external debt position, given how the projects are being financed. And there have been concerns raised about which parts of the community will see real benefits from the investments, and their impact on local insecurity.

Why then has Pakistan's inclusive growth performance been so patchy?

Pakistan's growth since the early 1980s has been driven mainly by increases in employment of labour and capital accumulation, rather than productivity growth. In more recent times, the contribution of capital has fallen because of a dramatic fall in the country's rate of investment⁶.

There has been limited re-allocation of labour from lower to higher productivity uses, and productivity growth in agriculture, which accounts for over 40 per cent of the Pakistan workforce, and on which most of the poor depend for livelihoods, has been particularly slow⁷. Labour skills are low – about 40 per cent of workers have no education, and an exceptionally high proportion (just under three quarters) of non-agricultural jobs are informal.

⁶ The ratio of investment to GDP has averaged around 15 per cent in recent years, compared to 31 per cent in the 1960s (World Bank 2013)

⁷ Agricultural output grew at a trend rate of only 2.6 per cent a year in the 15 years to 2016, whereas industrial and services output grew at 4.7 and 5.0 per cent respectively.

Pakistan has not benefitted from increased integration into the global economy the way that rapidly growing countries throughout Asia have. The ratio of exports and imports to GDP (at around 34 per cent) is low by Asian and world standards, and foreign financing inflows have been quite small and volatile.

Such growth as Pakistan has experienced has been associated with a significant reduction in income poverty, but it has not been translated into inclusive improvements in wellbeing. The delivery of public goods and services that would benefit the poor (such as health and education spending) receives limited funding. (This is due in part to the dysfunctionality of Pakistan's tax system (as a result of which the government appropriates a very low share of national income), and also to the skewing of the resulting levels of public spending towards public sector wages, defence and debt service.) In addition, some of the subsidies funded out of the budget (for example for electricity, fertiliser and fuel) are poorly targeted, or have served their purpose and should be rolled back (for example, the wheat subsidy). Food and income insecurity are major problems facing a large proportion of the population.

Looking further into the causes of poor performance

There are many factors which have contributed to Pakistan's relatively poor inclusive growth performance. Some of these are proximate causes – low levels of investment and innovation are invariably a cause of low growth, and prevailing social norms and attitudes may explain why women's economic participation is so low. But behind these proximate determinants are underlying factors that shape:

- willingness to invest and the incentives that influence choices about types of investment (sectoral and technological choices, physical and human capital) that people and firms are prepared to undertake;
- the availability of savings to finance investment, and the performance of markets that intermediate between savers and investors;
- the willingness of firms to expand employment, and of informal enterprises to expand their operations and use non-family labour; and
- the limited reach and reliability of market enabling institutions that help protect property rights, underpin commercial exchange and contracting, and promote competition.

In turn, there are more specific causal factors that lie in:

- the interface between the public and private sectors in Pakistan (policies and their implementation, and the delivery of public goods and services);
- the political economy of the way the public sector works – including the role and extent of corruption, as well as the way that political and economic elites work to open or close opportunities for the poor and those with few connections; and
- the formal and informal ‘rules of the game’ that relate to people’s beliefs and worldviews and affect willingness to engage in economic exchange across gender, religious, ethnicity and class boundaries.

Figure 3.1 identifies some of these main proximate and underlying causes. Some of those that are most pertinent to consideration of Australian aid are discussed in a little more detail below.

Policies, regulation and institutional services affecting investment

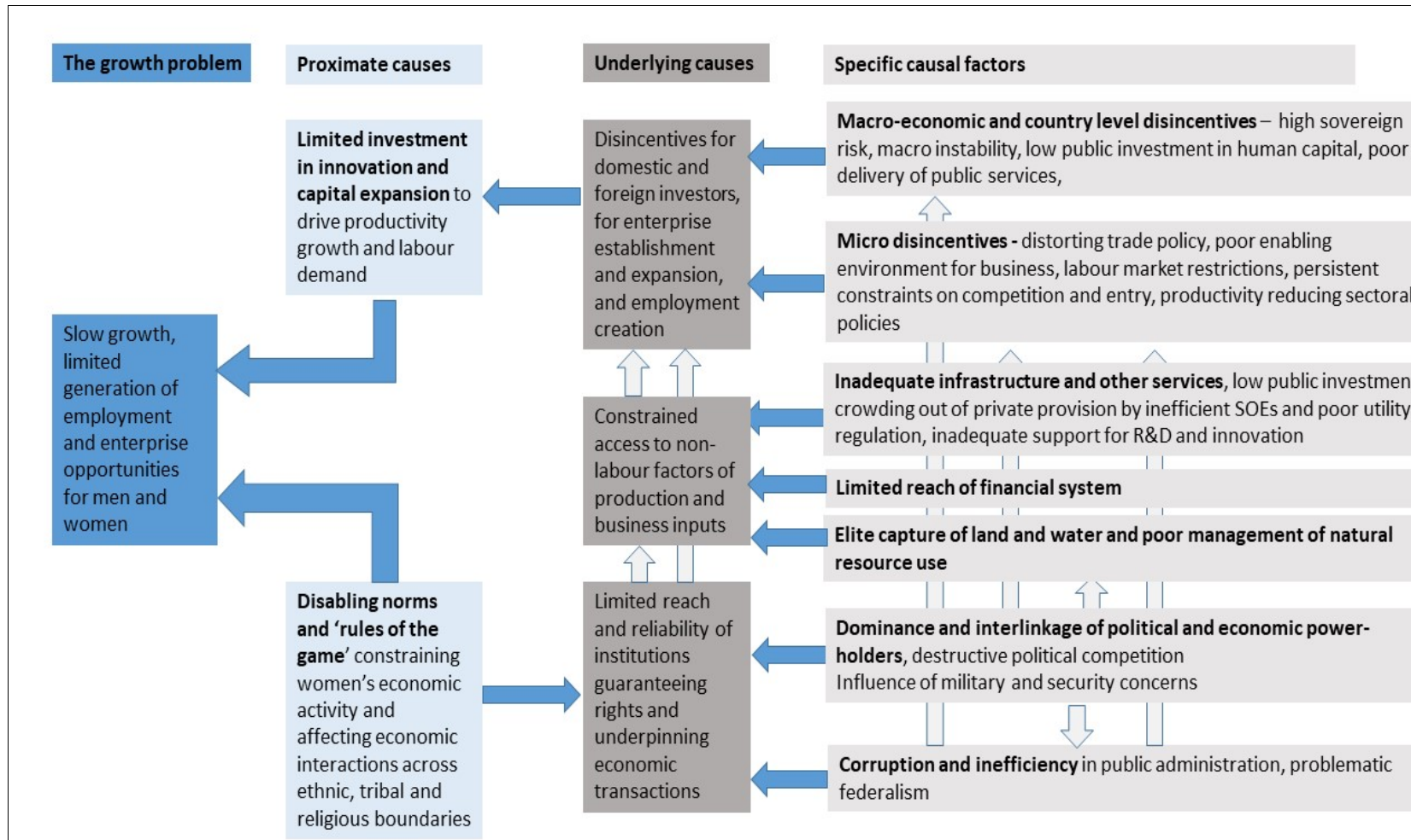
Pakistan’s low rates of private investment (from domestic and foreign sources) have been caused in part by perceptions of country risk – security and law and order issues and the effects of internal displacement, and macroeconomic instability resulting from poor fiscal and monetary management. It also reflects the problems of poor infrastructure, and concerns about the appropriability of the returns from investment. This can be linked to concerns over the quality of business and sectoral regulation, and lack of confidence in institutional arrangements that support and protect market transactions and contracting. Investors are concerned about the formal legal and judicial underpinnings of market systems, their limited reach across the country and the limited protection they effectively afford to private property⁸.

Diagnostic work undertaken by the World Bank and the Government of Pakistan has pointed to five areas of policy and public service delivery that are particularly problematic in their effect on inclusive growth (World Bank 2013). These are policies towards trade, infrastructure, agriculture and natural resources, macroeconomic management and the financial sector.

-
- ⁸ One indicator of this is Pakistan’s very low ranking in the World Bank’s measures of Doing Business (147 out of 190 countries in 2018), with particularly poor ratings on trading across borders, paying taxes and registering property. While these measures do not capture the full reality of the enabling environment (especially for the informal sector), such a low ranking is indicative of significant problems.

- **Trade policy.** Pakistan's trade policies exhibit a very strong anti-export bias. Taxes and controls on import of goods provide very high levels of protection for some import-competing activities (for example production of vegetable oils and fats, dairy, beverages and tobacco products, leather products, clothing and textiles, motor vehicles), and services imports are highly restricted in some sectors.
 - There is a high degree of selectivity and discretion exercised in the way in which the trade system responds to pressures from vested interests. In some sectors, protection from competition is compounded by other policies such as price controls, subsidies and access to inputs that create complex incentives and maintain and distribute economic rents. (Reis and Taglioni, 2013, WTO, 2015)

2.1 Pakistan's inclusive growth problem and its causes



- **Infrastructure policy.** Pakistan's infrastructure policies have led to inadequate and unreliable provision of infrastructure services, especially energy, transport infrastructure, and urban services. Government policies towards the state-owned enterprises (and their governance) that deliver services restricts them from achieving commercial viability, and also constrain entry from potential private suppliers.
 - Unreliable power has been a major brake on enterprise performance and competitiveness, and poor connectivity is a significant impediment to rural development and income growth outside of the Punjab-Sindh heartland (Walker et al, 2013). Investments being made under the CPEC program are helping to address energy generation issues and transport infrastructure issues, but how far it will go towards solving access issues for the poor and marginalised is not yet clear.
- **Agricultural and resource management policy.** Developments in agriculture are affected by resource capture and monopolization combined with inhibiting policies that trap many rural people in long term poverty. These include:
 - Concentrated land-ownership, combined with inequitable and highly inefficient allocation of water, and the unequal share-farming, land leasing and bonded labour structures that these sector characteristics enable.
 - Counter-productive policies such as government procurement and price-setting, trade restrictions and input subsidisation on the four main cash crops (wheat, rice, sugar and cotton). 'Pakistan has an extraordinarily complex, opaque and discretionary and continually adjusted trade regime, in addition to direct interventions by parastatals in procurement and sales price determination for the major crops' (Valdes, 2013). This leads to highly variable net effects on incentives for producers. Sometimes the net effect is to subsidise, and at other times to tax, production.
 - Declining public investment in agricultural R&D and the systems for disseminating the results of research.
 - Poor connectivity between rural areas and urban markets.

The management of natural resources, especially water, also poses enormous challenges of sustainability and equity. As the State Bank of Pakistan's annual report for 2017 points out, water supplies are vulnerable and suffer from extensive losses, and stress on water resource is high, and going to worsen. The report also points out that transboundary disputes are intensifying river supply vulnerability and outdated distribution systems result in low productivity and inequitable distribution of water. In addition, groundwater

resources are depleting rapidly due to over-pumping and extremely low water tariffs are distorting incentives for water conservation and causing low aquifer recovery rates. On top of this, waste discharge into drains and rivers has resulted in deteriorating water quality.

- **Macroeconomic management.** Pakistan is also considered to be at continued risk of macro-economic instability, in part because of the impact of the electoral cycle on fiscal discipline, and the ongoing challenges to public finances caused by unresolved problems in the state enterprise sector, deterioration in the external account, and high levels of short term public debt (World Bank, 2017).
- **Financial sector policies.** Pakistan's financial sector, while quite sophisticated, is not reaching its potential with respect to financing private investment and servicing households. This is partly because of crowding out by borrowing by government, but also because households appear to prefer to hold their savings outside of the financial sector – less than 50 per cent of national savings finds its way into the financial sector, and some 100 million Pakistanis are unbanked. Micro, small and medium size enterprises account for only 7 per cent of the banking sector's loans to the private sector (World Bank, 2017).

These policy problems are manifestations of deeper problems in the institutions of governance. A recent paper by a former Governor of the State Bank of Pakistan has laid the blame for Pakistan's poor record of inclusive growth on the decline of civilian institutions.

...every single crisis faced by the country – including low tax mobilization, energy shortages, a lack of law and order, losses of public sector enterprises, poor delivery of education and health services, and stagnating trade – can be traced back to governance deficits and institutional weaknesses. (Husain, 2018)

The paper rebuts popular arguments that blame factors such as the rise of extremism and terror, the debilitating effect of generous foreign assistance and western support for military dictators, global economic conditions, and the 'garrison state' syndrome resulting from rivalry with India. It argues that state capture and the rigging of markets to favour a narrow elite and the associated decline or under-development of compensating state and civil society institutions have been the key underlying causes of poor economic performance.

Disabling norms and 'rules of the game', and limited reach of market enabling institutions

If Pakistan's market system does not work well, sustainable growth will be very hard to achieve. But markets depend very much on the presence of formal or informal institutions or 'rules of the game'. These 'rules of the game' are needed to address problems of trust and information, to make it possible to make transactions and contracts that span family, tribal, ethnic, religious and geographic boundaries, and that can operate over time. Without these rules, the scope for economic activity is limited, and investment will be constrained. And if the prevailing norms do not allow for economic participation of all people, regardless of gender and age, growth will not be inclusive, nor will it make best use of the nation's human resources.

In Pakistan, one legacy of internal and external conflict and violent extremism is the limitation of trust. Also, the formal legal and judicial system that supports contracting and property rights that has evolved from colonial days has very limited reach throughout the country. This means that the transaction costs of doing business outside of family links are high: people have to go to considerable lengths to address problems of agency and contract enforcement and to protect their rights to property and the proceeds of economic activity. Perceptions of inefficiency and corruption in the organs of the state compound the lack of reach of the formal system.

Further, customary norms, as expressed in attitudes towards gender and the roles of men and women, create a strong disincentive for women (especially rural women and women from lower socio-economic backgrounds) to engage in economic activity outside of the home or village.

Implications for Australian aid

The foregoing discussion has demonstrated that the constraints to sustainable inclusive growth in Pakistan are formidable. It also makes apparent that Australia's aid program has been targeting important constraints, or some of their more obvious consequences.

Many of the constraints manifest themselves in problems of government policy and its implementation, and in the institutions of governance. But these problems are not obviously amenable to technocratic solutions – nor would conventional donor programs addressing economic governance be useful or welcome. The

experience of other donors indicates that it is difficult to get traction working on many policy and institutional issues at the Federal level, although there are more opportunities to work with provincial authorities⁹.

Australia has entry points into some key policy areas – particularly water and agriculture – that reflect perceptions in Pakistan of Australia’s expertise being of international repute and of relevance to the local circumstances. With other policy and institutional areas where Australia supports partners in different parts of the world – such as public finance, central bank management, state enterprise and regulatory reform, and competition policy – similar entry points do not seem to be available. (However, through the institutional arrangements set up for consultation on trade and investment issues, the Australia and Pakistan Joint Trade Committee, there may be a point of entry for Australian support on trade policy reform.)

As it crafts a relatively small aid portfolio focused on sustainable and inclusive growth, and looks to focus on the most important relationships and policy engagement (as recommended in the Aid Health Check), DFAT has to work through some important questions. (Sections 3 and 4 of this report present the evaluation’s thinking on and suggestions for dealing with these questions.)

To which elements of Australia’s strategic agenda in Pakistan does it make most sense to target the overall aid program, and in turn a growth portfolio?

As discussed in section 1, Australia’s interests in Pakistan reflect the country’s size, economic potential and strategic position in South Asia. For some time, Pakistan’s potential to influence regional security dynamics and its proximity to key Indo-Pacific lines of communication have been strong influences on Australian engagement. These influences would be strengthened by consideration of the economic and strategic implications of the growing relationship between Pakistan and China, as exemplified by CPEC.

At this point in time, it seems reasonable to conclude that the articulation of strategic objectives for the program that was made after the 2016-17 review is still relevant, and that the relationship between economic growth, stability, resilience and inclusion provides the most cogent rationale to guide structuring the portfolio.

⁹. Observations made in mission meetings with representatives of USAID, and the World Bank.

How should the trade-offs between seeking impact and managing portfolio risks be addressed?

The pursuit of impact might suggest, for example, having a geographical concentration of effort, and concentrating on a narrow subset of growth and inclusivity constraints with a limited number of partners, as opposed to having some diversity to enable the program to be able to respond to changing circumstances and cope with temporary dead-ends.

Addressing this trade-off would need also to take into account the implications for DFAT and the management load that alternative approaches would bring in their wake. The choice of partners, and the use of flexible modalities, will also offer ways to address risks of concentration. These issues are discussed in more detail in sections 3 and 4.

Should the portfolio aim to address underlying structural and systemic issues, or work with the poor and excluded directly to ameliorate their consequences?

This report suggests that the portfolio should contain a mix of activities: some working on policy and systemic issues, and others working directly with poor and excluded people to improve their livelihoods, incomes and agency (see section 4).

Choosing activities across the spectrum of working on policy and system reform or direct engagement with selected poor or excluded people may also involve choosing between longer term and more immediate impacts. Direct engagement may bring about more immediate and identifiable benefits, and may be matched with work to address localised systemic or normative impediments. In contrast, changes brought about by working on policy or systemic reform may be some distance, in terms of market change and time taken to generate effects, from delivering benefits to the poor and excluded. Activities that work on policy and system change may also have to make initial, heavy investments in analysis and diagnostic work, encounter false starts and drill dry wells, as well as establish credibility with stakeholders before they can push for serious change.

How should DFAT use the aid program to support policy dialogue?

Dialogue can draw on lessons and understanding emerging from both types of activity, but some current activities are better equipped and designed to support dialogue than others. DFAT will have to determine how to make best use of

programs as instruments to inform dialogue and learning (internally and with partners in Pakistan). This in turn will involve identifying DFAT's role and approach to dialogue across the different issues the portfolio encounters.

For some issues and activities DFAT can act as a broker, identifying relevant expertise and where to source it, and finding/creating entry points into the policy discussion. Existing EGP activities, such as SDIP, provide examples of how this approach can work, where program partners carry out the policy dialogue on Australia's behalf. Activities such as MDF are able to support business-led dialogue on policy issues that has a limited 'Australian' identification.

DFAT can also act as a conduit, where it has the expertise and time to build an understanding of the issues and a capacity to convey arguments to relevant counterparts. Under such an approach, DFAT could use the entry that it has into policy circles to urge for consideration of policy suggestions arising from the work of the aid program. An example might be if DFAT were to take up at the Ministerial level policy problems that aid programs have identified as constraining sustainable and inclusive growth.

There may also be situations where DFAT determines where Australia's interest requires development policy dialogue to be carried out at Government to Government level, and draws on inputs from or the work of aid program engagements to support this dialogue.

Whichever approach, or mix of approaches, that is adopted, DFAT will have to explicitly consider how best to support and resource policy dialogue – within investments and across the whole portfolio.

The constraints to sustainable and inclusive growth in Pakistan are complex, pervasive and deeply rooted in the country's political economy. In many cases, the underlying causes of the growth challenge are related to causes of disaffection and the instability that is a key reason for Australia's engagement in Pakistan.

Australia has entry points to work in areas where some of the strongest constraints - or their manifestations - are impacting on exclusion and poverty, and it makes sense to take full advantage of this, recognising that engagement might require a number of complementary approaches to mitigate these constraints or ameliorate their effects in selected areas.

3 The current economic growth portfolio

This section presents an assessment of the economic growth portfolio as it is currently configured, focusing on issues that can inform choices about how Australia's aid program can be targeted at inclusive and sustainable growth in the next Aid Investment Plan.

It starts with a discussion of the overall aid program's growth related objective, and then assesses the portfolio against the criteria discussed in section 1, namely: alignment; targeting; coherence, complementarities and synergies; policy dialogue and strategic engagement; manageability and influence over portfolio directions; leverage and value addition; gender; results and value for money; and whole-of-aid contributions. (This draws on assessments of activities against the Aid Quality Check criteria of relevance, effectiveness, efficiency, gender equality, monitoring and evaluation, and sustainability.)

The assessment considers how the portfolio complies with the four tests of Australian aid articulated in the 2017 Foreign Policy White Paper, and how it contributes to the pursuit of Australia's broader interests shaping DFAT's engagement in Pakistan.

The growth objective

As table 1.1 in section 1 indicates, the key objective for the portfolio has been:

- Strategic objective 1: **Generating sustainable and inclusive growth and employment** through improved agricultural and market development, increased trade and investment, and water resources management

The two outcomes currently¹⁰ specified for this objective are:

1. Selected value chains are more inclusive.
2. Governments, enterprises and smallholders are adopting evidence-based agriculture, water and trade policy reforms as a result of Australian investments.

¹⁰ The outcome areas for the portfolio have changed over the life of the current AIP – see annex D

While these specifications provide some idea of what broad areas the aid program might work in, they are quite generic, and give little idea of what aspects of the three broad domains of agricultural and market development, trade and investment and water resources management it would focus on. Nor do they provide a ‘human face’ – that is, make clear in what ways the program would impact on people, and what groups of people might be expected to benefit. In addition, the outcomes envisaged (inclusive value chains and policy reforms) reflect a limited vision of what might be achieved over the life of the AIP.

The expression ‘generating sustainable and inclusive growth and employment’ is a useful shorthand, and links back to the aspirations for Australian aid expressed in various DFAT publications and the recent White Paper on Foreign Policy (DFAT, 2017c). However, it would probably have been more meaningful to articulate the objective in terms of improvements in incomes, employment and economic well-being of the relevant class of people – poor and excluded men and women – since this would provide greater clarity about what the portfolio’s investments are trying to bring about. (Especially since given the scale of the portfolio, it is unlikely that any of its investments would bring about changes that would be visible in national growth statistics.)

