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ANNEX I

to the Commission Implementing Decision on the financing of the multiannual action plan in favour of the Islamic Republic of Pakistan for 2024-2027

Action Document for EU support to Better Governance and Business Environment in Pakistan

ANNUAL PLAN

This document constitutes the multiannual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

1 SYNOPSIS

1.1 Action Summary Table

1. Title OPSYS business reference Basic Act	EU Support to Better Governance and Business Environment in Pakistan OPSYS number: ACT-62561 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	Yes Team Europe Initiative ‘Building Back Better through Green Jobs’ Creation’ in Pakistan
3. Zone benefiting from the action	The action shall be carried out in Pakistan
4. Programming document	Islamic Republic of Pakistan – Multi-Annual Indicative Programme 2021-2027
5. Link with relevant MIP(s) objectives / expected results	Objective 8: Greater adherence to the international agreements that underpin the General Scheme of Preference + (GSP+) <ul style="list-style-type: none"> ○ R.1: Improved implementation of international human rights, environmental and labour standards, in particular in the agribusiness, water and energy sectors Objective 1: To support the sustainable growth of SMEs and MSMEs in Pakistan <ul style="list-style-type: none"> ○ R.1: Improved policy regulatory and infrastructural framework for private sector development ○ R.2: Increased compliance (including environmental) by SMEs and MSMEs with the regulatory framework ○ R.3: Increased value added by agricultural producers, entrepreneurs and businesses in selected sustainable value chains ○ R4: Improved availability and accessibility of support services for agricultural value chains, including input supply, marketing and financial services.
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	151 - Government and Civil Society 250 - Business and Other services

	321 - Industry 410 - General Environment Protection			
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): 12 – Responsible production and consumption Other significant SDGs (up to 9) and where appropriate, targets: 5 – Gender equality 7 – Sustainable energy 8 – Decent work and economic growth 9 – Industry, innovation, and infrastructure 13 – Climate action			
8 a) DAC code(s)	15110 - Public sector policy and administrative management – Democratic participation and civil society (27.5%) 25030 – Business development services (10%) 25040 - Responsible business conduct (5%) 32120 – Industrial development (10%) 32130 – Small and medium-sized enterprises (SME) development (35%) 41010 – Environmental policy and administrative management (12.5%)			
8 b) Main Delivery Channel	<i>11000 Public sector institutions, donor government</i> <i>42000 European Union institution</i>			
9. Targets	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Internal markers and Tags	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	/
	Connectivity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	/
	Migration @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities1 @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	Budget line: 14 02 01 31 (NDICI South and East Asia) EUR 20 000 000 Total estimated cost: more than EUR 20 000 000 Total amount of EU budget contribution EUR 20 000 000. The Action is part of the TEI ‘Building Back Better through Green Jobs Creation’, complementing ongoing initiatives by the EU, France, Germany and Italy. A financial contribution from the German government, still undefined, is expected.			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	Indirect management with the entity to be selected in accordance with the criteria set out in section 4.4			

1.2 Summary of the Action

Pakistan’s economy is punching far below its weight, amongst others due to a complex, heavily regulated private sector, massive circular debt, import-based consumption-led-growth that leads to fiscal deficit, amongst the lowest FDI in the region, low export to GDP ratio, insufficient understanding and dialogue between and within the different levels of government and with the private sector and lack of awareness and compliance with EU and international standards. Pakistan has failed to fully take advantage of duty concessions granted under the GSP + with limited productivity, value addition and export diversification. Notably its exports, including to the EU, are largely dependent on one sector (textiles) that employs 40% of Pakistan’s industrial workforce, is heavily energy dependent and is the second most polluting industrial sector. Substantial green investments are required for the country to remain integrated in international supply chains in the long run. Moreover, SMEs may have difficulty complying to the rapidly evolving

environmental standards affecting them, including due to their limited awareness of and capacity to comply with these environmental standards.