Portfolio assessment

Alignment

Is the aid delivered by the portfolio in Australia’s and Pakistan’s national interest?

While Australia has commercial and trade interests in Pakistan, the more compelling foreign policy reason for providing aid to the country is in the expectation that it will contribute to the country’s inclusion and stability. This reflects Australia’s broader geo-strategic interests in South Asia and the broader Indo-Pacific region. The engagement with sustainable and inclusive growth is predicated on a belief that a more inclusive and prosperous Pakistan will be less vulnerable to the causes and manifestations of instability and insecurity.

There are some important assumptions about the causes of instability in Pakistan that underlie this belief, and it has to be acknowledged that improved livelihoods for the poor and excluded may be far from a sufficient condition for improvements in overall determinants of stability. The factors that threaten Pakistan’s stability are complex and long-standing, and include disaffection with

the institutions of the state, and with monopolization of political and economic power and capture of resources by established elites. Along with deep-seated tribal, religious and ethnic intolerances these factors may not be quickly attenuated by improved economic opportunities and higher incomes.

Nevertheless, the evidence of work in fragile states indicates that support for multi-sectoral community empowerment, private sector employment, improved value chains, women's economic empowerment and informal sector transition all have a place in strategies to address endemic violence and instability (World Bank, 2011).

The portfolio offers DFAT a substantial platform to inform and support its broader engagement in Pakistan. The portfolio provides access to influential segments of the private sector, selected policy ministries at the national and provincial level, and other partners with strategic interests in the country.

At the time of writing this report, the Pakistan team was developing a new Economic Diplomacy Strategy for Pakistan. The 2015 Economic Diplomacy Strategy identified four medium term goals:

1. increasing engagement on the trade relationship including increased engagement with the World Trade Organization, the Cairns group and similar fora;
2. generating inclusive economic growth and economic reform, including greater participation of women in Pakistan's economy;
3. encouraging private sector growth in Pakistan, by encouraging Australian private investment in education, milk and meat production and the resources sector; and
4. strengthening links between economic portfolios and increasing business engagement, through high level visit and business delegations.

Clearly the economic growth portfolio and the Economic Diplomacy Strategy have considerable areas of alignment.

The portfolio also aligns with the Government of Pakistan's own strategy for the country's development. The most recent articulation of a strategic vision, Vision 2025, identifies peace, security and political stability as key enablers of the country's development, and nominates sustained inclusive growth as a key pillar of its strategy (Box 3.1).

The economic growth portfolio's objective is clearly well aligned with these national priorities, particularly those associated with pillars dealing with sustained, indigenous and inclusive growth, energy, water and food security and private sector and entrepreneurship led growth. And the current investments of the portfolio are dealing with issues identified in the strategy: SDIP is working on energy and water (pillar 3); MDF on private sector led growth (pillar 5), AusABBA and WEEMD on inclusive indigenous growth (pillar 2) as well as developing human and social capital (pillar 1); PTIPP on regional connectivity (pillar 7); and AVCCR, SMART Punjab on water and food security.

3.1 Government of Pakistan's development strategy - Vision 2025

In 2014, the Government of Pakistan approved Vision 2025 – a development strategy for the period to 2025.

The strategy is built on 7 pillars:

- Putting people first – developing human and social capital
- Achieving sustained, indigenous and inclusive growth
- Governance, institutional reform and modernisation of the public sector
- Energy, water and food security
- Private sector & entrepreneurship led growth
- Developing a competitive knowledge economy through value addition
- Modernising transportation infrastructure and greater regional connectivity

The strategy identifies 5 key enablers: a shared vision, political stability and policy continuity, peace and security, rule of law, and social justice.

Targets are specified for each of the pillars – for example under the growth pillar, the vision aims for Pakistan to become one of the world's largest 25 economies with upper middle income status, reducing poverty by half, increasing foreign direct investment to US\$15 billion, and increasing the tax to GDP ratio from 9.8 to 18 per cent. And under the human and social capital pillar, the aim is to improve the primary and secondary gender parity index to 1, and increase the female workforce participation rate to 45 per cent

Source: (Planning Commission, 2014)

The alignment with DFAT's broader agenda in Pakistan is quite strong. What is not so clear, however, is how effectively DFAT works as 'one team' and makes optimal use of the resource provided by the aid program generally and the growth portfolio specifically. This evaluation concludes that much more use could be made of the portfolio, and that DFAT could better support the portfolio in its broader engagement in Pakistan – see section 4.

Targeting

The second test of Australian aid asks if it will promote inclusive growth and reduce poverty. This is to some degree a question of whether the theory underpinning aid clearly identifies factors likely to facilitate inclusive growth and poverty reduction, and if investments are well-informed by and consistent with that theory. It is also a question of scale and resourcing: are the investments of a scale large enough to deliver results, or alternatively has an appropriately scaled subset of factors or elements of the economic system been chosen for the portfolio to work on, given available resources.

One way to examine the targeting of the portfolio is to ask if it is working in sectors, locations or systems that are of greatest significance to the well-being of the poor. In this regard:

- The program is working in rural Pakistan, where most poor people live, and is working on the livelihoods and value chains most relevant to the poor. It has had a specific focus on rural communities in Balochistan and Khyber Pakhtunkhwa, which have a high incidence of multi-dimensional poverty.
- It has a strong emphasis on gender and women's economic empowerment.
- Its policy work is focused on factor and product markets where some of the most significant impediments to inclusive rural development are located – particularly water.

Another way to examine the targeting of the portfolio's investments is to ask if they are addressing the causes of poor inclusive growth performance identified in section 2. Table 3.2 presents a very simplified mapping of the current portfolio activities to the causal factors identified in section 2. From this we see:

- The portfolio is working in selected areas across nearly all classes of causal factor. There is a strong focus on microeconomic disincentives affecting rural

and agricultural development and to a lesser extent natural resource management. In some cases, such as PTIPP (trade policy), SMART (provincial agricultural subsidies, regulation and crop procurement) and SDIP (surface and groundwater management), the portfolio is working directly to address economy-wide or province-wide policy and institutional issues, while MDF works on market dysfunctionalities as they affect the engagement areas in which it works (currently horticulture, dairy and beef, and leather products, where the facility works with the private sector to address market connectivity, value chain improvement, and access to services for poor smallholders).

- Other investments, such as AVCCR, AusABBA, BCI and PPISS, and the MDF managed partnership with Telenor, focus on mitigating or compensating for public service delivery failures (in particular, with respect to agricultural research and extension, and access to technical training) as they manifest themselves in particular locations or sectors, by substituting for state delivery or finding market-based solutions.
- SDIP and SMART Punjab are both working to address elite capture of water resources, by building the institutional capacity to inform policy choices, and to improve federal and provincial water management policies and practices.
- A number of programs (SRSP WEEMD and AusABBA) are also involved in strengthening community institutions, working to address some of the severe power imbalances in parts of rural Pakistan.
- PTIPP's work on cross-border processing of imports and exports is aimed at improving efficiency at key border posts, and reducing opportunities for corruption, and SMART Punjab aims to improve implementation of provincial agricultural policy.
- MDF, WEEMD, AVCCR and AusABBA are all addressing norms and 'rules of the game' that constrain women's agency, economic empowerment, access to formal employment and voice in family and community decision-making.

3.2 The economic growth portfolio's engagement with causal factors inhibiting sustainable inclusive growth

<i>Causal factors</i>	<i>Portfolio activity</i>	<i>Issues addressed</i>
Macro-economic and country level disincentives	-	-
Micro disincentives	SDIP	Management of water resources to better reflect scarcity value
	PTIPP	Trade policy reform
	SMART Punjab	Provincial agricultural price and subsidy policy reform
	MDF	Market dysfunctionalities
	AVCCR	Commodity policy reform
	AusABBA	Provincial agriculture policy implementation
Inadequate infrastructure and other services	SDIP	Private sector electricity supply, improved knowledge base for irrigation sector reform
	AVCCR	Multi-disciplinary agricultural research and adoption, weakness in extension services
	MDF, AusABBA, BCI, PPIS, IXC Telenor	Market-based dissemination of improved agricultural and resource management practices
	WEEMD	Community-led water, energy infrastructure
Limited reach of financial system	MDF	Smallholders' and women's access to finance
	WEEMD	Women's access to finance
Elite capture of land and water and poor management of natural resources	SDIP	Knowledge base for better water management
	SMART Punjab	Provincial water resource management
	AusABBA	Local water resource management
Dominance and interlinkage of political and economic power-holders	WEEMD and AusABBA	Community mobilization and empowerment
Corruption and inefficiency	PTIPP	Border processing
	SMART Punjab	Agricultural policy implementation
Disabling norms and 'rules of the game'	MDF	Barriers to women's formal sector employment
	WEEMD	Women's voice in family and community decision making
	AVCCR	Women's engagement and agency on agriculture
	AusABBA	Women's economic engagement

Note: investments presented in bold have a significant focus on the causal factor presented in the first column. For other investments, the interaction with the factor is less central to the aims of the investment.

In addition, it is important to recognise that other parts of Australia's aid program are directly addressing some of the issues identified in section 3. Activities in the stabilisation and resilience portfolio are working in selected border areas that are at risk of violent extremism, insurgency and internal conflict. As such these are acting directly on some of the factors that affect investment risk across the whole country as well as locally.

Overlaps and gaps

The diagnostics presented in section 2 indicate that there are many issues that a sustainable and inclusive growth portfolio *could* try to address: but given the limited resources available to the program, and the intractability of some of the issues in the current climate, it is difficult to suggest that the program should do more. The issue is more one of whether there is sufficient effort being made to achieve results in the areas that are being worked on, and whether the program can be assured that if there are other pre-requisite changes needed to achieve effects, these are being addressed by some other part of the Australian engagement or by some other institution or partner, or need follow up investments. This may well be an issue with respect to the *sustainability* and *impact* of changes that Australian investments are bringing about. Possible examples include:

- the gains in women's economic empowerment brought about by investments such as MDF (see below) may need complementary work at the community level to alleviate negative reactions because traditional norms and behaviours are being challenged; or
- the work by SDIP to improve the technical, analytical and information base for water management within public institutions may need to be complemented by further efforts directed at community attitudes and addressing the social and political economy dimensions of change; or
- the work of PTIPP in assisting in the formulation of a new Strategic Trade Policy Framework will need to be followed up with support for implementation and ongoing refinement of the framework and its component parts.

There is potential for overlap with other partner programs – for example, a number of donors are working on livelihoods in border areas and disadvantaged parts of the Punjab and Sindh. To date, DFAT has been able to avoid significant overlap by its choice of *locations* where it works – an example being AusABBA's work in Balochistan, which has complemented USAID work in the northern -

mainly Pashtun - districts with activities specifically focused on the more marginalised Baloch districts. Similarly, in the policy space, the portfolio has partnered with other donors (such as the World Bank) to work on key policy issues.

The program is targeting important issues affecting achievement of sustainable inclusive growth in Pakistan, and districts with significant poverty and exclusion. There are different things that, with more resources, the program could do, including working in more locations and working on other growth impediments. But context-specific knowledge is as important as it is hard-won, and it makes sense for the portfolio to build on this knowledge rather than to take a substantially different approach to targeting at this point in time.

Coherence, complementarity and synergies

Within the aid program

Although they were not formally adopted, the economic growth strategies (AEGIS and its predecessor APARDS) developed at the beginning of the current AIP have clearly shaped decisions about the structure of the portfolio.

These strategies identified critical constraints to agricultural and rural development in Pakistan, built on analytical work and consultation undertaken in the preceding period, presented guiding principles for Australian support, proposed goals and objectives, and laid out a framework for performance monitoring and evaluation.

The strategies also emphasised the importance of collaborative partnerships and the pursuit of complementarities across investments, including a team approach encompassing the activities of DFAT, ACIAR and AusTrade.

Considerable efforts have been made to foster collaboration across the portfolio. These include:

- retaining under a long standing contract the services of a rural development expert charged with helping the Post to review activity progress, assess achievements, enhance synergies and advise on the evolution of the portfolio
 - This expert played a significant role in the development of AEGIS and APARDS, and in convening and promoting efforts to foster linkages across the portfolio;

- convening annual meetings of the major portfolio partners to share experience, identify potential for collaboration, and report on the progress of such collaboration (again this was done with considerable support from the rural development expert);
- identifying one investment, MDF, with country presence and program scope, to take a leading role in seeking synergies; and
- resourcing other investments (particularly AVCCR) with the capability to seek out and act on opportunities for collaboration with other activities.

Box 3.3 presents some examples of collaboration across the portfolio.

3.3 Collaboration and synergies across the portfolio

An important feature of the economic growth portfolio has been the effort made to encourage collaboration and pursuit of synergies across the different investments. Examples of successful collaboration, which have facilitated progress towards the growth objective of the current AIP, include:

- MDF has an MoU with FAO and the collaboration now includes business advisor co-located in the AusABBA office in Quetta, Balochistan, as well as multiple joint investments including a scoping study in the wool sector, and work on onion marketing and dates.
- AVCCR assisted MDF in developing a training program for women dairy producers for one of its partners, Fauji Foods.
- MDF provided training to AusABBA and AVCCR teams on market systems development approaches and their application in work on value chains.
- AusABBA has introduced MDF to promising private sector partners in Balochistan.
- MDF, AusABBA and AVCCR are actively planning collaboration in horticulture, encompassing, for example, collaborative sub-sector mapping, and sharing studies to develop a combined agenda.

Complementarity with the work of other donors

Annex C presents a mapping of current donor activity. The United States, the European Union and the World Bank all have – or plan to have – significant operations in the three domains in the EGP objective. Overall, Australia is the sixth largest bilateral donor to Pakistan, but its contribution is much smaller than

that of more traditional partners such as the United Kingdom, the United States, Japan and Germany¹¹. In recent years, China has become a dominant source of development finance under the China Pakistan Economic Corridor Program, which is financing large investment in the transport sector - ports, roads, and railways - and in energy (mainly generation).

There are no formal arrangements for donor coordination in the economic growth sphere, but DFAT maintains reasonably effective and cordial relations with the major traditional donors and - to a lesser degree - the multi-lateral institutions. Because the context is so challenging, and the ability of aid to influence change in key policy areas is so limited, there is a willingness to share experience and explore synergies (especially in delivery) across donor partners.

The program has demonstrated a high degree of coherence, due in part to the prior preparation of a clear portfolio strategy, and is successfully pursuing collaboration across investments and with other development partner programs.

Policy dialogue and strategic engagement

As chart 2.2 indicates, many of the factors constraining sustainable inclusive growth in Pakistan lie in the domain of policy and institutional performance. It is therefore important to ask to what extent the portfolio interacts with these policy and institutional issues. In addition, it is important to ask how well the portfolio supports DFAT's - and through DFAT, Australia's - engagement on issues of policy concern, and the contribution that can be made to fostering pro-inclusive growth reform.

Across the portfolio, four of the nine investments have *directly* worked on policy issues:

- SDIP - water management policy - national and provincial
 - This includes work to support evidence based policy formulation, and advocacy work to shed light on the vexed political economy challenges of water reform. It has also involved efforts to bring explicit consideration of gender issues into the analysis, formulation and implementation of water policies (see later in this section);
- SMART Punjab - provincial agricultural policies;
- PTIPP - trade, trade facilitation and tourism policy; and

¹¹ It is worth noting that in 2017 Pakistan ranked as the fifth largest recipient of aid after Syria, Ethiopia, Afghanistan and Turkey (World Bank Development Indicators)

- AVCCR – national and provincial agricultural commodity policy

AusABBA has supported the development of agricultural policy in Balochistan. In addition, MDF's business partnerships and work on addressing market system constraints have also enabled the private sector to make cases for policy change.

Box 3.4 presents examples of the policy related work and outcomes that these investments have been associated with.

3.4 EGP and policy

Examples of the portfolio's engagement on policy in Pakistan include:

- **SDIP** has been working with a range of Federal and Provincial government ministries, departments and institutions to develop tools to improve the analytical and information base to address Pakistan's acute water policy challenges. Program partners have advised on institutional arrangements to support water policy reform and its implementation, and worked with Pakistan agencies to support advocacy for reform. The program has high level links with Pakistan's water management agencies, and provides a strong basis for Australian support in this critical area of policy. There are clear links between SDIP and the content of the Government's recently approved water policy.
- Through **PTIPP** the portfolio has supported the development of a draft Strategic Trade Policy Framework and a draft National Tariff Policy, ready for consultation with the new government. PTIPP has also supported implementation of new border processing procedures.
- Using evidence resulting from **MDF's** work in silage for the livestock sector, Alfalah Bank (an MDF partner) was able to persuade the State Bank of Pakistan to introduce more favourable lending terms for capital purchase in the livestock sector.
- The program's support to the World Bank's **SMART Punjab** program is supporting work, inter alia, on wheat procurement and reserves policy, input subsidies, agricultural price and wholesale market regulation,
- **ACIAR** has been doing policy analytical and advocacy work on pulses policy, an area that has the potential to help with better use of water, and help address Pakistan's chronic nutrition problems.
- **AusABBA** assisted in the formulation of the Government of Balochistan's Agriculture Policy, helping with the integration of women's economic empowerment and gender inclusion.

The portfolio is also helping to extend Australian influence and reinforce Australia's reputation for world class capabilities in agricultural research and development, and in developing policies and institutional structures to address challenges of water management. The portfolio is also demonstrating Australia's ability to support innovative and effective efforts to enable the private sector in Pakistan to play a key role in generating inclusive growth – and play an important role in women's economic empowerment.

Through the portfolio, DFAT has the opportunity to broker policy engagement by Australian agencies and experts, and to support work on key policy issues confronting Pakistan. Whether DFAT has been able to take full advantage of this opportunity is not at all clear. The recent Aid Program Health Check has highlighted the need to make changes to enable the Pakistan team to shift its work from managing agreements and investments to focus on policies and partnerships and develop a 'one-team approach' across development, political and economic functions. This could support a conclusion that the portfolio resource has not been fully utilised.

Areas where the potential may not be fully utilised, or where DFAT support to the portfolio's policy engagement might be helpful include:

- PTIPP's work on trade policy might provide useful insights to support DFAT's engagement with the Government of Pakistan on trade matters under the consultation arrangements linked to the bilateral trade and investment agreement between the two countries;
- It might also be useful to organise dialogue with the World Bank on its approaches to trade, industry and agricultural policy reform to bring Australian insights and expertise to bear on the support that the Bank provides to governments in Pakistan. While World Bank projects may have access to considerable expertise, they may still benefit from exposure to Australia's experience of microeconomic policy reform.
- Understandings of the socio-economic drivers of instability arising from the work of AusABBA and WEEMD in border areas might inform DFAT's consideration of the political economy of the country;
- Given the risk that growth oriented reforms proposed by Australian supported activities have counter-productive effects on inclusiveness (particularly with respect to gender), it could be useful to provide continuing opportunities for DFAT's gender expertise to engage in discussions with programs about managing these risks with respect to particular pieces of policy reform and advocacy.

The portfolio has been directly working on critical growth and inclusion policy issues, and providing DFAT with a means to broker policy engagement by Australian and international agencies and experts. It has provided an analytical and entry point resource - perhaps not fully utilised - to support DFAT's own direct analytical and policy engagement work. There could be benefits from DFAT interrogating the policy directions being proposed by investments in the portfolio as part of a quality assessment process.

Manageability and influence over portfolio directions

The 2014 statement of Australia's aid policy emphasised consolidation to enable a stronger focus of efforts and to reduce transaction costs (DFAT, 2014). The significant reduction in the funding available to the Pakistan program that occurred in 2015-16 (40 per cent compared to the previous year when the current AIP was prepared) prompted considerable effort to consolidate the program. This theme has been re-emphasised by the recent Aid Health Check, which has recommended a reduction in the number of partnerships/investments to allow a stronger focus on a narrower set of strategic concerns, noting that the current breadth of the program brings compromises and risks.

How demanding of management resources is the current portfolio? What kind of influence does DFAT have over the directions taken by the investments? Table 3.5 presents an attempt to answer these questions.

As the table suggests, although the portfolio has ten distinct investments, the management demands made by the portfolio have not been excessive.

Over the life of the current AIP, two investments have required management attention because of performance issues.

- AVCCR was rated less than adequate across five of the six performance categories (effectiveness, efficiency, monitoring and evaluation, sustainability and gender equality) assessed in Aid Quality Checks in 2017 and 2018. Disbursements have been way below expectations, primarily because of delays in ACIAR's establishment of the requisite investments. The failure of AVCCR to meet expectations and quality standards led to it being designated as an 'Investment Requiring Improvement' and development of a remediation plan. Negotiating the plan and assisting in its implementation has taken considerable management effort and additional resourcing. Given experience with the previous partnership with ACIAR, some of these difficulties could have been anticipated.

3.5 The portfolio's current modalities, DFAT influence and management load

Activity	Modality	DFAT	
		Influence on investment	Management load
WEEMD	Funder-implementer model, against design developed by implementer. Builds on earlier project with same NGO implementer	Medium	Medium
MDF	Centrally designed, contracted multi-country program, Pakistan activities funded by and responsible to Post	High	Medium
AVCCR	Research for development program co-funded by Pakistan program and ACIAR	Low	High
AusABBA	Funder-implementer, against design developed by implementer. A second stage already agreed	High	Medium
PTIPP	Executed through WB Trust Fund Agreement against a project design and performance framework managed by the Pakistan Program	Low	Medium
SDIP	Funding Pakistan component of a DFAT regionally managed portfolio/partnership approach with consortium of Australian and international research agencies	Medium-high	Medium
SMART Punjab	WB Trust Fund Agreement, funding consultancy and technical inputs to a large loan program	Low-medium	Low
BCI	Business Partnership Platform co-investment DFAT wide program	Low	Low
PPISS	Business Partnership Platform - DFAT wide program	Low	Low
IXC Telenor	Funded by DFAT wide facility, managed by MDF program	Medium	Low

Note: Estimates based on consultations and review of evaluations and AQC reports

- PTIPP was also designated as an 'Investment Requiring Improvement' in 2016 and 2017, with less than satisfactory ratings across 4 of six AQC categories (2017). However, developing a remediation plan did not place a disproportionate administrative burden on the Post. The problems encountered with PTIPP seemed to be part of a broader pattern of challenges in working with the World Bank. However, it appears that communication problems about the nature of the investment, the way that the World Bank planned to manage it, and both parties' expectations caused some of the earlier perceived difficulties.

Box 3.6 discusses some lessons from working with ACIAR and the World Bank.

Across the life of the AIP, considerable effort was made (with contributions from DFAT's Gender Equality Branch), to improve the integration of gender equality into investments. This was an issue across much of the Pakistan program.

3.6 Working with partners - lessons from AVCCR and PTIPP

The two investments that have caused greatest concern, as reflected in AQC's, have been with partners that: have internationally recognised competence in their areas of operation; are well respected by Government of Pakistan institutions and their leaders; and have track records of supporting valuable pro-poor development. Why has DFAT found working with them so difficult?

Both AVCCR and PTIPP were criticised for having inadequate frameworks for incorporating and reporting on gender equality. Given the absolute priority that DFAT has given to gender issues, there is no real excuse for a partner using DFAT resources to fail in providing a clear accounting of how it will address gender. And AVCCR's dilatoriness in making progress in setting up research programs was hard to explain, even given the challenges of operating in Pakistan and in working through ACIAR's rigorous approval processes.

An underlying problem seems to lie in issues of communication, getting a shared understanding of what programs are trying to do, appreciating differences in institutional cultures and imperatives, and effectiveness in aligning expectations.

The mid-term review of AVCCR's predecessor, ASLP II, pointed to problems that the aid program seemed to have with implementing agencies that were not conventional managing contractors. The arrangements with partners like the World Bank and ACIAR are not contracts with a commercial entity or a non-government agency dependent on aid funding to carry out its activities. The mandates of these agencies are not secondary to DFAT's, and they are at the very least equal partners in the joint endeavour. However, DFAT's systems and practices have traditionally been crafted around a principal-agent contract model.

In addition, as the mid-term review points out, DFAT has limited capacity for in-depth engagement with partnerships like AVCCR and PTIPP, especially as compared to the resources deployed by the partners.

Across the whole portfolio, only one investment (AVCCR) has imposed a significant call on management time. Given the nature and focus of its investments, and the modalities employed, the number of activities has not exceeded the Post's management capacity, nor necessarily unduly attenuated its ability to focus on policy issues. However, it is clear that the Post has limited capacity to deal with partnerships where engagement on substance is desirable.

Leverage and value addition

Leverage

The White Paper appears to present the concept of leverage in terms of ability to mobilise or stimulate complementary resource contributions – from partners in the Australian public sector, partner governments and the private sector. While this is one indicator of leverage, a perhaps more important measure for the portfolio is its leverage on *change*. This kind of leverage is not always indicated by the volume of resources involved.

Table 3.7 presents a summary of estimates of the two kinds of leverage achieved by portfolio investments. Examples of change leverage include:

- MDF has leveraged significant changes in the smallholder dairy industry, by partnering with leading agribusiness companies and finance houses to bring productivity and income increasing practices to small scale producers – see box 3.8. MDF has also stimulated significant improvements in opportunities for women's employment in the leather sector – see later in this section.
- SDIP, working with many agencies in Pakistan on water management, has brought about a notable change in the way that information is gathered and analysed in the management of surface and groundwater, and in supporting evidence-based approaches to policy making.
- DFAT's support to SMART Punjab has the potential to leverage significant changes in agricultural policy in Punjab, which could significantly improve the opportunities for small-scale farmers in the province.

3.7 Portfolio leverage by investment

<i>Investment</i>	<i>Resource leverage</i>	<i>Change leverage</i>
WEEMD	Low – community contributions Potential cross-leverage with other SRSP activities	Significant for local communities and Provincial partners
MDF	Medium – private sector co-investments	Medium high on market failures and some policy issues, enhanced by collaboration with other DFAT programs
AVCCR	Unclear - ACIAR was to contribute 30 per cent of total project value, but this has now changed	Potentially medium-high, given low productivity and under-use of women's capabilities in agriculture
AusABBA	Low – community contributions, FAO management functions Potential cross-leverage with other FAO investments	Significant for local communities and Provincial partners
PTIPP	Low – World Bank management	Medium, given intractability of constraints to trade policy reform
SDIP	Medium - partner staff contributions	Potentially medium-high, a function of vexed political economy of water use
SMART Punjab	High – linkage to a large World Bank lending operation	Medium—high, given financial leverage of loan linked to policy change
BCI	High – equal co-contribution from private sector	Low-medium: depends on spillover effects
PPISS	High – equal co-contribution from private sector	Low-medium: depends on spillover effects
IXC Telenor	High – equal co-contribution from private sector	Medium – utilizes resources and staff of MDF

Note: Estimates based on consultations and review of evaluations and AQC reports

Value addition

DFAT's articulation of Australia's approach to aid (DFAT, 2016) does not make clear what is meant by the reference to Australian value addition. For the purposes of this evaluation, the concept is taken to mean that the involvement of Australian experience and expertise provides benefits that might not accrue if another donor or implementing agency were involved in a similar aid investment.

3.8 **MDF and livestock silage**

Eighty percent of livestock in Pakistan are owned by small farmers; over six million households have some livelihood dependency on livestock for milk and meat. Urbanisation is driving annual increases in demand for milk in the commercial sector of around 20 percent. This is stimulating investment in farm-to-factory cold chain distribution systems and providing a new market outlet for smallholder farmers. However, poor animal nutrition, and hence low milk production, is a key constraint faced by small farmers who want to benefit from this growth.

Since 2006, government and various programs have promoted maize silage, a cost-effective and highly nutritious fermented fodder, as a way of addressing this problem, but this did not result in significant uptake among small farmers. The price and large size of the silage bales made them inappropriate for small farmers and their understanding of the benefits was limited by the lack of examples. In 2013, MDF partnered with Pioneer, a leading agri-business company, to pilot a business model of rural entrepreneurs making and selling silage in small bales. Together with the entrepreneurs, Pioneer conducted awareness raising activities among farmers. Uptake was rapid and demand significantly outstripped supply.

In total, MDF and Pioneer have supported 15 rural silage entrepreneurs in four provinces – including some women entrepreneurs. MDF also partnered with:

- Bank Alfalah and Cattlekit, a farm equipment importer, to develop financing products for the purchase and use of silage making equipment; and
- Maxim, an agri-input distributor, to make and distribute small bales of silage through their extensive distribution network.

Two and half years after the initial intervention, there were over 100 small entrepreneurs and other companies producing silage in small bales and packages. More than 13,000 small farmers were buying small bales of silage, and they were getting an average of 2-4 additional litres of milk per animal per day and had significantly increased their profits. Women who previously had to gather forage for livestock were saving an average of 14 hours a week of manual labour. There was evidence that livestock farming families had improved financial security and resilience.

Using this characterisation, it is clear that two of the investments, SDIP and AVCCR, draw on Australia's internationally recognised institutional expertise, and add considerable value – as well as reinforcing and extending recognition of Australia's ability to help deal with critical development challenges.

The value addition in these two projects comes from:

- Australia's direct experience in using scientific and social and economic evidence to support adoption of national welfare enhancing approaches to managing river basin water resources in a federal system of government (and the expertise that SDIP partners have in this kind of work);
- Australia's expertise in agricultural research and development for dryland farming is directly relevant to some of the challenges facing agriculture in Pakistan, and after 30 years of partnership in the country, ACIAR has strong links throughout the agricultural research and development system in Pakistan.

MDF has developed into an internationally recognised model for implementing a market systems approach to private sector development and promoting inclusive growth in complex contexts. The program has built a strong and credible reputation across large and influential private sector players (as well as other donors), and demonstrated Australia's ability to add considerable value to the task of facilitating the private sectors role in addressing exclusion and poverty.

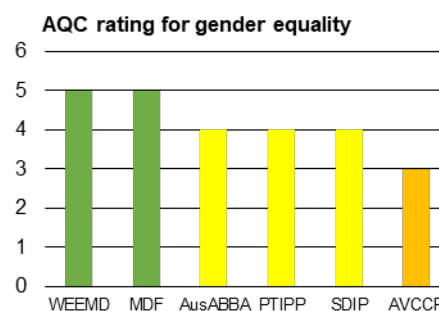
In principle, the program *could* have brought Australian expertise (in DFAT, other Australian institutions such as the Productivity Commission, and in academia) to bear on the trade policy work carried out under PTIPP (as well as used the engagement to better inform Australia's trade related commercial and strategic engagement in Pakistan). In retrospect, this looks like a missed opportunity. In addition, MDF could have been used as a vehicle to mediate and add value to the BCI and PPISS partnerships, as it has with IXC Telenor.

Across the whole portfolio, resource leveraging has been modest, but leverage on change has been much more significant.

Significant parts of the portfolio have brought considerable Australian value addition into the policy and development space in Pakistan.

Gender

Five out of the six¹² of the investments for which an AQC was carried out in 2018 were rated satisfactory for gender equality, and two – WEEMD and MDF – were assessed as satisfying criteria in almost all areas. In a country where very conservative and patriarchal attitudes toward women prevail, the portfolio has developed ways of addressing gender equality and is achieving credible results. For example;



- **MDF** – the program has a robust and sector-leading approach to women’s economic empowerment, and is directly focusing on creating opportunities for female entrepreneurs, helping firms create women-friendly work spaces, and providing services - including finance - to female livestock and crop producers.
 - A significant example is MDF’s work to find creative ways to build women’s employment in the traditionally conservative and male-dominated shoe manufacturing sector, through partnerships with major footwear manufacturers. While other urban manufacturers (in particular: textiles and pharmaceuticals) have already incorporated women into their production lines, the largescale shoe manufacturing sector has maintained a culturally normative status quo, emerging as it originally did from the (still) male-dominated ranks of artisan cobblers. MDF therefore worked with the manufacturers to introduce women-only lines, gender awareness training, and gender-sensitive services (e.g. ATMs, transport, and child care services). The results have been rapid. One firm, Pakistan’s largest footwear exporter, which initially established three women-only stitching lines, subsequently expanded this to five stitching lines, and now has plans to introduce female-only “closing” lines, and - given time - the more technically demanding “lasting” lines.
 - MDF’s work on silage (see box 3.8) and dairy has brought benefits to women who carry the main burden of livestock management in small-holder and landless livestock producing households.
- **AusABBA** - the program has a strong emphasis on building the capacity of local women village activists/facilitators to provide services to women

¹² The AQC for SDIP was for the overall regional program, and the AQC for AusABBA was a Final Aid Quality Check for the first phase which was completed in November 2017.

farmers. The program commissioned a path-breaking study on women's economic empowerment in Balochistan, which was used to shape a Gender Equality Fund activity on empowering Baloch women, implemented by the AusABBA FAO team.

- **WEEMD** – women's empowerment is central to the project, and according to the relevant AQC's it has been meeting or exceeding targets related to training and provision of market information to women, increasing women's production, and profits. Significant improvements in women's engagement in community organisations and their role within families have been achieved. The project has set up a revolving Community Investment Fund that provides small loans for women entrepreneurs, as well as providing training and business support through Women's Business Centres in selected parts of Khyber Pakhtunkhwa.
- **PTIPP** – after prompting from DFAT, the program developed a gender action plan, and it has assisted the Government of Pakistan to develop a gender-sensitive draft Strategic Trade Policy Framework. It has also supported the establishment of a network of women entrepreneurs (WE-NET) which serves as a platform representing women entrepreneurs in trade in goods and services across the country, to represent Pakistani women SMEs globally by developing linkages with comparable organisations around the world, and to act as an advocacy platform for women entrepreneurs.
- **SDIP** – gender equality is a significant objective of SDIP, and grant agreements with all SDIP partners specify that gender and empowering women and girls must be integrated into work programs and that partners must take steps to strengthen agency approaches to gender.
 - The inclusion of gender concerns in the Government's new Water Policy is a direct consequence of the work of CSIRO and ICEWaRM with the key water management agencies.
- **AVCCR** – is the one activity rated less than satisfactory – although the AQC indicated that its rating was verging on being in the satisfactory range, in part because it had developed a gender strategy and provided gender training for project teams. Projects within the program explicitly target poor women producers in the Punjab and Sindh.

Integrating gender across the portfolio's investments has required considerable effort from within DFAT (especially the gender Equality Branch), and explicit resourcing in some cases (for example employment of a gender expert to help AVCCR develop a clear gender strategy and framework).

Across the whole portfolio, performance on gender equality in a country with very conservative attitudes towards the role of women, has been good. Investments have credible gender frameworks, and many report well on gender achievements in their results monitoring work. This has built on significant inputs from gender experts within DFAT.

The portfolio also works with some degree of success in domains where gender inequality intersects with other forms of exclusion on ethnic, religious and class grounds.

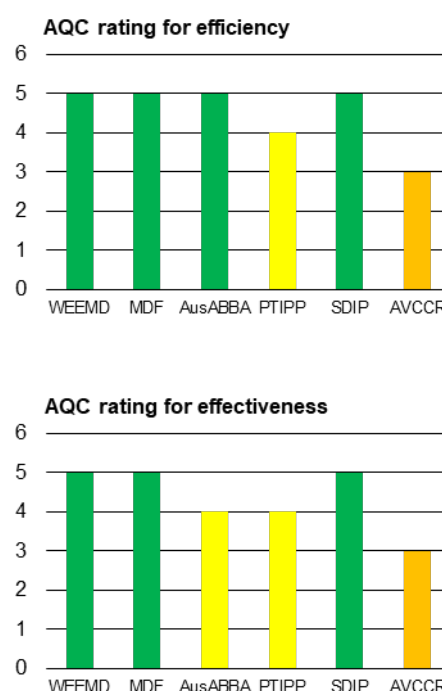
Results and value for money

AQC ratings for effectiveness and efficiency provide some indication of the extent to which portfolio investments are delivering results and achieving value for money.

Again, one investment, AVCCR, was rated less than satisfactory in both effectiveness and efficiency. These disappointing assessments reflect: serious delays in implementation start-up, significant difference in expectations and limited cross-agency understanding of operating modalities.

DFAT spent a disproportionate amount of time managing corporate and administrative aspects of AVCCR, and provided additional resources to provide advice and training and to draft a gender strategy.

Useful as they are, these AQC ratings provide no sense of what activities in the portfolio have actually achieved. The portfolio's performance against the outcomes and indicators specified in the Performance Assessment Framework (PAF) for the overall program gives a better, although still not great (given the limitations



discussed in the beginning of this section), idea.

Annex D presents detailed information about achievements in the PAF outcome areas, drawing on information that has been available to this evaluation. In summary, the evidence suggests the following.

Outcome area 1 – selected value chains are more inclusive

Five of the current investments in the portfolio (WEEMD, AusABBA, MDF, BCI and AVCCR) are directly working to improve the returns of poor men and women from engagement in agricultural value chains in selected parts of the country. WEEMD has worked in milk, meat and marigold value chains in Khyber Pakhtunkhwa, AusABBA has worked on a wheat, goats, sheep, cattle and poultry and a range of horticulture value chains in six districts in Balochistan which are mainly inhabited by people of Baloch ethnicity, MDF has worked on meat, milk, leather and horticultural value chains in Sindh, Punjab, Balochistan, Khyber Pakhtunkhwa, Gilgit Baltistan and Kashmir, BCI has trained 50,000 cotton growers in better cotton production practices, and AVCCR has initiated projects in dairy, beef, small ruminants and pulses, primarily in Punjab and Sindh. All of these investments claim success to a significant degree.

Indicator - only MDF has a results measurement framework that gives a reliable indication of the number of men and women whose incomes have increased as a result of facility interventions. At the end of 2017, 22, 880 people, of which 48 per cent were women, were determined to have experienced increased incomes and employment.

AusABBA and WEEMD report the number of beneficiaries of their interventions, and present the results of sample surveys that report on:

- the difference between incomes of beneficiaries and non-beneficiaries at a point in time (143 per cent from a sample of 600 beneficiaries and 390 non-beneficiaries (AusABBA)); or
- The proportion of people reporting increased production and profits (84 per cent out of 988 women (WEEMD)).

These indicators give little sense of whether the results are commensurate with the scale of effort. And, as pointed out by reports of the MDF Advisory Group, they do not come close to capturing the extent and nature of change that programs are bringing about (Swete Kelly and Warner, 2018).

Outcome area 2 – Governments, enterprises and smallholders are adopting evidence-based agriculture, water and trade policy reforms as a result of Australian investments

This specification is a little unclear as to the roles of different players with respect to policy reform. Government may adopt changes to policies based on evidence-based processes, and enterprises may submit evidence into these processes. From the perspective of enterprises, it may be more useful to consider if they have adopted new business strategies or brought about market system change as a result of considering evidence.

Box 3.4 has presented information on the engagement that different investments in the portfolio have had or are having with federal and provincial government policy. There is clear evidence that SDIP, PTIPP, MDF and AusABBA have contributed to agriculture, water and trade policy (see Annex D for more information).

Whole-of aid program contributions

The other two objectives of the aid program relate to investing in Pakistan's people with a focus on women and girls and supporting stabilisation and resilience in Pakistan's border areas.

The growth portfolio has directly and indirectly been contributing to these objectives:

- WEEMD, AusABBA, and MDF are specifically investing in the women's capabilities and ability to reap better rewards from engagement in livelihoods and employment
- WEEMD, AusABBA and MDF are working directly in Balochistan, FATA, Kyber Pakhtunkhwa, Gilgit Baltistan and Kashmir to strengthen livelihoods, connect producers to markets, build community capabilities and improve household incomes, all of which are likely to contribute positively to stability and resilience in these border locations.

At the same time, investments outside of the economic growth portfolio have had effects on the sustainable inclusive growth objectives. Humanitarian aid primarily targeting stabilisation and resilience objectives has reportedly helped build livelihood skills (DFAT, 2017b).

Overall assessment

In the life of the current AIP, the economic growth portfolio has been:

- strongly aligned to Australia's and Pakistan's strategic priorities;
- appropriately targeted on issues affecting achievement of sustainable inclusive growth in Pakistan;
- demonstrating a high degree of coherence – due in part to the prior preparation of a clear portfolio strategy consistent with the AIP objective and outcome areas, and successfully pursuing collaboration across investments;
- directly working on critical growth and inclusion policy issues, and providing DFAT with a means to broker policy engagement by Australian agencies and experts. It has provided a resource – perhaps not fully utilized - to support DFAT's own direct analytical and policy engagement work;
- generally neither placing undue demands on DFAT's aid management resources, nor exposing DFAT to unmanageable risks even though over the course of the AIP, two investments, PTIPP and AVCCR, have required additional attention and the allocation of additional resources to improve performance;
- generating significant leverage over critical growth constraints, with more limited leveraging of additional funding, and creating significant levels of Australian value added; and
- able to contribute to all of the objectives of the aid program.

The portfolio's investments all have the *potential* to contribute to the strategic objective of the AIP that relates to sustainable and inclusive growth, and have a clear, logical line of sight this objective. However, it is important to recognise that by their nature some can be expected to be directly bringing about improvements in incomes and living standards of poor and excluded people within the life of the AIP, while for others the time frame for delivering improvements will likely be longer, and the linkage between investments and improvements much less direct.

Those investments working directly with poor and excluded people, or on the livelihood areas and value chains relevant to such people, are delivering results, while the policy and systems focused investments are also helping deliver changes in the overall policy and regulatory environment that should improve the prospects for poor and excluded people to achieve sustainable increases in income and economic well-being.

This has been occurring in a difficult context for the delivery of aid. As the AIP points out, *'there are no low-risk options for aid delivery in Pakistan'*. Lack of security, the continued presence of violent extremism, the limited reach of the national government, and a complex and often development-unfriendly political economy all add to the challenges of supporting improvements in the well-being of the poor and excluded.

Some lessons emerge from recent experience with the portfolio.

- It is possible for a small grant-aid program to have an impact on income growth of selected poor and excluded people in rural and more remote areas of Pakistan:
 - exceptionally low levels of agricultural productivity mean that feasible technical and system changes, along with increased market connectivity, can lead to increased household incomes,
 - the economic empowerment of women can lead to significant improvements in household and community well-being as well as increasing the agency of women and girls, and with sensitively targeted approaches, can be stimulated using aid programs, even in areas characterized by conservative and patriarchal norms and cultures.
- It may be difficult to establish new investments that do not build on previous experience and use trusted development partners:
 - but working in a partnership mode require effort to understand institutional cultures and modes of operation, patience and realism, and it may require DFAT to make a concerted effort to move away from a 'contractor' model and its associated approaches to management, quality control and results reporting.
 - this said, it is also possible to deliver effective aid using conventional managing contractor models, if local expertise is in the driving seat, and the costs of commercial delivery in an insecure context can be accommodated.
- Australian assistance through ACIAR can support agricultural research for development that has the potential to lead to productivity gains, improved sustainability and better incomes for farmers (ACIAR and AusAID, 2013). It is possible to achieve valuable synergies between the research portfolio and other economic growth and development activities, but it seems very difficult to construct arrangements for direct funding of ACIAR projects and programs from bilateral aid. This is very much an issue of contrasting expectations about what research can deliver in terms of immediate development outcomes.