Connecting priority 1 and 3 of the MIP, *Green Inclusive Growth and Governance*, the **objective** of the action **will be to support Pakistan’s business environment and competitiveness via greening business transformation, value-addition and export diversification of its SMEs, as well as strengthen public-private dialogues to promote a better governance approach and collaboration for all**. This support will leverage compliance to the GSP+ related conventions (in particular those related to environmental standards) while preparing export-oriented SMEs for the plethora of *EU green directives* in various stages of preparation that will affect these SMEs (*e.g.* the EU Corporate Sustainability Due Diligence Directive (CD3D), EU Sustainable Product Initiative, EU Digital Product Passport and the Carbon Border Adjustment Mechanism (CBAM)).

In particular the action envisages **three components** that mutually reinforce each other.

Firstly, to **improve the legislative and regulatory framework** for sustainable development of export-oriented SMEs. This intervention area is directed to increase the quality of the policy framework guiding export-oriented SMEs and **its implementation**. Moreover, the action will seek to capacitate the government and institutions to disseminate and transposition environmental standards to the country and its private sector.

Secondly, the action will support targeted SMEs from selected export-oriented sectors to accelerate their green transition. A competitive **SME Greening Accelerator** scheme will be used– in the first phase – to identify, select and provide mentoring and expertise support to selected SMEs (with a focus on business led, employing or benefitting women) aimed at reducing their ecological footprint, improve competitiveness, ensure better quality and efficiently manage production costs. In a second phase, the supported SMEs can compete in a Green Innovation Challenge Fund. Thirdly, the action will provide technical assistance support to facilitate local public-private dialogues in localities of the targeted SMEs. The **public-private dialogues** will identify and address issues in the local business environment and required for the green transition that go beyond the remit of individual export-oriented SMEs, such as key infrastructural bottlenecks and policy implementation gaps for full environmental compliance. It will also provide support in the development of bankable projects (with a focus on inclusive, gender responsive projects). Examples of such potential infrastructure projects include, but are not limited to, effluent treatment plants and collective renewable energy plants. The action will also promote call for ideas/solutions application from academia, domestic SME service providers and other organizations to conduct research, feasibility assessments, identify opportunities and work on innovative ideas focused towards ensuring inclusive, gender responsive, green and sustainable development of the industry.

The action **is part of the TEI Building Back Better through Green Jobs Creation** by fostering innovation, decent and green job opportunities (with a focus on women), and export promotion in key sectors. The action contributes mainly to SDG 12 (Responsible consumption and production) and significantly to SDG 8 (Decent Work and Economic growth), and SDG 13 (Climate Action), SDG 5 (Gender Equality).

The Action can **lay the foundation for future (EFSD+)** green investments in the private and public sector, contributing to the implementation of the **Global Gateway** in Pakistan. Investments will be facilitated notably by: i) improving the regulatory framework and enabling business environment to attract investment **in line with the Global Gateway 360 approach**; ii) **greening of SMEs**; iii) **public-private dialogues to open possible financing of local infrastructure projects**. *The action would also indirectly contribute to the EU strategy for sustainable and circular textiles by building greener, sustainable, transparent and traceable textile supply chains.*

The Action will contribute to the following GAP III² thematic areas: Promoting economic and social rights and empowering girls and women & addressing the challenges and harnessing the opportunities offered by the green transition and the digital transformation.

1.3 Zone benefitting from the Action

The action, aiming at having an industrial impact, shall be carried out in Pakistan with policy support (component 1) having a nation-wide impact and realisation of concrete measures with the industry (component 2 and 3).

² The [Gender Action Plan III](#) is a Joint communication by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy which was welcomed through [EU Presidency Conclusions](#) of 16 December 2020 endorsed by 24 Member States.

2 RATIONALE

2.1 Context

Pakistan is the 5th most populated country in the world, with a rapidly growing population of 240 million (2023 Pakistan Bureau of Statistics) and a per capita income of USD 1,505 (2021, WB). Pakistan faces significant challenges both domestically and globally, including political tensions, security issues, economic instability, and environmental problems. In the World Economic Forum's (WEF) Global Gender Gap Report 2023, Pakistan has been ranked 142 out of 146 countries and has been placed near the bottom of both the regional and global rankings. The country continues to fare particularly badly on the categories of economic participation and opportunity and health and survival.