- The reputation and track record that Australian institutions have for delivering results in relevant areas of agriculture and water resource management provide a strong platform for engaging with key policy and institutional impediments to sustainable and inclusive growth in Pakistan. Australia's aid program has established a reputation for leadership and innovation in private sector development and gender, which creates a logical base around which to focus future efforts in a growth portfolio.

4 Sustainable inclusive growth in the new Aid Investment Plan

This section discusses options and presents recommendations for the conceptualisation and structuring of the economic growth portfolio during the period of the next Aid Investment Plan.

Approach and key considerations

The approach taken to developing recommendations builds on the analysis presented in earlier sections. But it also takes account of the fact that aid programs are integrated constructs, and that recommendations for any component have to reflect and be consistent with the framework for the whole program.

This review has been conducted at the same time as the overall Aid Investment Plan is under consideration, and decisions are being made about strategic focus, implementation approaches, and consistency and interaction with the goals of Australia's overall engagement in Pakistan. This parallel development has raised some challenges, but has also been useful as:

- the different elements of Australia's aid program are expected not to operate in isolation from each other – to the contrary, contributions across different objectives are actively sought; and
- cross-cutting policy priorities must influence the articulation of portfolio objectives, and the choice and design of investments.

At the same time, the terms of reference for this review require it to consider how the portfolio coheres with DFAT's Economic Diplomacy agenda and its interaction with DFAT's other growth, investment and business activities. The terms of reference also call for consideration of how DFAT can use the sustainable and inclusive growth portfolio in learning and communication to improve aid activities, inform dialogue with the Government and support private sector organisations and investors.

In response to the recommendations of the Aid Health Check, the program is also expected to pursue further consolidation - in terms of sectoral coverage and

policy issues - and shift the work of the team from managing agreements to development policy engagement.

EGP in the context of the overall aid program

As discussed in sections 1 and 2, Australia's strategic interests in Pakistan are primarily concerned with internal stability and the country's role in the security dynamics of the region. This was reflected in the way that the objectives of the aid program were modified to more explicitly address stability and resilience.

There are compelling reasons why Australia should focus its aid program on inclusivity (especially gender equality) and stability in Pakistan. Australia's aid interest is not in economic growth per se – aid would contribute little to this – but in ensuring that the growth that is occurring does not contribute to greater exclusion or instability in the country.

However, it has to be recognized that there are potentially complex inter-relationships between inclusion and stability, given the particular drivers of fragility in Pakistan and the deep-seated religious and cultural underpinnings of attitudes toward women, ethnicity and tribal allegiances.

Some studies of fragility in Pakistan have pointed to the way that ideological (and fundamentalist) movements have aligned themselves with local grievances over power, governance and resources (World Bank, World Development Report 2011). This has meant that what for some are conflicts about power and the distribution of the prerequisites of power, are articulated by others as matters of religious, cultural, tribal and ethnic differentiation. This may mean that in the shorter term, and unless encapsulated in a more encompassing strategy, efforts to promote inclusion could be manipulated by vested interests to work against improved stability. This may occur if the aid program is seen as reinforcing differences by helping one group but not another, without broader community acceptance of the need for targeting.

Resource capture, inequitable and inefficient share farming and land lease arrangements and bonded labour stubbornly persist in Pakistan, particularly in the populous Sindh and Punjab. Across the country, political and ideological interests benefit from the presence of pools of disaffected poor and deprived people with religious or tribal allegiances. Large scale economic empowerment may be quite subversive of influential elements of the established order and of the rather fragile 'political settlement' that binds elites.

Accordingly, the aid program will have to be informed by - and inform - the work of other parts of DFAT, and other Australian agencies, in understanding the dynamics of exclusion in the country.

There is a wide menu of issues that the aid program could choose to address within the domains of stability and inclusion, and in the past the program has worked in a number of these domains.

In making suggestions for the economic growth portfolio during the next AIP, this review has taken into account four factors that should shape decisions about the future portfolio and the overall aid program in which it sits. These are:

1. what the program has learnt and has had success doing;
2. which domains of past engagement bear directly on inclusion and stability and have potential to deliver more results;
3. which areas of DFAT-wide priority are most relevant to stability and inclusion in Pakistan; and
4. where there is potential for Australian value addition and reputational enhancement to create opportunities for a broader and deeper engagement within Pakistan.

Together, these considerations support a decision to identify gender, agriculture and water as priority development policy concerns around which to organise the program.

Gender

Why gender? Because:

- this is one of the most pronounced areas of exclusion in Pakistan;
- it one of the highest DFAT wide priorities;
- DFAT is playing a leading role in advocating for and improving the rights of women and girls in Pakistan; and
- there is potential for significant increases in the incomes and livelihoods of the poor by removing impediments to women's entrepreneurship and employment, and current portfolio partners have the skills to apply appropriate risk management and gender-sensitive approaches that conform with the overall program's concern to 'do not harm'.

Agriculture

Why agriculture? Because:

- the majority of Pakistan's poor and excluded live in rural areas and depend on agriculture for their livelihoods, and there is potential to significantly increase returns from smallholder and landless peoples through enhanced agricultural productivity;
- improved agriculture in the short to medium term is the sector where disaffected people in border areas have the greatest potential to achieve improved incomes;
- a focus on agriculture allows the program to address food security, nutrition and women's economic empowerment issues;
- a focus on agriculture would be consistent with continuing to work in areas such as trade policy and trade facilitation, production and input subsidies, agricultural stabilisation schemes and land management issues, because reform and improvements could help reduce the distorted incentives driving the sector;
- Australia has world-class expertise in agriculture research and development, natural resource management, improving total factor productivity of rain-fed and irrigated agriculture, rangeland management, community mobilisation, precision-based production systems, plant and animal health and agriculture market reform agricultural practices – all areas of particular relevance and government interest in Pakistan; and
- Agriculture – in particular dairy, feedlot development and meat processing, pulses, seeds and agricultural services- is an area of commercial interest to Australia.

Water

Why water? Because:

- this is a critical area of challenge to economic, environmental and political sustainability in Pakistan. Failed domestic water governance has exposed Pakistan to national security risks. Gross mismanagement has left Pakistan's agriculture uncompetitive, hydropower potential under exploited, and the people food insecure;
- Pakistan is exceptionally vulnerable to climate change that is increasing the risk of devastating flooding and prolonged droughts;
- Australia has a clear comparative advantage in water resource management areas directly relevant to Pakistan, especially river basin management under

a federal system. Australia's long term engagement in the sector has created a trusted and valued entry into the institutions dealing with water management in Pakistan; and

- Limited access to water is a key dimension of exclusion and poverty in rural Pakistan.

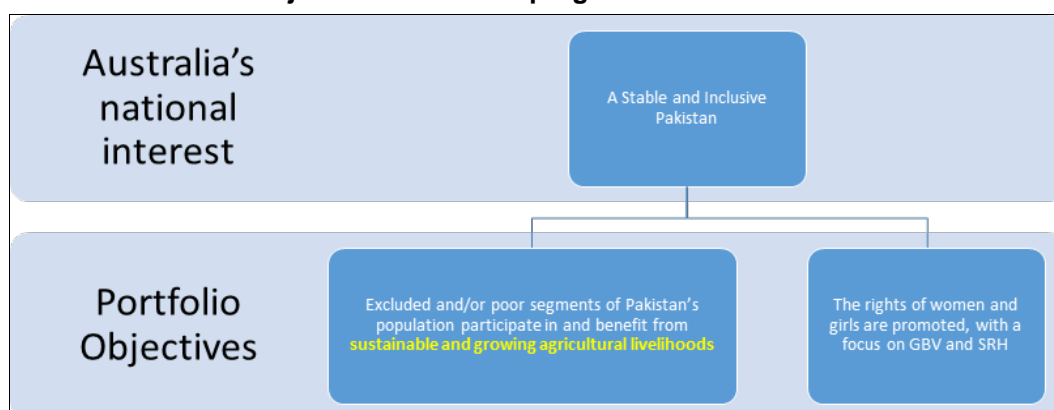
Recommendation 1: The overarching policy area priorities for the program should be gender, agriculture and water

Incorporating the policy priorities into the program

This review has not been specifically requested to advise on the overall architecture of the aid program. However, it is difficult to make proposals for the economic growth portfolio without some consideration of how Australia's overarching strategic interests and the policy priorities discussed above might be translated into objectives and outcome areas for the overall program.

Given the imperative for consolidation and focus, and also giving consideration to the tractability of defining and pursuing development goals, this review has worked on the assumption that the program would have two pillars with portfolio level objectives, one related to sustainable inclusive growth, and the other related to the rights of women and girls. Suggestions for the two pillars and possible portfolio objectives are presented in figure 4.1.

4.1 Portfolio objectives for the aid program



Note: GBV – gender based violence, SRH – sexual and reproductive health

Incorporating gender

Gender equality will be addressed under both pillars. Choice of partners and modalities, as well as sensitive monitoring of attitudes in targeted communities will help the program adopt appropriately nuanced means of engagement.

The wording of the rights-based objective is not within the scope of this review, but it is assumed that the “rights” pillar will be:

- purposive, focused on normative change, possibly at multiple levels throughout the formal and informal institutional structures of Pakistan.
- focused on gender-based violence and sexual and reproductive health.

However, gender is also an important element of the ‘inclusive livelihoods’ pillar and there should be scope for the two pillars at the very least to inform each other. While it would be good if the two pillars could be mutually reinforcing, they may not work at the same levels and parts of the system for this to happen. Therefore the economic growth portfolio, where it undertakes women’s empowerment activities in the inclusive livelihoods arena, will need to learn from the ‘rights’ pillar how to reinforce enabling community norms, attitudes and institutional support structures with respect to the increased access, agency and advocacy that women’s economic empowerment may bring.

Pakistan has some of the world’s worst gender equality gaps. Women and girls in conflict-affected, rural and remote areas are particularly deprived of access to basic social services and space to make their voices heard. Efforts under ‘inclusive livelihoods’ to improve opportunities for women to engage in and benefit from livelihoods and engagement with markets can address some of the manifestations of inequality. There is evidence that stand-alone interventions targeting these challenges can make a critical contribution to inclusivity, especially if they work in communities that are themselves subject to discrimination and exclusion. However, they can also create pressures on intra-household and community perceptions of the role and contribution of women and can expose attitudes concerning all aspects of women’s agency, especially with regard to sexual and reproductive health and vulnerability to gender-based violence. It will be important therefore that investments under the economic growth portfolio are alert to, and take action to mitigate, the risk of unintended harmful consequences.

Incorporating agriculture

Agriculture will be explicitly included in the first pillar, which would focus primarily on promoting and facilitating sustainable and growing agricultural livelihoods for poor and excluded segments of Pakistan's population. Investments under this pillar can work directly with beneficiary groups. They can also work on policy reform and systemic improvements that can remove impediments and improve the management of resources to redress current inefficient and inequitable access to agricultural factors of production and inputs. Investments could continue to build on current portfolio achievement on issues such as:

- Market connectivity for poor and marginalized men and women, especially those in areas that are relatively isolated from the main domestic and export markets;
- Adoption of sustainable productivity enhancing technologies and techniques;
- Pursuit of nutrition sensitive agriculture;
- Improving water and energy use efficiency;
- Reform of policies that foster economically inefficient production and inequitable access to and use of factors of production, and strengthening the capacity of state, private sector and community institutions to use evidence and analysis to support better-informed policy making for agriculture;
- Using participatory approaches to foster community development by state and local institutions in rural communities, and to create more space and economic opportunities for women's economic and social empowerment;
- Incorporation of resilience to climate change and natural disasters in to agricultural and rural livelihood practices.

Incorporating water

Water will be addressed primarily as an enabling or constraining issue under the sustainable and inclusive growth pillar. Household and industrial uses of water have important welfare and environmental dimensions¹³, but the biggest problems with water management lie in the agricultural sector, where users do

¹³ Limited access to safe water, combined with poor sanitation, has demonstrable effects on nutrition outcomes, and may well be an important contributor to poor infant health outcomes in rural Pakistan. In addition, ineffective regulation of industrial and commercial water use contributes to pollution and deteriorating water quality. However, the largest risks to the availability of safe water lie in problematic use in agriculture.

not face the scarcity value of the water they use. This leads to extremely wasteful usage, while policies distort water use away from the most efficient applications, and the water resource is subject to extreme elite capture.

Water issues can be addressed at the level of policy development and implementation at federal, provincial and local governments, and at the level of water use practices at farm and community level.

- The new Water Policy, recently adopted by the Council of Common Interests, provides a clear point of entry to assist with the further articulation of policy and associated regulations and with building capacity and the evidence base for implementation.
- Investments such as MDF can explore ways for the private sector to play a bigger role in supporting adoption of improved water use technologies; and
- Investments working directly with rural people and farmers can target dissemination of information and support for adoption of water-efficient technologies as the business case for adoption is strengthened by changes at the policy and water resource management level.

Recommendation 2: The program should include two pillars with defined objectives and outcomes

- 1. Sustainable and inclusive growth in agriculture and rural economic activity***
- 2. A gender 'rights' pillar dealing with norms and policies***

The sustainable and inclusive growth pillar

This review recommends a two-track approach under the sustainable and inclusive growth pillar:

1. working directly with beneficiaries in selected parts of the country to improve economic wellbeing and agency through interventions targeting capabilities, and ability to use these capabilities in agriculture; and
2. working on improvements in relevant market systems and the enabling environment affecting agriculture and rural economies, focusing primarily on agriculture and rural development and the use of water.

Selected areas could be remote areas in border provinces, or they could also be locations with a high incidence of poverty and exclusion in Punjab and Sindh. It is expected that the areas to be chosen will be where there is a close interaction between some competitive agricultural potential (for example, potential for growing temperate fruits or seasonal vegetables) combined with low incomes and lack of inclusiveness.

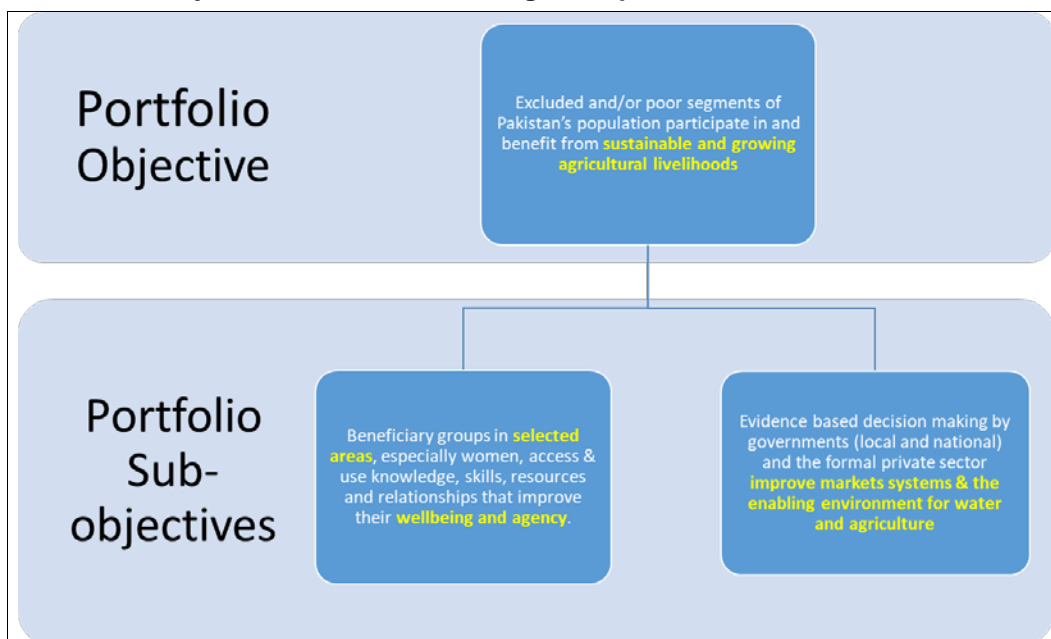
The focus on the livelihoods of poor and excluded groups allows for the pursuit of objectives related to nutrition and food security through promotion of nutrition sensitive agriculture and increased incomes, which enables poor/excluded households to smooth out the effects of crop variability with food purchases.

The sub-objectives may be pursued independently of each other – for example work on market systems and the enabling environment may not necessarily focus on issues directly affecting groups targeted under the first sub-objective - but there is considerable scope for mutual support across the two sub-objectives. Learning arising from working directly with beneficiaries may inform approaches to the enabling environment and market systems, and cross-learning should be explicitly supported. (One current investment, MDF, is a powerful example of how this can be done within a single intervention, and the mechanisms that have been set up for collaboration across the portfolio support this kind of cross-fertilisation.)

Each element should have an explicit sub-objective and set of expected outcomes.

The proposed sub-objectives are presented in figure 4.2.

4.2 Sub-objectives for the economic growth portfolio



Beneficiary Livelihoods

This sub-objective expects that excluded groups (especially women) will be key beneficiaries of interventions and results in their own right, as well as providing a way of delivering increased benefits to their families - and perhaps communities.

It is envisaged that interventions would take a proactive stance towards targeting excluded individuals and households, by improving their current and potential livelihoods, and by working to increase their inclusion in household and community decision making.

It is also intended that interventions will work where there are significant opportunities in relevant markets where excluded groups play or can play a substantial role in change. For example, in the case of women's economic engagement there is considerable evidence of the 'low hanging fruit' capable of improving rural and national productivity.

Pursuit of this sub-objective will have to recognize that security is a critical constraint to delivery, and may influence the choice of modalities.

Evidence Based Decisions for Market and Enabling Systems

This sub-objective recognizes the significant market and policy distortions that impede inclusive development in Pakistan, and the complex political economy

and confluence of political and economic power that constrains reform. But it also recognizes the limited scope that a small partner like Australia has to influence policy making at the national level. (Many other development partners indicate that there is more room to influence decision making at the provincial and local government level – and this can provide an entry point to deal with critical issues because of the relatively recent devolution of powers to lower levels of government.)

The focus on agriculture and water reflects:

1. the path-dependency of the overall program. These are areas where Australia has been working for some time, and has technical expertise that may be brought to bear on some of the issues.
2. the fact that while urban development is likely to be a critical element of sustainable development in the country, in the short to medium term, there is considerable scope to address poverty and exclusion by working to improve agricultural productivity – and the sustainability of resource use in the sector.
3. The need to come to grips (if the program chooses) with some of the most distortive policy and institutional problems facing the country – in markets for land, water, labour and business inputs, in connectivity and in external trade policy.

Working on market systems provides an opportunity to work on ‘real-life’ impediments to inclusive growth faced by Pakistani businesses, and also to develop platforms to advocate for policy reforms.

Investments in this area will provide DFAT and its partners with the capacity for opportunistic engagement with key influencers and champions in areas where there is appetite for change. The individual investments can be enhanced if program management promotes the sharing of intelligence on areas of traction across the portfolio and the broader DFAT engagement in Pakistan.

Experience with MDF shows that evidence of what works to change markets and understanding of market opportunities can support efforts for policy change. Similarly, work under SDIP shows an appetite, at least at the government agency level, for better information and evidence, and how evidence can be used in the broader advocacy work of stakeholders.

This said, under the new AIP DFAT will need to accept that technical evidence is only one of the many drivers of policy change. As such, all DFAT engagements must be sensitive to the political economy in which they work and make

considered decisions about an appropriate ‘influencing agenda’. While DFAT may help ensure that the foundational evidence for good decisions is in place, it also needs patience and the tools to influence the broader dynamics of policy change when the time and circumstances are right.

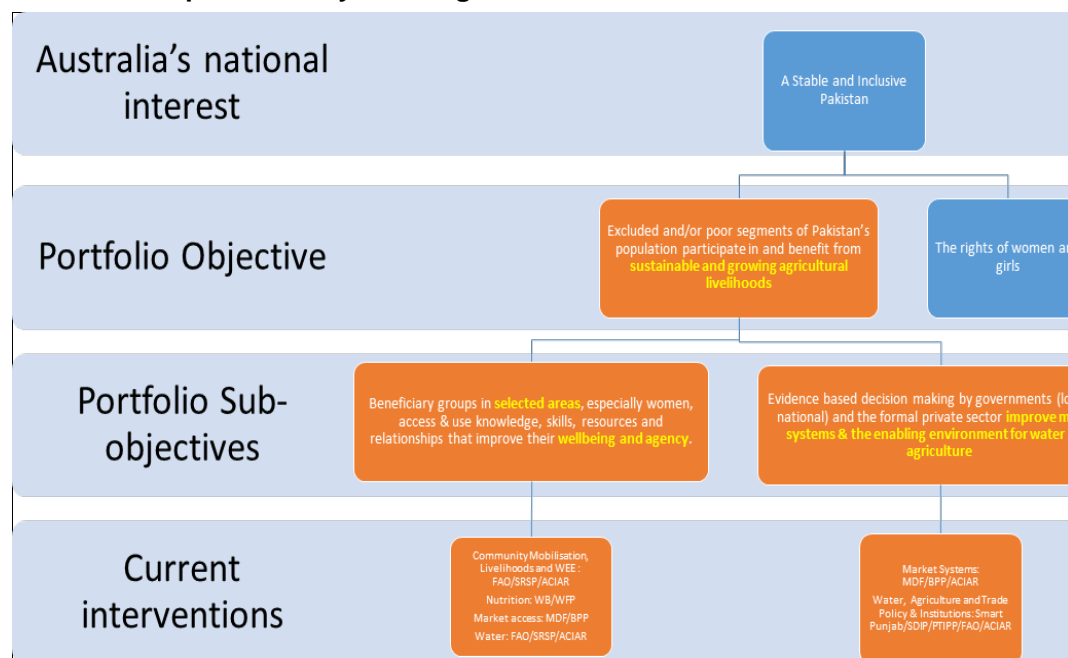
Towards a theory of change

Figure 4.3 brings together elements of the previous discussion.

The main principle that underpins the economic growth portfolio is that inclusiveness and stability in the country will be enhanced if poor and excluded segments of the population participate in and benefit from sustainable and growing economic livelihoods.

Underlying this principle are a set of assumptions and considerations about causality, program implementation and external factors that will influence the program. Some of the most significant are discussed below.

4.3 Proposed theory of change – with current interventions



The context

As discussions in sections 2 and 3 of this report have demonstrated, the context for Australian support for inclusive and sustainable growth in Pakistan and the overall aid program is daunting. Key elements of the context are:

- Falling poverty and rising inequality – with very high incidence of multi-dimensional poverty in border provinces and southern Sindh.
- A fast growing and rapidly urbanising population, with a large youth ‘bulge’ – all of which are factors that contribute to disempowerment of key sections of the population.
- Significant under-utilisation of human resources – especially young people and women.
- Stalled human development – exceptionally poor indicators for health, education, nutrition, gender equality.
- Limited national and regional connectivity.
- Poor delivery of public goods and services, linked in part to very low levels of government revenue mobilisation, limited reach of civilian institutions, and unresolved problems in devolution and its resourcing.
- Growing risks of unsustainable natural resource use and poor environmental outcomes due to the impact of climate change and inadequate policies and institutions surrounding use of land, water and energy.
- Pervasive effects of terrorism and insurgency on one border and long standing unresolved tensions on another, alongside persistent violence within the country.
- Military control or influence over development in remote areas (A I.)
- Increasing impact of China’s investments and engagement in Pakistan, primarily through the Chinese Pakistan Economic Corridor.
- Lack of an overarching, inclusive social compact leading to unproductive competition for power and resources, linked to pervasive clientelism in political processes.
- Microeconomic policies (trade, sectoral, regulatory) that have focused on creation and distribution of economic rents rather than promotion of productivity growth and efficient allocation of resources.
- Limited reach of formal institutions underpinning human and property rights.

Links between stability, inclusivity and growth

The underlying principle for the portfolio is built on some important assumptions about the causes of exclusion and instability in Pakistan embodied in this theory, and the program will need to acknowledge that improved livelihoods for the poor and excluded may be far from a sufficient condition for improvements in overall indicators of inclusion and stability. Disaffection with the institutions of the state, with monopolization of political and economic power and access to resources by established elites, along with deep-seated tribal, religious and ethnic intolerances may not be quickly attenuated by improved economic opportunities and higher incomes.

The proposals for the portfolio within the context of Australia's national interest assume that stability and inclusivity can be pursued in mutually supporting (or at least non-confounding) ways, and that improved opportunities and returns from livelihoods for poor and excluded groups will impact in a positive way on the drivers or manifestations of instability.

International evidence supports this assumption to some degree, but all situations are quite particular, and DFAT will have to see if there are ways to test the assumption or find supporting evidence in the domains and locations where the program works.

The evidence from experience of external partners working in fragile states does not suggest that there is a clear and one-way line of sight between growth in incomes and employment, and reducing the causes of violence and instability.

While there is good evidence of the role that rising incomes and employment have on household and community stability, there is less evidence of the role that rising incomes and employment have on insurgency and extremism – these issues are driven more by a pervading sense of injustice.

For example, in situations where governments provide only limited protection of rights and social services, disaffected people's ties to tribal, clan and village loyalties may override immediate considerations of economic well-being.

However, survey evidence from other fragile states indicates that idleness and unemployment are important reasons why people join rebel movement and gangs. Increased income from employment and livelihoods raises the opportunity cost of engaging in unrest and destabilizing activities, and when associated with greater market connectivity and services from other parts of the

country, may improve overall perceptions of the state and diminish feelings of disempowerment and discrimination, and help build social cohesion.

There is also evidence that stability and inclusivity can be pursued in mutually supporting ways from current investments such as AusABBA and WEEMD that work in border areas prone to instability. These investments work at the community as well as the household level, providing a means of managing possible negative reactions to women's economic empowerment.

The proposals for the portfolio also assume that DFAT has or can acquire adequate understanding of the drivers of poverty and exclusion in Pakistan, and can use this knowledge to navigate challenging territory. Some investments, particularly MDF, have done extensive analytical work to build this kind of understanding relevant to the sectors and locations where it operates.

Feasibility of achieving sustained improvements in the livelihoods of poor and excluded

Another critical assumption is that scope exists within current markets to generate higher returns for targeted poor and excluded beneficiaries.

There is strong evidence from evaluations of interventions in the portfolio and from analytical work carried out to develop the APARDS/AEGIS strategies, as well as from the broader literature (see, for example, Ahmed and Gautam, 2013 and World Bank, 2017) that there is significant potential for higher returns to small-holder agriculture and that there is information available on the suite of changes that may be needed to realise that potential.

It is also assumed that the program can manage the risk that improvements in the livelihoods of the poor and excluded groups may generate political or market reactions that erode sustainability.

It would be naïve to think that, under certain circumstances, the better economic opportunities and higher incomes of excluded groups may not generate some kinds of backlash. In some parts of Pakistan, economic exclusion is a part of broader power and exploitation structures, and those who exercise power may resist changes that increase the agency (especially as it might be expressed politically) of those who are in exploitative and oppressive relationships.

Further, increased incomes and livelihoods of the excluded may generate increased competition for natural resources, particularly land and water. This

may lead to market or political responses that undermine the sustainability of these increases.

These risks will need to be managed proactively. DFAT will need to build means into investments and the program more broadly to check for such reactions, and also choose partners able to identify and mitigate risks.

Promotion of rights of women and girls

The proposals for the program and the portfolio assume that the way that the rights of women and girls are promoted is sensitive to the drivers of instability, and that foreign support for rights-based approaches is not used as a pretext for destabilising activities.

Most investments rely extensively on local staff – in fact the security situation in some parts of the country makes this an imperative. This provides both a dilution of the ‘foreignness’ of support, and a source of critical insight and understanding of the risks and ways of dealing with them.

Risks, modalities and partners

The proposals assume that partners can be found and modalities developed that can deliver services in areas affected by Pakistan’s security problems. DFAT acknowledges that the operating environment in Pakistan is high risk, especially, but not limited to, the border provinces where the program aims to reach the poorest and hardest to reach. This is an issue that will require continued surveillance, partner consultation and assessment.

Supporting policy and market system reform and its implementation

Another assumption is that providing clear evidence and analytical support can improve advocacy and help address the political economy of change and the power of vested interests, and that collaboration of key stakeholder in the government, the private sector and civil society can be a catalyst for change.

SDIP support for water policy reform, and PTIPP support for trade and tariff policy reform indicate that this can happen, but the political economy of reform in Pakistan is complex and dominated by elites with commercial and political

power (Husain, 2018), so the opportunities for change building on evidence and disinterested analysis may not always emerge.

Further, MDF's partnerships with the private sector in livestock have demonstrated that collaboration with key players and providing evidence can lead to policy change. This reinforces the conclusion that external partners are unlikely to bring about change except where they are supporting local initiatives that are based on consultation and alignment amongst stakeholders.

DFAT capacity

Because of the complex context for the program, and the smallness of Australia's program and presence in Pakistan, working on policy and market systems places significant demands on DFAT staff in Pakistan (and in Canberra). The proposed portfolio assumes that DFAT has the ability build the capacity of Governments and the private sector to use evidence-based approaches to policy and market systems reforms, and that DFAT has or can build the capacity to be an effective broker and participant in policy dialogue and supporting coalitions for change.

The work of SDIP, PTIPP and MDF demonstrates that the aid program can engage with the public and private sectors on reform. DFAT's internal capacity to work in this field represents a challenge, as recognised in the Aid Health Check, and this report has suggested ways of building or adding to capacity to do this.

Outcome areas

The outcome area for the portfolio objective could be:

- Poor women and men receive sustainable increases in employment and incomes from agriculture and rural livelihoods.

The outcome areas for the first sub-objective could be:

- Target group members experience improved well-being from livelihoods as a result of applying new practices and skills and as a result of improved market connectivity.
- Women have greater agency with respect to their engagement in livelihood activities.

The outcome area for the second sub-objective could be:

- Governments and the private sector are using evidence-based approaches to policy and market systems reforms.

The objectives and outcome areas for the sustainable inclusive growth portfolio should be:

Portfolio level:

Objective: Excluded and/or poor segments of Pakistan's population participate in and benefit from sustainable and growing agricultural livelihoods.

Outcome area: Poor women and men receive sustainable increases in employment and incomes from agriculture and rural livelihoods.

Sub-objective 1: Beneficiary groups in selected areas, especially women, access and use knowledge, skills, resources and relationships that improve their well-being and agency.

Outcome areas:

Target group members experience improved well-being from livelihoods as a result of applying new practices and skills and as a result of improved market connectivity.

Women have greater agency with respect to their engagement in livelihood activities.

Sub-objective 2: Evidence based decision making by governments (local and national) and the formal private sector improves market systems and the enabling environment for water and agriculture.

Outcome area: Governments and the private sector are using evidence-based approaches to policy and market systems reforms.

Delivery, suggested structure and modalities

The following suggestions for a desirable structure for the portfolio take account of the following considerations.

- Given the intractability of some of the constraints to sustainable inclusive growth and at the same time the importance of having the aid program deliver visible results, the portfolio should retain a mix of investments that:
 - provide identifiable improvements in the well-being of poor and excluded people in the short to medium term, and

- work on issues that are on the critical path to delivering sustainable inclusive growth, but may only yield development results in the longer term.
- The portfolio should build on current experience and strengths, and should not envisage abrupt change without compelling reasons related to development impact and the pursuit of Australia’s strategic priorities in Pakistan. Experience shows that it is hard to get totally new investments crafted to meet the realities of the context for aid and then bringing them up-to-speed. It will be better to make good enough investments better rather than try to build notionally perfect ones.
- All investments should be able to support DFAT learning and engagement on development and other policy issues – but will need to be resourced to do so.
- The program needs to be able to respond to emerging opportunities to work with partners on issues relevant to the portfolio and overall program, and to fill capability gaps and create synergies. The program needs the resources to complement DFAT expertise with responsive short-term inputs/expertise where needs arise.
- The portfolio needs to work with partners using modalities that reflect their relative strengths vis-à-vis DFAT, and reduce the purely administrative load on DFAT staff.

Proposed investments

As indicated earlier in this section, all of the current investments can notionally find a place in the framework of proposed objectives, but to consolidate and achieve clearer focus, this review suggests that the portfolio transition to three *main* investments and retain a capacity to respond to emerging smaller scale opportunities that can add value or support learning about new areas in the proposed domains of engagement. This should be complemented by a capacity to respond to opportunities, fund smaller scale analytical and policy support work, and contract assistance for DFAT. (As indicated earlier in this report, effective consolidation does not necessarily call for an overall reduction in the number of investments.)

Main investments

The three main investments are as follows.

MDF, since this provides a vehicle to work on key market system constraints related to agriculture, bring learning and expertise from other parts of the portfolio, and provide a platform for influence and policy engagement. Further:

- now it is well-established, MDF can deliver demonstrable development results in the short to medium term;
- MDF delivers primarily against the second sub-objective, but also supports and delivers directly to beneficiaries targeted under the first sub-objective;
- the Pakistan program does not have direct responsibility for contract management, and much of its work with MDF deals with how it can achieve development outcomes;
- MDF's facility approach allows DFAT to respond flexibly to new market opportunities – since DFAT can ask MDF to provide management support (provided that the opportunities align with MDF's mode of operation and strategic priorities). This has already happened with the Telenor IXC activity, and could be done with BPP initiatives; and
- as a facility, MDF could make use of additional operational resources – if not from the Pakistan program, then from other DFAT regional or global funds, or from external sources – provided again that this does not divert effort and attention away from core functions and strategic engagements.

SDIP, since agricultural water use is the most critical challenge facing water sustainability in Pakistan, and there is scope to achieve major improvements in the economic and technical efficiency of water use in the sector. Further:

- this is a long term investment which may or may not yield tangible sustainable inclusive growth benefit in the near future, but Australia is uniquely placed to contribute in this critical space;
- it would be appropriate to consider if the program should be restructured to shift the emphasis of work or perhaps include different partners. The release of a new Water Policy provides a possible reason to take stock at this point in time. Consideration could be given to strengthening the reach of the program across gender issues, and also consider how to reinforce its ability to support policy making – perhaps with a stronger long term presence in relevant institutions. It would be opportune to see if SDIP partner investments can be more strongly linked with other portfolio investments that may get traction on water issues with the private sector, or at different levels and parts of government;
- it could also be desirable to examine how SDIP can collaborate and share with other investments, especially MDF;

- MDF has the potential to work with the private sector on market based provision of water efficient technologies and related support to farmers, and AusABBA could do something similar with community based approaches to improving water use. DFAT itself can accentuate its bilateral dialogue engagement on water, informed by the work of all part of the portfolio.
- DFAT should also have the capacity to engage other partners through the bilateral program, if the need and opportunity arises, or to commission SDIP partners to do other pieces of work that might fill gaps. (For example, the International Institute for Food Policy Research (IFPRI) has done interesting work on water and agriculture in Pakistan, and The Asia Foundation might also be able to assist DFAT to come to grips with, or at least comprehend, the political economy of water reform.)
- it is also notable that ACIAR, which is a partner in the regional SDIP program, but not in Pakistan, has research projects on water that should be seen as part of the Australian water research portfolio in the country; and
- because SDIP is a regional program, DFAT in Pakistan has a limited role in contract management, but it does have to work to facilitate access and continuity for the fly-in/fly-out nature of key SDIP partner's work in Pakistan.

AusABBA, is a 'remarkable example of community-driven development in a neglected and difficult operating environment' (2017 FAQC). A new phase has just commenced with a potential duration commensurate with the life of the new AIP. Further:

- because an implementation structure is already in place, this can deliver household and community benefits in the short to medium term;
- FAO is already collaborating with the World Food Program on nutrition issues, and the investment could perhaps be tailored to do more on the nutrition front, especially with respect to nutrition sensitive agriculture; and
- a partnership with FAO might also consider working through other partners to extend the geographical reach of the model, if FAO can resource the management of such an arrangement.

Recommendation 3: The economic growth portfolio should transition to having three main investments:

- 1. The Market Development Facility***
- 2. The Sustainable Development Investment Portfolio's Pakistan program, with possible modifications***
- 3. AusABBA, with possible modifications/extensions***

Responding to opportunities and assisting DFAT

In addition to these main investments, the portfolio should include a means to respond to emerging opportunities and assist the program to manage aspects of Australia's engagement that fall outside the remit of the larger investments. In particular, the portfolio and program need to be able to provide targeted small scale support to other donors doing relevant work and facilitate collaboration and synergies across the portfolio.

- The World Bank is one example, where follow up to PTIPP, SMART Punjab and a possible SMART Sindh might be feasible through targeted trust fund contributions. This might be done through a 'knowledge partnership' with the Bank.
 - Given that PTIPP has supported preparation of a new Strategic Trade Policy Framework to be presented to the new government, it would make sense if there is scope to fund follow up work in partnership with the World Bank.
- DFAT and ACIAR should look for opportunities to work together in Pakistan. A valuable feature of AVCCR has been its ability to build links with other investments – particularly MDF and AusABBA - to supply knowledge and expertise arising from its work on Pakistan agriculture. Since ACIAR will continue to fund research in Pakistan from its own resources, it would be useful for the agencies to agree to maintain a similar function regardless of whether there is a DFAT funded ACIAR program. And it will be important to establish whether ACIAR can continue to fund the research programs that are now in place under AVCCR, should DFAT funding terminate. (DFAT could also investigate the possibility of including ACIAR as a partner in the SDIP Pakistan program.)

The program also needs to continue funding support from a rural development advisor. It will also probably need to fund gender expertise to help ensure the

main investments are delivering on DFAT's gender equality objectives. DFAT may want to commission short term inputs, such as reviews of analytical products, or briefs for policy engagement (from local as well as international experts) or management of influencing and showcasing activities. DFAT should also continue and intensify the work it does to bring together leaders of investments in the portfolio to probe possibilities for collaboration, but also to share understanding of key development issues and workshop whole of portfolio (and even whole of program) issues. Events aimed at doing this could also invite local experts in fields such as political science, international relations, economics, gender and rural development to make presentations on current developments and join in the conversations that DFAT has with its aid engagements. There may also be other ways to bolster the analytical underpinnings of Australia's engagement in Pakistan, through fellowships and the Australia Awards Program.

These functions could be delivered by a contracted flexible facility. This facility could also choose to fund specific activities to be implemented by the main investments, where their core resourcing cannot readily be used to work on agreed issues.

Recommendation 4: The economic growth portfolio should continue to have the ability to act on emerging opportunities with partners, commission analytical studies and other inputs, and have a facility to contract support for coordination and monitoring across investments. This could include funding a follow up to PTIPP.

Modalities

All three recommended main investments have funding agreements that run well into the life of the new AIP, and two - MDF and SDIP - are programs that are contracted regionally or globally by different parts of DFAT. MDF is contracted out to a managing contractor by the Agriculture and Food Security Section, and SDIP is managed regionally. While there is scope within the Pakistan program to change elements of these two investments, fundamental changes in aid modality seem neither desirable nor feasible without concurrence and cooperation of other parts of DFAT.

The current phase of AusABBA, which commenced in 2017, runs to 2020 with a potential extension for 6 more years. FAO, which is the implementation partner, is also implementing a women's economic empowerment project in Balochistan

funded by DFAT's Gender Equality Fund. (This project is included within AusABBA as a separate output.)

As AusABBA currently operates, DFAT is not engaged in operational issues: its roles are more concerned with oversight, leverage and advocacy. DFAT has been holding discussions with FAO for some time about the potential for moving to a different type of partnership arrangement. There is strong alignment with the objectives of the economic growth portfolio and FAO's strategy in Pakistan, and AusABBA provides a strong base to work from. Elements of a partnership could include: establishing a 'lightly earmarked' flexible funding arrangement with clear agreement on principles, an outcome based specification, commitment to enabling adaption by using 1 year work plans, and agreement to seeking leverage with work of other development programs and DFAT investments (such as MDF).

A partnership would also enable DFAT to interact with FAO's work on water, and with work in other parts of the country besides Balochistan. However, DFAT has to recognise that the capacity to engage in good partnerships may rest in individuals, rather than the organisation itself. (The 2011 review of aid effectiveness (Commonwealth of Australia, 2011) reported that FAO was considered by United Kingdom Multilateral Aid Review to be have poor organisational strengths, weak delivery of United Kingdom development objectives, and poor overall value for money as a partner.)

Recommendation 5: DFAT should explore the possibility developing a facility based partnership with FAO (including the work of AusABBA).

Other issues

As discussed in earlier parts of this report, the Pakistan program is aiming for consolidation, and to restructure implementation arrangements to improve manageability (including risk management) and reduce transaction costs to free up more resources for development policy engagement.

These are important objectives, but the experience with the current portfolio brings some useful lessons.

Manageability and partnerships

Some of the biggest manageability problems have come with programs implemented by partners with whom DFAT ought in principle to have had a

more hands-off partnership approach. The problem has been that many potential partners with the capacity to do useful things without close substantive attention have different approaches towards the kind of aid management objectives that DFAT is currently very exercised about. They have their own institutional agendas, reporting systems, approaches to defining and measuring results, and often do things with long term (and sometimes very uncertain) pathways to development outcomes.

- Adopting a more 'hands-off' partnership approach with capable partners may involve making trade-offs related to how DFAT currently expects aid to perform. This may require changes at the 'whole-of-organisation' level to empower country programs to experiment with change.
- The Pakistan program is already utilising a range of 'partnership approaches' in the economic growth portfolio. SDIP is a clear example of a 'hands-off' partnership in which partners determine work programs and report results using their own systems.

Policy engagement

A goal of engaging more with development policy has to recognise that for a country there is no such thing as a single development policy. Effective engagement on critical development issues may involve working on issues as disparate as international tax agreements and fostering community development, and require skills across a number of physical and social sciences, and understanding the drivers of violent extremism. A small DFAT team in the Islamabad High Commission cannot possibly be expected to have even a small number of these skills, so it will be critical to explore how capacity can be expanded and supplemented.

- There are likely to be many Pakistani sources that can help with supplementation – but it may take time to develop appropriate relationships and build mutual trust.
 - DFAT should embark on a specific program of identifying potential local sources of supplementation – staff of portfolio investments such as MDF could be a valuable source of advice, as would be the World Bank, since it is actively engaged in using Pakistani expertise in policy analysis and agenda-setting.
 - DFAT should consider commissioning learning events, or preparation of policy or situation briefs, involving external expertise (local or international), to help DFAT staff better understand key issues and developments. It could perhaps build stronger mechanisms for sharing

intelligence with like-minded partners, and it could also take better advantage of visiting expertise - say associated with investment reviews - by involving them in formal or informal learning events targeting High Commission staff beyond those involved in investment management.

- The aid program itself is an under-utilised resource in this regard. Programs develop a sophisticated understanding of development constraints and the reality of bringing about change in complex contexts. DFAT should aim to make better use of the portfolio, but this may require explicitly tasking programs to develop the capacity to respond to requests from DFAT and resourcing that capacity.
 - DFAT should, for example, require investments to employ additional staff to fill this role or coordinate responses;
 - As discussed above, DFAT should also expand the effort it currently puts into bringing portfolio leaders together to discuss the inclusive growth agenda and cross-investment coordination to make the meetings a broader based consultation and exchange on growth and development issues and the context in which the portfolio is working.