Its **economy has struggled with cycles of booms and busts**, largely driven by consumption. This dependence on consumption has resulted in a sub-optimal structural change in the economy (Agriculture to Services) severely limiting competitiveness of the productive sectors. Pakistan is **highly vulnerable to external shocks**. In recent years disasters including the COVID-19 pandemic, the catastrophic 2022 floods combined with the global impact of Russia's war of aggression against Ukraine (interrupted supply chains, worldwide economic downturn) have further weakened the Pakistan's economy. The country is among the most vulnerable countries to climate change particularly affecting the agricultural sector. Changing weather patterns, among other factors, could significantly impact the water-intensive production of cotton. Domestic political uncertainty and macro-economic problems, including twin deficit, currency depreciation, high energy prices and high inflation rates (above 30% in 2023) led to a deterioration of real wages and an increase in poverty. Nearly **39%** (2018, MPI, UNDP) of **Pakistanis live in multidimensional poverty**. The manufacturing sector suffered further under the high interest rates of 22% and lending rates operating at 3-5% above, leading to a decrease in growth and a total investment to GDP ratio stagnating at only 14% in 2023. The culmination of Pakistan's economic crisis in a **possible default** was averted through the conclusion of a Stand-by Arrangement of USD 3 billion agreed between Pakistan and the IMF in July 2023. The second and final review of the 9-months' Stand-by Arrangement in March 2024 has been showing a continuous improvement of Pakistan's financial and economic position, thanks to prudent policies and the resumption of inflows from multilateral and bilateral partners. However, growth is expected to be modest in 2024 and inflation remains well above target.³ Pakistan is currently discussing a longer-term program with the IMF covering several years.

Pakistan's **twin deficit** is primarily driven by an imbalance between revenues and expenditures, as well as a large **trade deficit**. The country has historically favoured inefficient investments and policies that do not promote trade. In this context, the government's scope of action is very limited and must focus on maintaining fiscal discipline. Amid this complex macro-economic situation, positive signs have emerged from exports, with revenues showing a year-on-year increase of 18% in February 2024. The **EU** has become **the first export market** for Pakistan due to the **GSP+** agreement, granting Pakistan zero-rated or preferential tariffs on nearly 66% of tariff lines for export to the EU 27 market. The scheme, extended until 2027, gives the EU leverage to ensure Pakistan's compliance with 27 conventions covering labour, environmental, and human rights. Under GSP+, Pakistan increased its exports to the EU by 108% since first receiving the preferential status in 2014. Nonetheless the country has failed to increase productivity, value-addition in goods and trade diversification. The EU presents the highest potential for increased exports from Pakistan, surpassing North America and East Asia. However, semi-compliance with GSP+ will not be sufficient in the future to retain access to the EU market and capitalise on the growth potential. The European Green Deal, an overarching strategy of the EU for a climate-neutral, resource-efficient, and sustainable competitive economy, changing trade rules, making it interlinked to environmental compliance through a set of **green directives** targeting whole value chains, affecting suppliers and trade partners globally. Pakistan's export industry can gain a competitive advantage by quickly adapting to the new regulations, while an inadequate or belated response risks the loss of market access. Despite positive trends and identified potentials, Pakistan still has **one of the lowest exports to GDP ratio** among competitors in the region, with exports largely concentrated in textiles, mainly knitwear, readymade garments, and cotton cloth. In this scenario, **an export-led growth model** that includes and fosters green private sector-led growth is the only solution to avoid falling into recurring crises and reduce poverty. This model will help tackle foreign liquidity challenges, enhance productivity, ensure

³ "Pakistan: IMF Reaches Staff-Level Agreement on the Second and Final Review of the 9-month Stand-by Arrangement", International Monetary Fund, 20 March 2024, <https://www.imf.org/en/News/Articles/2024/03/19/pr2491-pakistan-imf-reaches-staff-level-agreement-second-final-review-9-month-sba>

compliance, promote good governance, facilitate product and market diversification, and link production networks with value chains. Moreover, increase in production and value addition has the potential to impact employment levels in the industry. While large exporting companies can proactively adapt their production to stay compliant and competitive, **SMEs mostly lack both the technical and financial capabilities** to keep pace with developments regarding resource efficiency, productivity, and compliance. Furthermore, the business environment is not conducive for sustainable development of SMEs, as **individual green solutions**, such as - modernising production equipment to be more resource-efficient, building wastewater treatment plants or raw material recycling facilities, and developing renewable energy solutions, **are not economically feasible on a small scale**, and most industrial sites lack functioning common solutions. Environmental legislation is not consistently enforced, and support services like the Export Development Fund (EDF) under the Ministry of Commerce (MoC) are not effectively implemented. It is export-oriented SMEs that require the most support to drive sustainable export-led growth and hence will be the focus of the action.