Recommendation 6: DFAT should:

- 1. actively search for local expertise to help expand and supplement capacity to engage on broader development policy issues, and***
- 2. resource investments to help DFAT make better use of the understanding of development policy issues that exists in the portfolio, and create opportunities for exchanges with investments in emerging development and context issues.***

A Terms of reference

Review of Australia's support to sustainable and inclusive growth and employment in Pakistan.

Purpose

Assist DFAT to structure its economic growth portfolio for the next 5 year Aid Investment Plan (AIP) to Pakistan.

Background

DFAT's current Aid Investment Plan (AIP) is due to end in 2019. DFAT is preparing for a new AIP. Sustainable and Inclusive growth is likely to be a key objective. This review will provide evidence and analysis to support DFAT in shaping the inclusive growth components of its next AIP. Under the new AIP DFAT will continue to integrate aid with our Economic Diplomacy agenda which is underpinned by the view that through that shared prosperity we build greater security and stability in our neighbourhood and the world.

Key activities under objective 1 of the current AIP, *Generating sustainable and inclusive growth and employment* will be reviewed. The portfolio as a whole and the current AIP narrative that underpins Objective 1 will also be reviewed. The review team will propose to DFAT ideas for shaping the inclusive growth portfolio in the future and provide ideas for an inclusive growth strategic narrative for the next AIP.

DFAT's recent 'Pakistan Aid Health Check,' DFAT's own assessment aid management in Pakistan, identifies a problem with proliferation of aid activities. Your work will help us to reduce the number of activities in the inclusive economic growth portfolio and identify new less resource intensive ways of managing aid activities including by working through trusted partners.

The current portfolio

A full list of activities within the Economic Growth portfolio is at attachment 1.

Economic Diplomacy.

Economic diplomacy is the use of Australia's diplomatic assets to support Australia's economic interests and to build national and international prosperity by increasing trade, supporting economic growth, encouraging investment and assisting business.

The Economic Diplomacy agenda has led to some reconsideration of the role our aid programs play. Finding and communicating strategic clarity around Economic Diplomacy for the Pakistan program is an ongoing challenge.

Policy

Australia's Aid Policy was launched in June 2014. The purpose of the aid program is to promote Australia's national interests by contributing to sustainable economic growth and poverty reduction.

The aid program is an integral component of Australia's foreign policy. The 2017 Foreign Policy White Paper sets out our vision for a neighborhood in which adherence to rules delivers lasting peace, where the rights of all states are respected, and where open markets facilitate the free flow of trade, capital and ideas.

Generating economic growth is at the centre of the government of Pakistan's *Vision 2025* statement. Pakistan has prioritised enhanced trade and investment with neighboring countries and is committed to better exploiting its strategic location as a regional hub connecting South and Central Asian markets.

In this context, the Australia Aid Investment Plan Aid Investment Plan Pakistan: 2015-16 to 2018-19 has three objectives:

1. Generating sustainable and inclusive growth and employment
2. Investing in Pakistan's people with a focus on women and girls
3. Supporting stabilisation and resilience

Economy and poverty

GDP growth was 5.3% in 2016-17 largely driven by importing industries associated with the China-Pakistan Economic Corridor (CPEC). Energy and infrastructure deficits, skills shortages, and regional instability constrain growth.

Relative to other markets of equivalent size and proximity, the trade relationship is modest and Australian investment in Pakistan is limited. Total two-way goods and services trade with Pakistan in calendar year 2016 was \$1.7 billion

dominated by education services, agriculture and textiles. The poor security environment and challenges associated with doing business in Pakistan, limits the investment appetite of the Australian private sector.

Pakistan has focused high level trade dialogue with Australia on market access for a range of agricultural commodities and preferential trade arrangements including reduced tariffs and a free trade agreement. Australia has focused on promoting Australian education, agribusiness, mining infrastructure and water management services to meet Pakistan's needs.

Pakistan's population is set to double by 2050. Pakistan needs to create approximately 1.5 million jobs a year to absorb the large number of young people entering the labor market each year³. An estimated 45% of the population are poor (UNDP-Oxford Multidimensional Measure). The incidence of poverty is dramatically higher in remote rural areas (up to 90%).

The agriculture sector is important to Pakistan's growing economy and is an important sector for poverty reduction. It is also sector where Australia has experience and a good reputation within the government of Pakistan.

Agriculture comprises 44 per cent of Pakistan's labor force and 25 per cent of GDP. Growth in the agriculture sector is undermined by weak markets, production inefficiencies, land ownership issues, unregulated labor conditions, and water shortages.

According to World Bank and World Food Program studies, Pakistan's economic growth is hampered by an annual 3 percent national GDP loss caused by under-nutrition. UNICEF reports that Pakistan has the third highest rate for stunting in children globally. The Pakistan National Nutrition Survey 2011 estimates a stunting rate of 44 percent.

Gender

DFAT's Gender equality and women's empowerment strategy states that "Experience over recent decades demonstrates that gender equality, economic growth and development are mutually reinforcing and significantly correlated." Gender equality and Women's Economic Empowerment are high priorities in Australia's aid and foreign policies. The UNDP Human Development Report reports significant gender inequality in Pakistan, which stands 121st out of 155 countries reporting on the Gender Inequality Index (GII) with a score of 0.536 in

2014. Pakistan's female workforce participation is 25 per cent (compared to 83 per cent for men).

Australian resources

Australia's total development assistance, approximately \$40 million per year, is small relative to Pakistan's economy, remittances, and total aid flows to Pakistan. Total ODA from all donors to Pakistan remains large compared to Foreign Direct Investment which has dropped due to security concerns in recent years.

Objectives of the Review

1. Review Objective 1 of the AIP, the narrative that supports it and the program portfolio:
 - a. Assess the contribution of the portfolio in delivering objective 1 of the AIP, including an assessment of how well cross-cutting issues have been addressed
 - b. Assess the coherence of the portfolio of programs and the Objective 1 narrative with DFAT's Economic Diplomacy agenda including the level of interaction between aid activities and DFAT's other growth, investment and business activities.
 - c. Assess DFAT's utilisation of its sustainable and inclusive growth portfolio to learn and communicate our experience to:
 - i. improve our own aid activities
 - ii. inform our dialogue with government of Pakistan,
 - iii. support Pakistani, Australian and international private sector organisations and investors
 - d. Contextualise DFAT's aid funding in relation to resources of other donors operating in Pakistan, other sources of finance, and government expenditure drawing out the implications for our sustainable and inclusive growth aid policy and programming.
 - e. Make an assessment of the appropriateness of the sectors of the economy where DFAT is currently working
 - f. Assess the appropriateness of the modalities used by activities in the portfolio
2. Make recommendations for DFAT's future inclusive growth strategic narrative and portfolio management:
 - a. Propose to DFAT a strategic narrative that will anchor dialogue and management decisions for the inclusive growth portfolio in the next AIP including to:
 - i. Provide a conceptual framework that links aid, inclusive growth, poverty reduction, stability and Economic

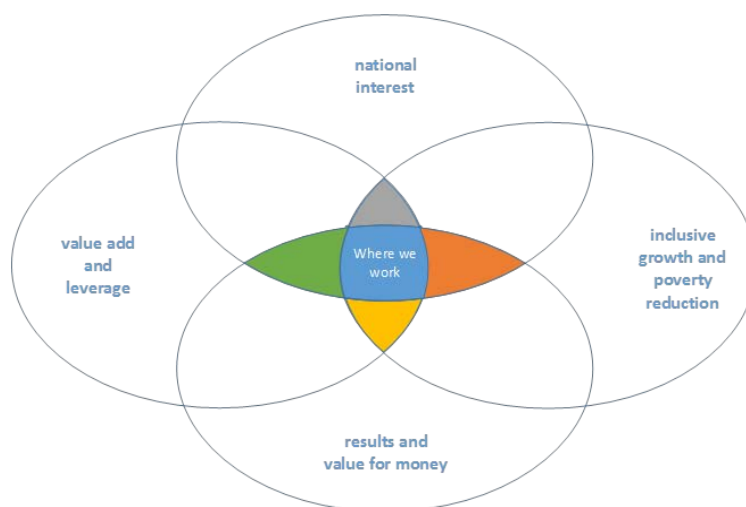
Diplomacy in Pakistan (acknowledging the likely priority areas of gender, water, and food security)

- ii. Using examples from DFAT's current aid activities as well as broader research and examples from Pakistan and elsewhere, provide evidence to support this framework.
 - b. Provide recommendations to DFAT on how deliver on this strategic narrative including recommendations on:
 - i. Overlap and gaps in the current portfolio
 - ii. The function, management and structure of the portfolio as a whole.
 - iii. Opportunities to align aid activities with other components of our Economic Diplomacy agenda and vice versa
 - iv. DFAT's role in facilitating sustainable and inclusive growth in the context of other donors, other sources of finance and government expenditure in Pakistan
 - v. Sectors where DFAT should operate and aid modalities that should be utilised
3. Review aid activities in delivering Objective One of the current Pakistan AIP including to:
 - a. Assess relevance, effectiveness, efficiency, monitoring and evaluation, gender, and sustainability reporting only where there are significant issues, important issues for shaping the portfolio going forward or where it will provide evidence in support of objective 1 of this review

The nature and resource limitations of this review, will not allow for a thorough assessment of individual activities or to rate the activities numerically.

In meeting these objectives the review will consider the four tests of Australian Aid whereby our policy and programming sits where the following overlap:

1. National Interest
2. Value add and leverage
3. Results and VFM
4. Inclusive growth and poverty reduction



Methodology

The review will be conducted in accordance with DFAT's Monitoring and Evaluation standards (<http://dfat.gov.au/about-us/publications/Pages/dfat-monitoring-and-evaluation-standards.aspx>) and Chapter 4 of DFAT's Aid Programming Guide (<http://dfat.gov.au/about-us/publications/Pages/aid-programming-guide.aspx>)

The evaluation will be published in accordance with DFAT's evaluation policy. <http://dfat.gov.au/aid/how-we-measure-performance/ode/Pages/aid-evaluation-policy.aspx>

The evaluator will submit to DFAT an evaluation plan prior to visiting Pakistan. A detailed description of what is expected from an evaluation plan is provided in Standard 5 of DFAT's Monitoring and Evaluation Standards (see link above)

The review will focus on a limited number of activities to be agreed with DFAT in the review work plan.

DFAT's program management practices, staff and their capabilities will be included in the review and surveys or interviews with DFAT staff are expected.

Time allocation.

A total of up to 41 days will allocated for the consultant as follows:

Desk based preparations: Approximately 15 days will be allocated to consultant for a literature review, to organise travel and logistics and draft an evaluation plan.

An in-country review mission: Approximately 7 days including travel time for a review visit to Pakistan. According to the work plan the reviewers may visit:

- Aid program activity offices
- Aid program activity implementation areas including business, government and civil society partners and beneficiaries of aid programs
- The Islamabad Post to speak with DFAT aid program and foreign policy staff
- Other donor activities and offices.

Report writing and visit follow-up: A total of up to 19 days will be allocated to writing the review report and following-up issues.

Consultation

A list of organisations and people that the reviewer should meet with is provided in attachment A below.

Skill and Experience Required

- Skills and experience in shaping, designing and evaluating sustainable and inclusive economic growth portfolios or strategies
- Aid program evaluation skills and experience
- Gender and women's economic empowerment skills and experience

The following skills would also be valuable:

- Understanding of DFAT, Australia aid and Australian aid program systems and processes
- Knowledge and experience of Pakistan
- Knowledge of other donor activities in Pakistan
- Understanding of DFAT's current aid activities under Objective 1 of the Pakistan Aid Investment Plan.

The Reviewer will be responsible for submitting all reports and will be the primary point of contact for DFAT.

Role of DFAT.

DFAT will help the Reviewer to organise meetings, logistics and security arrangements. DFAT staff, from Canberra and Islamabad are expected to accompany the Reviewer for all or some of the in country review. DFAT staff will also make themselves available for interviews with the Reviewer. DFAT will review and approve documents submitted by the Reviewer.

DFAT's Pakistan Rural Development Advisor will be available throughout the review, including to be in Islamabad during the review visit, to provide advice and input as required by the reviewer. DFAT will also provide access to other expertise, notably gender and women's economic empowerment expertise.

Reporting Requirements

- An evaluation plan due three weeks prior to the review visit
- statement of key consideration for an inclusive growth narrative 1 week prior to the review visit
- Debrief and aide memoire due at completion of the review mission,
- A draft review report due two weeks after the review mission

Timeframes

Timeframes will be negotiated with DFAT. The review mission would be held in April. The final report for publication will be provided within a month of the review mission.

Annexes

Annex 1 Pakistan Aid Investment Plan Objective 1 related activities

Women's Economic Empowerment and Market Development Program \$5 million, 2015-2018

Delivered by the Sarhad Rural Support Programme (SRSP), (a local NGO), this program builds on the Livelihood Strengthening Program (phase one) to promote women's economic empowerment and market development for the poor in Khyber Pakhtunkhwa (KP). The program aims to increase employment opportunities, market access and incomes for poor and marginalised groups, and ensure increased participation of women in economic activities.

- Sarhad Rural Support Programme: <http://ww3.srsp.org.pk/>
- Evaluation of Phase 1 (2014), [Pakistan Livelihood Strengthening Program in Border Districts of Khyber Pakhtunkhwa \(SRSP\) Evaluation Report](#)
- Design document (2015) [SRSP Design Document](#)

The Market Development Facility

Phase II, \$15.3 million 2018-22 (Phase I, \$9.4 million, 2013-17)

The Market Development Facility aims to create additional jobs and increase income for poor women and men by partnering with the private sector to stimulate investment, business innovation and regulatory reform. It focuses on increasing the competitiveness of sectors and industries that involve poor and marginalised people, primarily in the agriculture sector.

- [Market Development Facility](#)

Agriculture Value Chain Collaborative Research Program \$9 million, 2016-2020

The Agriculture Value Chain Collaborative Research Program (AVCCR) is delivered by the Australian Centre for International Agricultural Research (ACIAR). It improves agricultural productivity and enhances livelihoods by linking Australian and Pakistani expertise to small-holder farmers, particularly in goat meat, pulses, dairy and beef industries.

- [ACIAR–AVCCR](#)

**Australian Assistance to Agriculture Development in Balochistan Border Areas
Phase II, \$22 million 2017-2023 (Phase I, \$12.9 million, 2012-2017)**

The Australian Assistance to Agriculture in Balochistan Border Areas (AusABBA) program aims to promote sustainable development among marginal and small-scale producers as well as food traders and exporters, to reduce poverty and address economic inequalities. AusABBA Phase II will build on the achievements of AusABBA Phase I, by deepening systemic support for agriculture and market development in the districts of Chagahai, Kech, Kharan, Nushki, Panjgur and Washuk with clear objectives around nutrition and gender outcomes. AusABBA is implemented by the Food and Agriculture Organization of the United Nations (FAO).

- [Balochistan Agriculture Program](#)
- [Food and Agriculture Organization of the United Nations](#)

**Pakistan Trade and Investment Policy Program
\$9.9 million, 2015-2018**

Delivered by the World Bank, the Pakistan Trade and Investment Policy Program supports Pakistan in its efforts to increase regional trade and investment, with a particular focus on strengthening links to other South Asian markets. The program supports the Ministry of Commerce to develop a regional trade strategy and strengthen its capacity to implement trade reforms. It also focuses on facilitating trade at key border posts by reducing time, cost and documentation required to process exports/imports.

- Design documents (2015) <http://dfat.gov.au/geo/pakistan/development-assistance/Pages/generating-sustainable-economic-growth-and-employment-pakistan.aspx>
- Independent Review and Management Response (2017) <http://dfat.gov.au/geo/pakistan/development-assistance/Pages/generating-sustainable-economic-growth-and-employment-pakistan.aspx>

**Sustainable Development Investment Portfolio (SDIP) Program
Phase II, \$11 million, 2017-2020 (Phase I, \$4 million, 2013-2016)**

The Pakistan program co-invests in the South Asia regional Sustainable Development Investment Portfolio (SDIP). This Portfolio is aimed at improving Pakistan's understanding of current and future Indus water resources using Australian water management tools and technologies. Phase I has been led by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and will assist Pakistan in efficient water management and planning for agriculture and energy security.

In Phase II of the Pakistan program includes an expansion into hydropower and decentralised energy. Partners include the World Bank's International Finance Corporation (IFC), the International Centre for Integrated Mountain Development ICIMOD, The Asia Foundation, the Australian Centre for International Agricultural Research (ACIAR), CSIRO and the International Centre for Excellence in Water Resource Management (ICE WaRM).

- Sustainable Development Investment Portfolio
<http://dfat.gov.au/geo/south-west-asia/development-assistance/Pages/south-asia-regional-increased-water-food-energy-security.aspx>

SMART Punjab - Strengthening Markets for Agriculture and Rural Transformation in Punjab \$600,000, 2017–20

The World Bank's Strengthening Markets for Agriculture and Rural Transformation in the Punjab (SMART Punjab) will support a government Program consisting of improvements in agriculture policy, introduction of a series of market reforms and more efficient use of public resources. SMART Punjab also acknowledges the significance of engaging women and youth in agribusiness for rural transformation.

The Business Partnerships Platform

Better Cotton Initiative – (\$2.9 million over 2 years, including \$2.4 million private sector contribution)

The Better Cotton Initiative (BCI) is a global sustainability initiative which establishes global standards for cotton production that are more sustainable and positively impact on the lives of those in the supply chain. It does this by bringing together cotton's complex supply chain, from farmers to retailers. This partnership will support the training of an estimated 200,000 farmers in Pakistan

so they can become part of the BCI, and access the growing global market for sustainably produced cotton. Cotton Australia is providing their expertise on the back of Australia's recent accreditation under the BCI.

Pakistan Partnerships in Inclusive Seed Systems (\$1 million over two year including \$0.5 million private sector contribution)

This partnership develops an innovative, scalable and sustainable business model in Pakistan's seed sector that broadens and diversifies the seed procurement base for rice, wheat and vegetables, resulting in improved livelihoods for male and female smallholder farmers.

- The Business Partnerships Platform <http://dfat.gov.au/aid/who-we-work-with/private-sector-partnerships/bpp/Pages/business-partnerships-platform.aspx>

Innovation Exchange, Food Launch and Development Accelerator Telenor (\$280,000, 2017)

A partnership with mobile phone service provide Telenor to use mobile messaging to educate and encourage farmers to grow more nutritious food for themselves and urban consumers at reduced costs. DFAT is using the Market Development Facility to implement this partnership.

- Innovation Exchange webpage: <https://ixc.dfat.gov.au/projects/launch-food/>

Annexe 2 Other Documents

- 2017 Foreign Policy White Paper <https://www.fpwhitepaper.gov.au/>
- Australian aid: promoting prosperity, reducing poverty, enhancing stability <http://dfat.gov.au/about-us/publications/Pages/australian-aid-promoting-prosperity-reducing-poverty-enhancing-stability.aspx>
- Aid Investment Plan Pakistan: 2015-16 to 2018-19 <http://dfat.gov.au/about-us/publications/Pages/aid-investment-plan-aip-pakistan-2015-16-to-2018-19.aspx>
- Pakistan Aid Program Performance Report 2016-17 and revised Performance Assessment Framework <http://dfat.gov.au/about-us/publications/Pages/pakistan-aid-program-performance-report-2016-17.aspx>
- Economic Diplomacy description <http://dfat.gov.au/trade/economic-diplomacy/Pages/economic-diplomacy.aspx>
- Strategy for Australia's aid investments in private sector development <http://dfat.gov.au/about-us/publications/Pages/strategy-for-australias-aid-investments-in-private-sector-development.aspx>
- Creating shared value through partnership, Ministerial statement on engaging the private sector in aid and development <http://dfat.gov.au/about-us/publications/aid/Pages/creating-shared-value-through-partnership.aspx>
- Gender equality and women's empowerment strategy <http://dfat.gov.au/about-us/publications/Pages/gender-equality-and-womens-empowerment-strategy.aspx>
- Documents provide on request by DFAT
- Pakistan Aid Health Check Outcomes report
- Aid Quality Check Reports and key evaluations
- Nutrition related research and planning documents
- Gender Strategy review
- Climate change paper

Annexe 3 Initial People and Organisations for Consultation

- Senior Specialist Gender Equality, DFAT, Annemarie.Reerink@dfat.gov.au.
- Pakistan Program Rural Development Advisor, David Swete Kelly, david@rdsiconsulting.co.nz
- Pakistan Post. Dave Preston, First Secretary, Development including to identify contacts in the World Bank, DFID, ADB and USAID dave.preston@dfat.gov.au
- Pakistan Desk. Peter Wilson, Assistant Director, peter.wilson@dfat.gov.au.
- Government of Pakistan in consultation with Islamabad Post (David.Preston@dfat.gov.au).
- Austrade (contact Austrade via David.Preston@dfat)
- ACIAR. Peter Horne General Manager, Country Programs +61 2 6217 0522, Horne, Peter Peter.Horne@aciarc.gov.au
- AusABBA II. Food and Agriculture Organization of the United Nations (FAO) Marcel Stallen
- Chief Technical Advisor (CTA) +92 345 8544259, Marcel.Stallen@fao.org
- Market Development Facility (MDF). Harald Bekkers, MDF Pakistan Acting Country Representative and MDF Team Leader, Harald.Bekkers@cardnomdf.org
- Palladium (Managing Contractor for BPP and MDF) Alwyn Chilver, Director, Economic Growth alwyn.chilver@thepalladiumgroup.com
- Project for Women's Economic Empowerment and Market Development in Border Districts of Khyber Pakhtunkhwa, Sarhad Rural Support Programme (SRSP) Nadia Shah, nadia@srsp.org.pk
- Sustainable Development Investment Partnership (SDIP) advisors and partners [Kate Hayes](#)
- [Tim Gill \(DFAT Agriculture Sector Specialist\), Brian Dawson \(DFAT Climate Change Advisor\), Gillian Brown \(independent consultant and gender expert with recent experience with DFAT's Pakistan aid program\).](#)

B Evaluation plan

Section 1: Introduction

Purpose of this document

This document outlines the plan for the evaluation of Australia's support to sustainable and inclusive growth in Pakistan. The evaluation has been commissioned to assist the Department of Foreign Affairs and Trade to structure its economic growth portfolio over the period of the next Aid Investment Plan. It will examine the activities that are currently being implemented as part of the portfolio: but it will not undertake a comprehensive assessment of each activity. Rather, it will focus on helping shape a coherent and consistent conceptual framework and narrative for engagement in inclusive and sustainable economic growth in Pakistan that can anchor dialogue and management decisions about the portfolio. It will also recommend ways for implementing recommendations arising from application of the framework and narrative.