The action aligns with both Green Alliances and Partnerships" and "Partnerships for human development, peace, and governance, including the business environment." It will promote good governance, foster dialogues, improve the business environment, and enhance GSP+ compliance, building on AAP 2015 and 2016 (Promotion of HR and GSP+ Compliance) as well as AAP 2023 actions on Human Rights. This initiative will continue to build on the work accomplished in previous AAPs (2017, 2022) to support the sustainable green growth of SMEs and MSMEs in Pakistan. The action strategy, designed to operate at multiple levels and encompassed in various flagship programs, has been structured in this manner considering the **transformative effect and multisectoral influence that trade could have on development**. It also aims to create an enabling environment under the **Global Gateway 360 approach** to promote sustainable financing for sustainable growth in the country.

The Action is part of the **TEI Building Back Better through Green Jobs' Creation**, complementing ongoing initiatives by the EU, Germany (e.g. strengthening climate adaption and resilience, including energy efficiency), France (e.g. EU blending support to AfD support to water management in Punjab) and Italy (agricultural value chains). While the existing EU *International Labour and Environmental Standards (ILES) Application in Pakistan's SMEs* project and the German funded GIZ-project *Promotion Employment through Women Empowerment in Pakistan's Textile Industry (WE)* also focus on the human and labour rights aspects, the approach of the planned Action is mainly centred around the green transition, including reduction of GHG emissions, reduce negative environmental impacts and improve compliance, with labour issues being addressed mainly indirectly. Supporting the improvement of the business environment in the country through; the greening of SMEs and the facilitation of local public-private dialogues with the aim to prepare financing of local infrastructure projects, also **contributes to the Global Gateway Strategy including its 360 approach**. The action could also demonstrate synergy with the EU SWITCH to Circular Value Chain project, which cooperates with EU MNCs on promoting CE in their global value chains, including a component on textiles.

2.2 Problem Analysis

Pakistan's key challenges to boost its ailing economy, enhance trade with the EU and to green its production are i) absence of a stable, predictable and transparent regulatory framework that provides a conducive environment for SMEs, ii) limited technical and financial knowledge/awareness of SMEs to invest in greening and innovation of their production, iii) limited access to sustainable finance (especially for women and people from underserved groups such as people with disabilities), iv) limited local public-private dialogues to facilitate necessary local investments in sustainable infrastructure, and v) limited women inclusion.

Reforming private sector regulation at all levels and balancing the country's systematic trade deficit are overarching priorities for the country to escape the cyclical macroeconomic crises and reduce dependence on IMF programmes to ensure sustainable, inclusive growth.

Weak business-enabling environment: In Pakistan, key national policy documents such as Vision 2025, Strategic Trade Policy Framework (STPF) 2020-25, National SME Policy 2021, and the economic roadmap agenda under the Special Investment Facilitation Council (SIFC) emphasise the need to address climate change. The 5Es Framework published by the Ministry of Planning, Development, and Special Initiatives (MOPDSI) also underscores the importance of exports, environmental protection, and combating climate change, while

emphasising digitalization and inclusivity for the country's development. Despite improvements in the policy framework for environment and climate change, gaps persist, and the implementation and enforcement of regulations remain weak. The complex regulatory framework poses a burden for the private sector, hindering compliance with GSP+ and slowing down necessary preparations of SMEs for upcoming green directives and regulations from the EU and other countries. The devolution process has led to a fragmented legal framework and unclear responsibilities (which further increase corruption risk), necessitating harmonisation and enforcement of legislation at the federal and provincial levels within the remit of the constitution. While the federal government is responsible for ensuring consistency of standards and policies nationwide, provincial governments are often tasked with making necessary investments in infrastructure and implementing legislation. Furthermore, the enforcement of laws is distributed among different levels and possess the largest problem at policy level.