The framework will build on an analysis of the constraints to and opportunities for sustainable and inclusive growth in Pakistan and lessons from recent experience. This will be overlaid by the four tests of Australian aid as laid out in the 2017 Foreign Policy White Paper, and consideration of what kind of role Australian assistance is best suited to play in Pakistan. The narrative will comprise suggestions for a theory of change for the economic growth objectives drawing on application of the framework and evidence drawn from examination of Australia's current engagement with sustainable and inclusive growth, and the experience and knowledge of other partners and of Pakistani stakeholders.

The structure of this document is as follows:

- This section presents the scope and objectives of the evaluation, and the questions to be addressed;
- Section 2 presents the design of the evaluation, including approach and methods to be employed; and

- Section 3 discusses how the evaluation will be managed and the plan for stakeholder engagement and communication.

Scope and objectives

The primary purpose of this evaluation is to assist the Department of Foreign Affairs and Trade (DFAT) as it considers how to structure its engagement in economic growth in the next Aid Investment Plan (AIP) covering the period 2019 to 2024. Specific objectives for the evaluation are as follows.

1. Make recommendations for DFAT's future inclusive and sustainable growth strategic narrative and portfolio management, with a particular emphasis on:
 - proposing a strategic narrative that will anchor dialogue and management decisions for the inclusive growth portfolio in the next AIP; and
 - providing recommendations on how to deliver this strategic narrative.
2. Review Objective 1 of the current AIP (*Generating sustainable and inclusive growth and employment through increased trade and investment, and improvements to agricultural productivity, water resources management and industry*), the narrative that supports it and the program portfolio.
3. Review the aid activities currently being implemented to deliver Objective 1, using criteria of relevance, effectiveness, efficiency, monitoring and evaluation, gender and sustainability, where this helps to provide an understanding of key issues with respect to achievement of Objective 1 or informs shaping the portfolio going forward.

The evaluation's purpose is forward looking. It will have both summative and formative elements, but the emphasis is on the formative to ensure it provides useful inputs to the preparation of the next AIP. Therefore the examination of the narrative in the *current* AIP, and of the performance of the activities that are in the current portfolio, will be used primarily to draw lessons that can inform the crafting of the narrative/theory of change for the *new* AIP. This will complement and provide inputs into a more conceptual analysis that looks at what theory and practice in Pakistan tells us about what might usefully be done by a comparatively small grant aid program and modest in-country representation to foster inclusive and sustainable growth. This analysis, which will draw on the literature and discussions with key informants, will also consider how to construct a framework to support decision-making and communication that takes account of the broader interests that shape DFAT's work in Pakistan.

The evaluation's recommendations on portfolio management will also take account of DFAT's desire to consolidate the overall aid program in Pakistan, and to elevate the work of Desk and Post from managing agreements and investments to influencing the policy and partnership level, supported by an increased use of a partnership approach (as recommended in the recent Aid Health Check).

Evaluation questions

This evaluation is not being asked to undertake a comprehensive assessment of the current activities in the economic growth portfolio. Rather, it is being tasked with helping DFAT to develop a coherent narrative and framework for the next AIP to guide decision making about the portfolio, and to shape how the Department uses its investments in growth to support Australia's broader engagement with Pakistan. Because it is being asked to make recommendations on how DFAT can *deliver* on the proposed strategic narrative, it will also have to examine the current portfolio, how well it contributes to the growth-related objective of the current AIP, and draw lessons about sectoral choices, aid modalities, partner performance and making effective use of Post resources.

To this end, in order to develop suggestions for the narrative/framework the evaluation will need to address the following questions:

- What are the key opportunities for, and constraints to, sustainable and inclusive growth in Pakistan, particularly growth that can contribute to poverty reduction, inclusion and women's economic empowerment?
 - What the salient characteristics of poverty and exclusion in Pakistan– such as geographic distribution, resource capture, as well as the gender, age and ethnicity dimensions, and the relationship to structures of power at household, community, district and national levels; and
 - How should the portfolio be conceived to achieve an appropriate and positive interaction between growth and DFAT's emerging policy area priorities, namely, private sector development, water and food security and gender equality.
- What roles can different stakeholders play in addressing these opportunities and constraints? Specifically:
 - What can a small grant aid donor and even smaller provider of development finance with a limited representational presence do, (especially considering the relative in-principle and in-practice roles of the public and private sectors and how aid can interact with these roles)?

- What roles do technical, social and institutional factors and linkages play as drivers of inclusive development?
- How should Australia’s overarching interest in supporting stability in Pakistan and the aims of Australia’s Economic Diplomacy in Pakistan, help inform construction of a conceptual framework that links aid, inclusive growth, poverty reduction, stability and Economic Diplomacy, and choices about what the economic growth portfolio should do?
- How does the application of the four tests of Australian aid (see box) affect choices about the portfolio?
- What are the opportunities and risks associated with pursuing women’s economic empowerment? Specifically;
 - How appropriate is the analysis of needs, opportunities and risks from a gender perspective that the portfolio has drawn on and will be drawing on?
 - How well does the portfolio link the pursuit of women’s economic empowerment with considerations of improving women’s status in the family and community and increasing their decision-making power?

In order to provide recommendations on how to construct the proposed narrative, the evaluation will draw on experience with respect to delivery against the growth objective (Objective 1) of the current AIP. This in turn will require considering the following questions.

- How does Objective 1 of the current AIP align with the articulation of challenges and opportunities for inclusive growth and proposed conceptual framework being developed by the evaluation, and how well does it cohere with Australia’s recent Foreign Policy White Paper as well as DFAT’s current Economic Diplomacy agenda and other growth, investment and business activities?
- What lessons can be drawn about how well the portfolio is structured to deliver that objective, including the following:
 - What has been the contribution of the portfolio in delivering the objective, and supporting the pursuit of DFAT’s Economic Diplomacy agenda?

The four tests for allocating development assistance

1. Is this in our national interest?
2. Will this promote inclusive growth and reduce poverty?
3. Does Australia’s contribution add value and leverage partner funding?
4. Will this deliver results and value for money?

- How effectively has DFAT used the portfolio to learn and communicate experience to improve aid activities, inform dialogue with the Government of Pakistan and support the private sector in Pakistan, Australia and the rest of the world?
- How does the portfolio relate to the context of the resources of other donors, other sources of finance and government expenditure targeted at inclusive growth?
- How appropriate are the economic sectors where DFAT is currently working, and of the modalities used by activities in the portfolio? Do sectors draw on locally acknowledged areas of Australian comparative advantage and program based learnings? What are the limits to DFAT's ability to manage activities, and how does aid management impact on Post's ability to engage with policy dialogue and reporting and relationship management? Do modalities allow for the right balance between strategic intent and reducing management burdens on staff? What has been learnt about the ability of partners to work towards the portfolio's objectives and support DFAT's higher level engagement in Pakistan?
- How well have activities in the portfolio incorporated and articulated gender-related objectives, how effective has their reporting been against these objectives, and how have they interacted with other initiatives that might complement what they do with respect to women's economic empowerment (for example, working on social empowerment through collective action)?

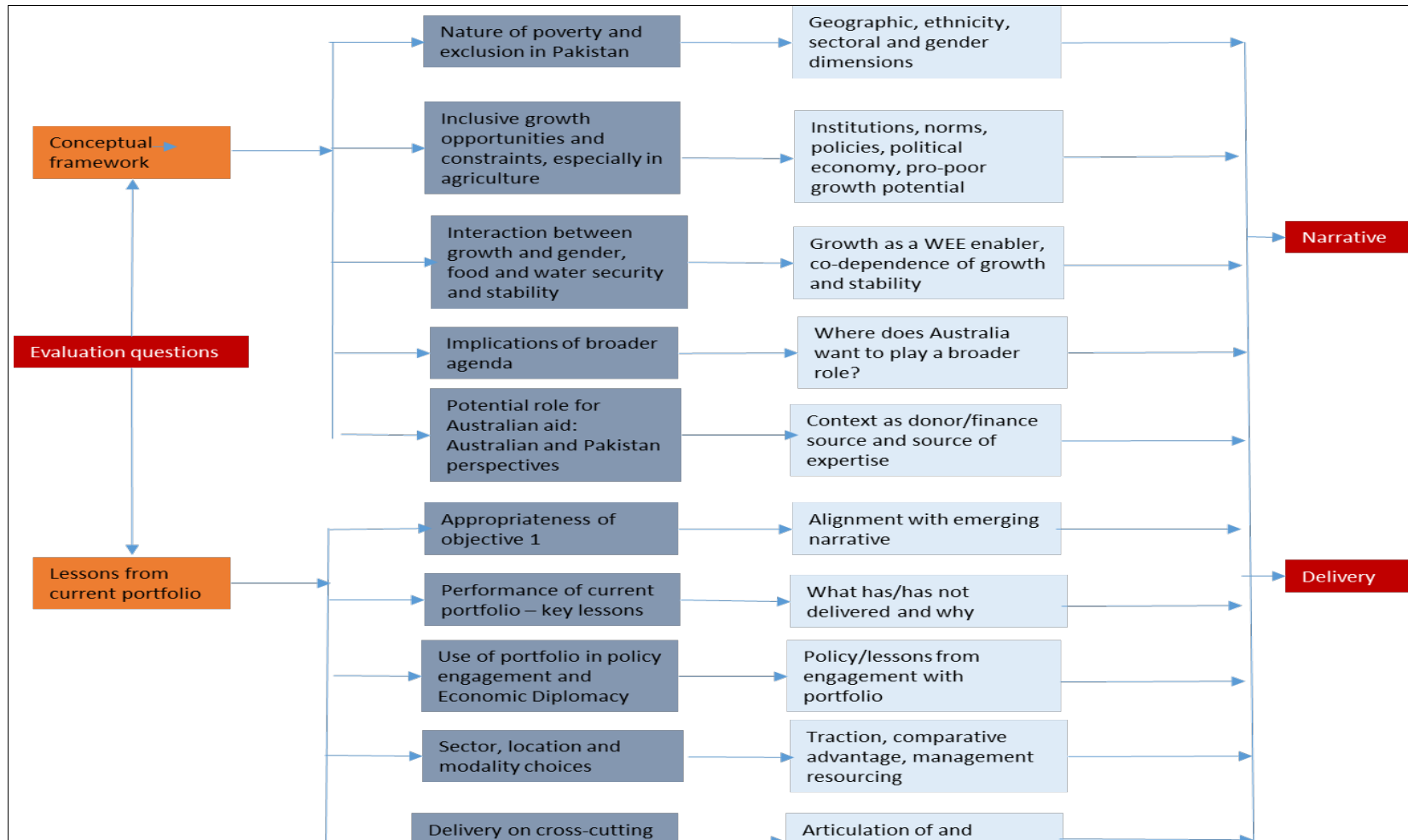
In developing recommendations for the narrative/framework and future portfolio management, the evaluation will address questions such as the following.

- Given key considerations from the conceptual framework, lessons from current portfolio, the 4 tests of Australian aid and overarching foreign policy objectives, what could future Australian engagement in inclusive and sustainable growth entail? In particular:
 - Where can Australian aid have an impact on inclusive and sustainable growth?
 - What trade-offs will have to be made in selecting issues, sectors and locations to work on?
 - How can DFAT ensure that gender equality and inclusion remain central to the portfolio?
 - How can DFAT achieve synergies across activities in the portfolio and across other parts of the program?

- What is the value of specific modalities, and what trade-offs are involved in choosing amongst them? How does DFAT ensure a focus on strategic objectives when using indirect modalities such as partnerships, regional and organisation-wide activities and funding sources?
- What should DFAT look for in assessing performance of the growth portfolio?
- How can DFAT make better use of the portfolio in 'lifting its gaze'?

Figure 1.1 below depicts the specific question areas that the evaluation will explore in relation to the foregoing requirements. More detail on these questions is provided in Appendix A

B.1 Question areas for the evaluation



Section 2: Evaluation design

Approach

The purpose of this evaluation dictates the use of an approach tailored to the Pakistan Program's specific requirements. The key features of the approach to be used are as follows.

- **Utilisation-focused:** the evaluation is being conducted at the same time as the Pakistan Desk and Post are engaged in the AIP formulation process which the evaluation is intended to assist. The evaluation will therefore adopt a 'utilisation focused approach' — based on the belief that an evaluation should be judged by the extent to which it is useful for its intended users. This means that close and continued consultation with those involved in formulating the AIP will be required to make sure that the questions being addressed and the formulation of recommendations are relevant to the evolving articulation of the Plan.
- **Theory and practice:** because the evaluation is required to propose a conceptual framework, informed by recent experience with the growth portfolio, it will need a strong theoretical foundation bonded to an understanding of practical experience and contextual appreciation. The evaluation will examine the issues through the lens of standard economic growth diagnostic, but will also draw on other disciplinary approaches to consider the interface between economic, social and political economy factors shaping achievement of inclusive growth.
- **Efficiency and adoption of real-world evaluation methods:** the scope of and methods used by the evaluation will be tailored to the allocated time and resourcing. In particular, the evaluation will draw upon the expertise of DFAT staff and advisers in addressing key issues of program direction and performance to complement what the evaluation consultant brings to the exercise.
- **Independence:** the consultant undertaking the evaluation is independent of DFAT, and has no direct involvement in implementation of any of the programs in the growth portfolio¹⁴

¹⁴ The consultant is a member of the Advisory Group for the Market Development Facility.

Method

The evaluation will involve consultations in Australia with the Pakistan Desk and relevant DFAT advisors (for example, gender and rural development advisers), and five days of field work in country spread over the period 15-28 April.

Data collection

The main ways that the evaluation will gather information are document reviews, roundtable and group meetings and key informant interviews. Most information will be qualitative and based on the judgment and experience of interviewees. Some secondary quantitative information (for example on recent growth, poverty and women's economic empowerment issues) will be used to provide context and summarise assessments made by researchers, development partners and DFAT staff.

Document reviews

The main documents to be reviewed include:

- DFAT strategy and guidance documents;
- Portfolio activity reviews, publications and Aid Quality Check assessments;
- Government of Pakistan strategy and policy documents;
- Third party literature on relevant issues, including World Bank Country Economic Memoranda, ADB Country reports, donor strategy and partnership documentation, 'grey' literature including policy studies by Pakistani authors commissioned by development partners or produced by domestic think tanks.

Appendix C lists the main documents identified for review.

Key informant interviews

Interviews with key informants will comprise the bulk of the fieldwork, but will also include discussions with key personnel in DFAT Canberra and agencies delivering particular activities. Interviews may be conducted through one-on-one or group interactions.

Sampling of interviewees will be purposive rather than random. The aim will be to provide the evaluation with a meaningful overview of the portfolio and the understanding/lessons arising from the work of activities of agencies and institutions working in the field of inclusive growth within the time/resource

constraints of the fieldwork. The sampling will be shaped by the ability of stakeholders to interact with the evaluation in Islamabad and Lahore. The main categories of key informants are:

- **Leaders:** Deputy Head of Mission, DFAT Assistant Secretaries;
- **Relationship managers:** Pol/econ and development cooperation Secretaries in the High Commission;
- **Program/portfolio and activity managers:** staff in DFAT Canberra and the Australian High Commission in Pakistan;
- **Sector advisors:** sector and subject matter advisors;
- **Counterparts:** staff in partner government agencies;
- **Delivery team managers and members/partners:** agencies involved in delivery of portfolio activities; and
- **Informed third parties:** like-minded donors, local think tank experts.

Roundtable meetings

To improve the efficacy of engagement the evaluation will utilise structured round table meetings where this seems appropriate. At least one roundtable meeting will be held with the implementation leaders of current Australian funded initiatives. This meeting will not try to explore specific investments but use the collected experience to look at issues that affect the efficacy, efficiency and sustainability of current engagements. This will be complemented by individual meetings with implementation leaders of the most important projects. Another roundtable meeting will be held with representatives of like-minded donors to explore how Australia's aid intersects with the work of other development partners, and perceptions of Australia's comparative advantage working in Pakistan.

Appendix B lists the key informants that the evaluation expects (at this stage) to engage with. This list will be refined in discussions with Desk and Post.

Data analysis

The evaluation will compile notes from documentation and interviews. These will be used to inform an analysis of key issues that will shape development of responses to evaluation questions and recommendations regarding the conceptual framework and practical suggestions for addressing inclusive growth and related objectives in the next AIP. Information regarding performance of individual activities and the overall portfolio with respect to objective specified in the current AIP will be used to illustrate key issues for consideration in the

articulation of the next AIP and development of the portfolio of activities to deliver growth and related activities in the coming 5 years.

The analysis, and conclusion it supports will be tested with program advisors, Post and Desk staff at key intervals in preparing the evaluation report. Opportunities for doing this will include, but not be limited to consideration of the initial findings report and debriefings on the fieldwork.

Testing ideas on the strategic narrative

The mission will hold a half day workshop with the DFAT team at Post to discuss and debate the emerging thinking and how a strategic narrative may capture the elements of this. The aim would be to clarify strategic intent and key indicators of success at the overall portfolio level. A similar set of discussions will be held in Canberra after the mission, using the aide-memoire to test ideas and initial recommendations. These interactions will inform production of a report which will contribute directly to the development of the AIP and inform suggestions for the economic objectives in the Pakistan program Performance Assessment Framework.

Section 3: Evaluation management and reporting

Roles and responsibilities

The evaluation will be conducted by Robert Warner, a development economist with experience in the use of development assistance to pursue goals in economic governance, growth policy, public finance, international trade. He will receive support from staff in the High Commission in Islamabad, the Pakistan, Afghanistan and Central Asia Branch, a DFAT senior gender advisor (Annemarie Reerink), and a rural development advisor (David Swete Kelly) who are supporting the Pakistan program.

Scheduling

The evaluation will be conducted over the period 8 March to 11 June 2018, and have 3 phases:

- Inception and documentation/literature review phase, involving consultations with the Pakistan teams in Canberra and Islamabad, and supporting preparation of this plan
- Field work to be conducted over the fortnight beginning 15 April 2018¹⁵, culminating in briefings in Islamabad and Canberra; and
- Analysis and reporting/communication phase

Limitations

This evaluation is intended primarily to inform development of the next AIP, and has a strong e following factors may have an influence on this evaluation:

- **Time and resources:** the rigour of the data gathering and analysis processes for this evaluation will be constrained by the time available. In particular, the limited time for fieldwork and tight deadlines imposed by the need for the report to make a useful input into the preparation of the next AIP, mean that effort will be have to be focused on the priority objectives. This in turn means

¹⁵ The review will be conducted in tandem with a mission of the Advisory Group for the Market Development Facility's Pakistan Program, which will be carried out by David Swete Kelly and Robert Warner.

that the evaluation will not be able to present a thorough evaluation against DAC criteria of the growth portfolio and its component activities.

- **Judgements:** this evaluation will primarily involve rapid qualitative methods of inquiry, and will rely on the professional judgement of the consultant to interpret stakeholder perspectives.
- **Access and security:** The evaluation will not be able to visit activity sites (with the possible exception of Market Development Facility activities) because of security, access and time constraints, and the interaction with activities will be mainly through meetings with activity managers in Islamabad and Lahore. It will be important to use interviews to triangulate findings from the document/literature review and perceptions arising from each interview, but more the scope for more sophisticated validation of conclusions will be extremely limited.

Despite these limitations, the evaluation expects that with strong support from Canberra and Islamabad, a quality assessment of key issues shaping formulation of the narrative for inclusive growth, and informed suggestions for the possible focal areas for activities will be possible.

Reporting and stakeholder engagement

Reporting from the evaluation will involve four steps

- **Statement of key considerations for an inclusive growth narrative.** This will be submitted a week before the field visit, and will be based on the documentation/literature review and consultations with Canberra DFAT staff. This statement will provide an opportunity to: validate the identification of key issues; check against emerging developments in the preparation of the AIP; and inform finalisation of questions/issues to be addressed with interviewees in Pakistan (due 9 April 2018).
- **Aide memoire from the field visit:** at the completion of the field visit, the evaluation will submit an aide memoire reporting on key findings providing a further opportunity for validation and refinement with staff in Islamabad and Canberra on return from Pakistan (due 4 May 2018).
- **Draft report:** on return from the field visit, the evaluation will prepare a draft report based on analysis of findings from Pakistan and perceptions gathered from consultations with stakeholders (due 28 May).
- **Final report:** feedback on the draft report will be assessed and used to prepare the final report. In the lead up to submission, the evaluation and DFAT Canberra will consider options for publication, including whether a separate version will be prepared that omits sensitive material. The pre-publication version will be submitted by 11 June.

Annex A. Question guide

A.1 Question guide

<i>Question subject</i>	<i>Key question</i>	<i>Stakeholder class</i>	<i>Specific questions</i>
Conceptual framework, guiding principles and foreign policy considerations	What are the drivers of inclusive growth in Pakistan and in the areas (geographic, sectoral, policy space) where Australia works	Leaders, program managers, relationship managers, informed third parties	Access to assets, markets, power, agency, policy and institutional drivers of incentives
	What are the overarching foreign policy objectives for Australia's engagement with Pakistan, and how might that shape the aid program and growth portfolio	Leaders, program managers, relationship managers	What does Australia hope to achieve with a portfolio of economic growth activities? How do development assistance and economic diplomacy agendas intersect?
	How do questions of gender, water, energy and food security interface with a growth objective	Program managers, relationship managers, sector advisors, delivery team managers, informed third parties	
	What does Pakistan expect from the bilateral partnership	Economic Affairs; Foreign Affairs; Planning; Provincial Government	Is funding the driver of need or are technical, social and institutional links of more importance.
Lessons from current portfolio	How appropriate is objective 1 of the current AIP	Leaders, program managers, relationship managers, sector advisors, informed third parties	Alignment with analysis of evaluation concerning opportunities, constraints, capabilities and priorities
	Has the portfolio worked in the right sectors and locations?	Leaders, program managers, relationship managers, sector advisors, informed third parties	Have choices been consistent with comparative advantage, knowledge base and potential impact on Objective 1?
	How have current activities and partners performed?	Program managers, delivery team managers, informed third parties, sector advisors	What has/has not worked and why? Lessons for the next AIP
	How have DFAT and the High Commission used the portfolio in broader relationship and reporting activities?	Leaders, program managers, relationship managers	How have lessons/information from activities informed policy dialogue, pursuit of economic diplomacy agenda? How do DFAT staff view the portfolio and its conceptual framework?
	Has modality choice been appropriate?	Program managers, delivery team managers, informed third parties, sector advisors	What is DFAT's capacity to manage activities?

How does aid management impact on ability to engage with policy dialogue and reporting?

What are the trade-offs costs and benefits of alternative modalities in the context of the Pakistan program?

A.1 Question guide (continued)

<i>Question subject</i>	<i>Key question</i>	<i>Stakeholder class</i>	<i>Specific questions</i>
Recommendations	Given key considerations from the conceptual framework, lessons from current portfolio, the 4 test of Australian aid and overarching foreign policy objectives, what could future Australian engagement in inclusive and sustainable growth entail?	Leaders, program managers, relationship managers	<p>Where can Australian aid have an impact on inclusive and sustainable growth?</p> <p>What trade-offs will have to be made in selecting issues, sectors and locations to work on?</p> <p>How can we ensure that gender equality and inclusion remain central to the portfolio?</p> <p>What is the value of specific modalities, and what trade-offs are involved in choosing amongst them? How does DFAT ensure a focus on strategic objectives when using indirect modalities such as partnerships, regional and organisation-wide activities and funding sources?</p> <p>What should DFAT look for in assessing performance of the growth portfolio?</p> <p>How can DFAT make better use of the portfolio in 'lifting its gaze'?</p> <p>How can DFAT achieve synergies across activities in the portfolio and across other parts of the program?</p>

Annex B. Key informants

B.1 Key informants

<i>Organisation</i>	<i>Contacts</i>	<i>Role</i>	<i>Stakeholder type</i>
DFAT Canberra	James Hall	Branch head	Leader
	Peter Wilson	Assistant Director	Relationship/program manager
	Jacqui Powell	Senior Program Manager	Program manager
	Paula Richardson	Senior Program Manager	Program manager
	Annemarie Reerink	Senior Sector Specialist – Gender Equality	Sector advisor
	Ulla Keech-Marx	Performance and Gender Specialist	Sector advisor
	Tim Gill	Agriculture Specialist	Sector advisor
	Brian Dawson	Climate Change Specialist	Sector advisor
RDSM Consulting	David Swete Kelly	Pakistan Program Rural Development Advisor	Sector advisor
	Gillian Brown	Gender expert	Informed third party
Palladium	Alwyn Chlver	Managing contractor BPP and MDF	Delivery team manager
ACIAR	Peter Horne and Gerard McEvilly	AVCCR Manager	Delivery team manager
DFAT Pakistan	Dave Preston	First Secretary Development	Relationship/program manager
	Hamza Khalid	Program manager	Relationship/program manager
	Shoaib Tayyab	Senior Program manager	Relationship/program manager
	Emma Leahy, Michael Cheyne	Political, Economic and Development team, including gender and nutrition specialists	Relationship/program manager
Austrade Pakistan	Azhar Shah	Country Manager	Relationship/program manager
ACIAR Pakistan	Kazmi Munawar	Country Manager	Relationship/program manager
FAO Pakistan	Mina Dowlatchahi	Representative	Delivery team manager, DFAT partner
MDF Pakistan	Jamal Khan	Country Director	Delivery team manager
	Maryam Piracha	Deputy Country Director	
SRSP	Masood-UI-Mulk, Nadia Shah	Project for Women's Economic Empowerment and Market Development in Border Districts of Khyber Pakhtunkhwa	Delivery team manager

B.1 Key informants (continued)

<i>Organisation</i>	<i>Contacts</i>	<i>Role</i>	<i>Stakeholder type</i>
SDIP	Kate Hayes	Lead Advisor	Delivery team manager
World Bank Pakistan	Enrique Blanco Armas	Senior Economist	Delivery partner, Informed third parties
World Food Program	Katrien Ghooos	Deputy Country Representative	Informed third parties
USAID	Kenneth Dunn	Deputy Director, Office of Economic Growth and Agriculture	Informed third parties
EU	Vivien Rigler		Informed third parties
Planning Commission	Azeem Khan	Member, Food Security and Climate Change	Counterpart
Indus River Systems Authority	Rao Irshad Ali Khan	Chairman	Counterpart
The Asia Foundation	Farid Ahmad	Director	Delivery team manager, Informed third parties
ICIMOD	Abdul Wahid Jasra	Country Representative	Delivery team manager, Informed third parties
International Food Policy Research Institute	Steve Davies	Senior Research Fellow	Informed third parties

C Performance Assessment Framework for the current portfolio

The definition of the objective and outcome areas and the selection of performance indicators for the EGP have changed a little over the course of the current AIP. (The most significant change occurred in the wake of the 40 per cent cut in the Pakistan program that occurred in 2015-16.) Table C.1 presents these elements of the Performance Assessment Framework as presented in the original AIP, and the Aid Program Performance Reports for 2014-15, 2015-16 and 2016-17.

Data on performance in outcome areas and against performance indicators

The documentation available to this evaluation supports the following observations about achievements in the outcome areas specified in the 2016-17 APPR, and of performance against using the indicators specified in that document.

Selected value chains are more inclusive

Five of the current investments in the portfolio are working directly in agricultural value chains in selected locations in the country.

- WEEMD has worked to improve the ability of poor women in Khyber Pakhtunkhwa to get better returns from working in milk, meat and marigold value chains. This has involved working on market access, technical training and providing 'smart' subsidies (SRSP 2018).
- AusABBA has worked to build Farmer's Marketing Collectives and to improve productivity and market linkages for poor men and women involved in selected crop and livestock value chains in six districts of Balochistan. Sample survey evidence supports the idea that the project has improved productivity and returns of beneficiaries in wheat, onion, broad bean, alfalfa, carrot, grape, date, tomato, okra, melon and cotton production, and in goat, sheep, cattle and poultry. (Umar et al 2018).

C.1 Objectives, outcome areas and performance indicators for the current EGP

APPR 2014-15	AIP 2015-19	APPR 2015-16	APPR 2016-17
Objective	Objective	Objective	Objective
Generating growth and employment through increased trade and improvements in agriculture and industry	Generating sustainable growth and employment through increased trade and investment, and improvements to agricultural productivity, water resources management and industry	Generating sustainable inclusive growth and employment through improved agricultural productivity and market development, increased trade and investment and water resources management	Generating sustainable inclusive growth and employment
Outcome areas	Outcome areas	Outcome areas	Outcome areas
1.Poor women and men have increased incomes	1.Increased employment opportunities through the establishment of value chains linking farms to market	1.Poor women and men have increased incomes	1.Selected value chains are more inclusive
2.Governments, enterprises and smallholders adopt evidence based pro-poor reforms in agriculture, water and trade	2.Strengthened capacity to promote cross-border and regional trade	2.Governments, enterprises and smallholders adopt evidence based agriculture, water and trade policy reforms	2. Governments, enterprises and smallholders adopt evidence-based agriculture, water and trade policy reforms as a result of Australian investments
3.Reduction in the time, cost and bureaucracy associated with movement of goods across target border/s		3.Reduction in the time, cost and bureaucracy associated with movement of goods across target borders	
		Performance indicators for rest of AIP	Performance indicators for rest of AIP
		1.Number (% of women) of poor farmers and small business owners who have increased their incomes	1.Number (per cent of women) of poor farmers and small business owners who have increased their income
		2.Community or Farmers' Organisation including women's organisations, are effectively supported to build community cohesion to advocate for their needs or to gain control in marketing their products	2.Evidence that Australian engagement has contributed to policy reform on agriculture, water and trade policy

- MDF has worked to improve market linkages and productivity of poor men and women by working with private sector firms in meat and milk value chains and in a range of horticulture products in Sindh, Punjab, Balochistan, Khyber Pakhtunkhwa, Gilgit Baltistan and Kashmir
- BCI used BPP funding to train 50,000 Pakistani cotton growers to address key sustainability issues such as pesticide and water use, and social challenges like child labour, forced labour, gender issues and fair-pay.
- AVCCR has initiated projects in dairy, meat and small ruminants, pulses and horticulture, specifically targeting research which would benefit poor farmers, mainly in Sindh and Punjab.

Indicators

Number (per cent of women) of poor farmers and small business owners who have increased their income

MDF – at the end of Phase I of the program, as measured at December 30 2017:

- 22,880 people were determined to have experienced increased incomes and employment as a result of the program. Of these 11,080 (48 per cent) were women (MDF Annual Aggregation of Results report, 2017)

AusABBA – at the end of Phase I of the project, measured at end 2017:

- 11, 211 households benefitted from the work of the program; and
- a sample survey of 600 beneficiaries (of which 28 per cent were women) and 390 non-beneficiaries (of which 38 per cent were women) in three of the six districts targeted by the program showed that on average, incomes in the households of beneficiaries were 143 per cent higher than those in non-beneficiary household. (Umar et al 2018).

WEEMD – at the end of year 2 of the project, measured at September 2017:

- 13, 832 people were members of Community Based Organisations created with the support of the project. Of these 70 per cent were women-based organisations; and
- a sample survey indicated that out of 988 women receiving relevant training under the project, 830 or 84 per cent reported increased production and profits (SRSP 2018).

It should be noted that the sampling methodologies used by AusABBA and WEEMD do not enable conclusions to be drawn about attribution, and that the

MDF methodology does not compare incomes against a counterfactual or a control group, although it does not claim attribution without a rigorous assessment consistent with the Donor Committee on Enterprise Development standard.

Evidence that Australian engagement has contributed to policy reform on agriculture, water and trade policy

SDIP – while SDIP has not been directly involved in drafting, its work with the various ministries and agency involved in the preparation of the water policy approved by the Council of Common Interests in April 2018 has clearly had an impact of parts of that document. Some examples include

- a shift from sectoral to integrated approaches to water management; a commitment to national hydrological data management and sharing; recognition of the value in rebuilding technical capacity within the Water and Power Development Authority (WAPDA); recognition of the need for water demand management and agricultural productivity improvements; recognition of the role of scientific knowledge and models to inform water negotiations and infrastructure planning decisions. Furthermore, the role of women in water management has been highlighted in the policy with a focus on water, sanitation and health (WASH) – though this is not a full reflection of the role of women, this inclusion is still a significant step (M Ahmad, personal communication).

PTIPP – PTIPP has been directly assisting the Ministry of Commerce to prepare a new Strategic Trade Policy Framework, ready to present to the Government formed after the July 2018 elections. An unplanned policy output from the program is the draft Tariff Policy released for consultation in April 2018. Further, PTIPP has assisted with the development of the National Single Window for customs clearance and trade facilitation (.

MDF – one of MDF's partners, Alfalah Bank has used its experience with MDF's silage entrepreneurs to successfully argue for the State bank of Pakistan to introduce more favourable bank lending terms for the livestock sector (Swete Kelly and Warner, 2018)

AusABBA - AusABBA assisted the Government of Balochistan in the formulation of an Agricultural Policy and Strategy, with a particular focus on women's economic empowerment and gender inclusion. It also assisted with the development of the Province's Livestock Policy (AusABBA 2016).

Cross-cutting policy priorities

As with objectives and outcome areas for the overall program, there has been some shift in the priority cross-cutting issues over the life of the current AIP.

- In the 2014-15 APPR, the 'important cross-cutting themes' were women's empowerment, stability and governance.
- In the AIP document, the 'multi-sectoral priorities and approaches' were: women's empowerment, stability and governance.
- In the 2015-16 APPR the 'multi-sectoral priorities' were: stabilisation, humanitarian assistance, Australia Awards, gender equality and women's empowerment.
- In the 2016-17 APPR, the 'cross-cutting policy priorities' were expressed as outcomes:
 - Australian Awards alumni are using their skills, knowledge and networks to contribute to sustainable development in Pakistan;
 - Improved integration of gender equality into aid investments;
 - Improved integration of disability into Australian aid investments
 - Pakistan program is more consolidated over time.

Of the 2016-17 APPR cross-cutting policy priority outcomes, we can observe the following with respect to the economic growth portfolio (the first outcome area is not really relevant to the portfolio):

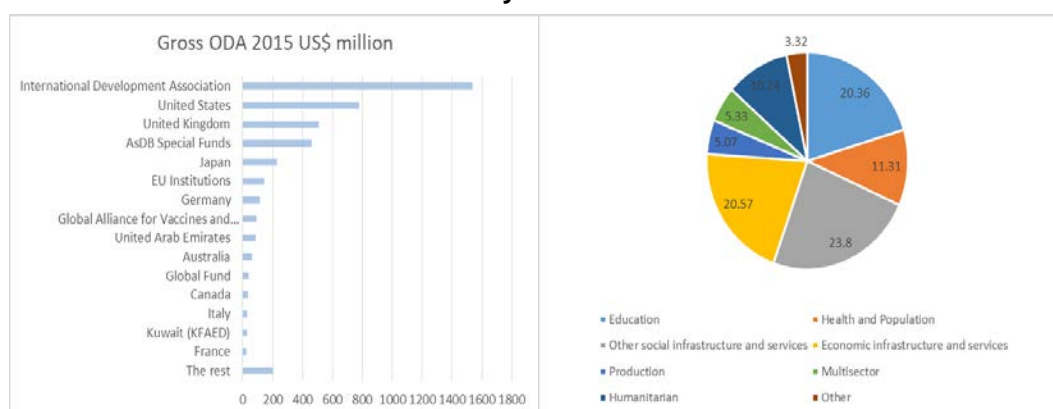
- There have been improvements in the integration of gender equality into the portfolio's investments, as indicated by AQC assessments. No assessments have deteriorated over the life of the AIP, and the assessments for MDF (from 3 in 2016 to 5 in 2017 and 2018) and PTIPP (from 3 in 2017 to 4 in 2018) have increased.
- There has been limited integration of disability into the portfolio's investments
- The number of investments of the portfolio has not fallen – but as argued elsewhere in this report, this is not a good measure of consolidation.

D Donor mapping

According to the OECD, Pakistan's average gross Official Development Assistance (ODA) receipts for the years 2015 and 2016 were US\$3.6 billion. In that period, Pakistan's aid receipt from members of the OECD's Development Assistance Committee ranked the 7th largest across all ODA recipients. Even so, ODA flows are small relative to the size of the Pakistan economy, and are dwarfed by inward remittances (US\$20 billion in 2017) as a source of foreign inflows into the country

In 2015, Australia was the 11th largest traditional donor, and the 7th largest bilateral donor to Pakistan. Over half of total aid targeted social infrastructure and services (chart D.1). Largely because of the disastrous floods in 2011, humanitarian assistance is a relatively large element of total aid (10 per cent in 2015).

D.1 Gross ODA disbursements by traditional donors and sector 2015



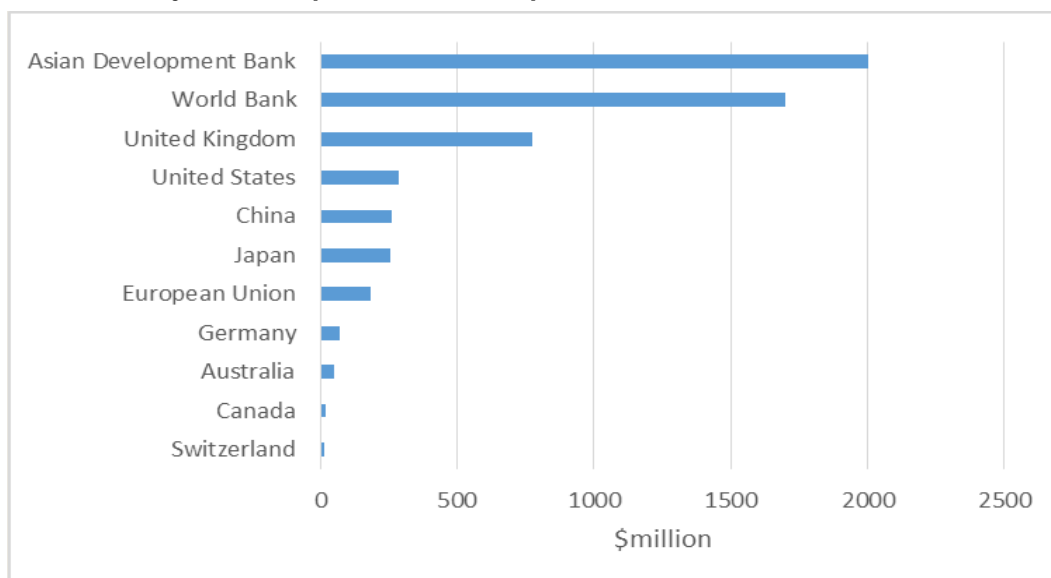
Data source: OECD DAC data base

A number of traditional donors have been reducing their aid to Pakistan. However, non-traditional donors – especially China – have been increasing their development financing. China's flagship program, the China Pakistan Economic Corridor, valued at around US\$62 billion, disbursed around US\$ 10 billion in concessional loans and US\$ 600 million in interest free loans and grants in the 4 years to 2017.

A number of major donors are currently engaged in strategic planning for their aid programs, in many cases sharpening their focus on security and stability. The World Bank and the Asian Development Bank will continue to be the largest

traditional suppliers of assistance in the immediate future (chart D.2), and the United Kingdom and the United States will be significant sources of bilateral funding.

D.2 Major donors planned annual spend



Data source: Information supplied by DFAT

Recognising the difficulty of getting traction working on policy and institutional reform at the federal level, donors are increasingly working at the provincial level. Those donors that provide on-budget support (the Government of Pakistan's preferred modality) are increasingly targeting reform minded provincial governments.

As chart D.3 shows, a number of donors are focusing on border provinces and regions of Balochistan, FATA and Khyber Pakhtunkhwa. This provides cooperation opportunities for Australian aid: and in fact, Australia has worked with both the United States and the United Kingdom (AusABBA shared FAO management with a United States program in Balochistan, and Australia has supported education in Khyber Pakhtunkhwa through a delegated cooperation arrangement with the United Kingdom. The European Union is launching a significant rural development program in Sindh and Balochistan, the Growth for Rural Advancement and Sustainable Progress program, which may also offer opportunities for cooperation.

D.3 Major donors' investment plans

<i>Donor</i>	<i>Sector focus</i>	<i>Geographic focus</i>
UK Department for International Development (DFID)	Governance, education, nutrition, health, water and sanitation, micro finance, banking systems	Punjab and Khyber Pakhtunkhwa
US Agency for International Development	Energy, economic growth including agriculture, stabilization (resilience), education, health	FATA and Afghanistan bordering areas; Karachi, Northern Sindh, Southern Punjab
China	Energy, infrastructure, agriculture, education, health	Across Pakistan, increasing focus on Balochistan and Khyber Pakhtunkhwa
European Union	Rural development, education and skills, governance	Sindh and Balochistan
Japan	Economic infrastructure, human security and social infrastructure, stabilisation and development of border areas, regional development	Across Pakistan, focus on Punjab
Germany	Governance, energy, technical and vocational training, social protection and financial services	Primary focus on Khyber Pakhtunkhwa and FATA
Australia	Sustainable inclusive growth, investing in Pakistan' people, women's economic empowerment, stability, resilience and governance	All provinces
Canada	Women's economic empowerment, micro finance	No geographic focus
Switzerland	Local state building, water governance	Khyber Pakhtunkhwa and FATA
World Bank	Education, health, nutrition and population, social protection, social and economic resilience, water, agriculture, energy, finance, competitiveness and innovation, governance, s	Khyber Pakhtunkhwa, Sindh, Punjab, Balochistan,
Asian Development Bank	Energy, transport, agriculture, natural resources and rural development, water and urban infrastructure, public sector management, finance, education, health, information and communication technology	No geographic focus

Source: Information supplied by DFAT

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