Limited awareness, knowledge and public-private communication: Key stakeholders in Pakistan have only basic knowledge about the benefits of the GSP+ and lack understanding of the requirements for its implementation and enforcement. Additionally, awareness and understanding of the EU Green Deal and the Circular Economy Action Plan (CEAP) amongst ministries and authorities in Pakistan are inadequate. Information relating to climate change or compliance is either not available or held in segmented packets and current status and impact on the Pakistani economy is not systematically assessed. Most SMEs in Pakistan have a limited understanding of the evolving European environmental requirements and lack in-house capacities to keep track of international policy developments. There is lack of meaningful exchange between public and private sector, as established platforms are often not sufficiently utilised and maintained, leading to a policy framework and implementation that is in many aspects not considering the perspective and needs of companies adequately. Lastly academia and other organisations are not coordinated with the private sector in the research of adaptive and innovative solutions in the green sector.

Lack of technical capabilities: The greening of business operations or even the development of local infrastructure for a green transition requires technical skills and know-how. First export-oriented SMEs need to translate the requirements for compliance, e.g. from 27 conventions under GSP+ or of policies related to the EU Green Deal, to their realities and derive which adaptations and enhancement of their equipment and processes is required. Then the companies need to plan how to realise the necessary changes (technical solutions) and to identify suitable financing options and develop all documents for a bankable project (financial solution). Many SMEs lack these capacities nor do they have the resources to hire external expertise. Moreover, domestic service providers may also need support and further organising in order to be able to better render such services to SMEs.

Lack of access to green finance for SME: For businesses, especially SMEs, the limited access to finance is a concern as improvement of products and processes and adaptations for better compliance require investment, e.g. to improve water management, conserve energy, treat wastewater and reduce the use of chemicals. While commercial banks launched several products for green financing and the State Bank of Pakistan (SBP) has developed – non-mandatory – Green Banking Guidelines (GBGs) in 2017, the availability of finance for firm-level action on green and circular business transformation is fairly limited. The high cost of traditional credit (policy rate at 22%) and the continued high level of borrowing by the government further limit the opportunities. Solutions need to be developed that offer preferential terms for SMEs, e.g. through concessional loans, collaterals, grants, for example in cooperation with DFIs or other (international) donors. Some SBP financed schemes like the transition to clean energy has helped SMEs get access and build a credit history. However, more needs to be done for commercial banks to understand green lending models. The Security and Exchange Commission of Pakistan (SECP) is in charge of the Corporate Sustainability Rules guidelines and banks are covered under it, however, there is no requirement on green finance facilitation. The Export Development Fund (EDF) under the Ministry of Commerce has recently obtained some financial resources (PKR 20 billion) but requires support to identify and accompany suitable green investments for SMEs. The microfinance institutes (MFIs) lack capacity and only have to comply with the requirements on green business facilitation of the GBG. The next layer of stakeholders are the credit bureaus (CBs). There are two private and one public CB in Pakistan with a coverage of 20-30% of SMEs

regarding current information on repayment history, unpaid debts, or credit outstanding. Thus, there is a need to enhance their coverage for green financing.⁴

Green business transformation and climate action: Pakistan Industrial sector, which main industry – textile – is also deeply connected with the agricultural sector, is heavily reliant on fossil fuels and outdated technologies. This hampers the shift towards sustainable practises, exacerbating environmental degradation. Additionally, limited financial resources (green credit lines) and lack of access to modern, eco-friendly technologies impedes progress. Industry, particularly manufacturing and textile face pressure to reduce carbon footprints while maintaining competitiveness in the global market. Policy inconsistency and insufficient incentives further complicate efforts to adopt greener practises. Among key issues in the supply chain of the textile sector we find; synthetic fertiliser and pesticides use in production, use of toxic chemicals, water and energy intensive production, deforestation and land degradation that leads to release of stored carbon dioxide into the atmosphere and at the same time reduce climate resilience. Addressing the degradation of the environment and fostering sustainable industrial development in general and generating concrete/tailored measures for the different industries, requires a massive coordination among the key stakeholders of this action. There is therefore scope for the EU to contribute to Pakistan’s green and innovation competitiveness.

Women and inclusion: Historically the inclusion of women has been marginal in the whole economy and in the manufacturing sector of Pakistan. However, the trend is changing. The garment and textile sector now employs 30% of women labour force which is, however, still far below worldwide levels and female workers are mainly concentrated in stitching units. To increase the share of women labour force across textiles and other sectors greater efforts are needed and working conditions need to be improved to provide safe and culturally acceptable working conditions to women with significant opportunities of career growth. The improvement of working conditions is also crucial for the inclusion of other vulnerable groups in the labour market, like people with disabilities and youth. In addition to described issues youth and women are usually excluded from policy making and public investment decisions. The existing PPDs, while starting from a low level increasingly including women and youth, still do not provide the confidence and comfort of being heard. Especially, at the local level the participatory approach to policy and decisions is fairly weak and needs to be addressed.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

Direct beneficiaries:

Export-oriented SMEs of selected sectors are the main beneficiaries of the action, as all interventions are directed to support these companies, with a focus on women-led companies, with green transition, compliance with existing and upcoming requirements related to environment and climate change and improvement of competitiveness. Following sectors have been identified based on criteria, including priority under the Circular Economy Action Plan (CEAP), export potential to EU, number of export-oriented SMEs in the sector, potential for value addition and higher complexity of products, general importance for the economy and employment in Pakistan and priorities of the Government of Pakistan: Textiles with focus on garment, leather, footwear, sports goods, surgical instruments and packaging as a cross-cutting sector.

The intervention will eventually lead to more competitive SMEs that are able to provide more decent jobs thus benefitting the workforce of SMEs. Attention shall be paid especially to people in vulnerable situations, like informal workers, women and youth.

Federal and Provincial Ministries, Public Authorities and Agencies: potential beneficiaries are listed below, the enumeration is extensive given the fragmented and wide institutional set-up of the country. The programme will follow a trickle-down approach whereby the initial interlocutor at Ministerial level will be the Ministry of Commerce (Moc) and the Ministry of Climate Change (MoCC) as principal co-beneficiaries of the assistance. This

4 Kumar, L.; Nadeem, F.; Sloan, M.; Restle-Steinert, J.; Deitch, M.J.; Ali Naqvi, S.; Kumar, A.; Sassanelli, C. Fostering Green Finance for Sustainable Development: A Focus on Textile and Leather Small Medium Enterprises in Pakistan. Sustainability 2022, 14, 11908. <https://doi.org/10.3390/su141911908>

will dribble into attached agencies of these ministries such as Pakistan Environmental Protection Agency (Pak-EPA), provincial environmental protection departments/agencies, Board of Investment (BoI), Trade Development Authority of Pakistan (TDAP), Export Development Fund (EDF) and Small and Medium Enterprises Development Agency (SMEDA). These institutions play crucial roles and are key decision makers in the development and enforcement of a harmonised policy framework on environment, climate change and labour rights, creation of conducive conditions for the development of SMEs and promotion and support with trade related issues. The related provincial departments/agencies of the relevant ministries will be targeted as beneficiaries given the devolution and their active/lead role in implementing legislation.

Beyond the aforementioned ministries – who will be in the lead of overall coordination and decision-making of the action - other ministries will be involved, during the course of the action, given their power and influence in the economy such as Ministry of Planning, Development and Special Initiatives (MoPD&SI) and Ministry of Finance (MoF). The National Commission on the Status of Women (NCSW) could be involved. The ministries of labour and employment, and labour inspection services, at different levels may be associated, where relevant. The different actors can benefit from the support provided by the action, including knowledge sharing, capacity development and facilitation of cooperation among public actors and between public and private sector.

Indirect Beneficiaries:

Private Sector intermediaries, like trade association or associations of industrial areas and potentially also chambers. Relevant trade associations based on priority sectors include Pakistan Readymade Garments Manufacturers and Exporters Association (PRGMEA), Pakistan Hosiery Manufacturers Association (PHMA), Pakistan Tanners Association (PTA), Surgical Instruments Manufacturers Association of Pakistan (SIMAP), Pakistan Footwear Manufacturers Association (PFMA) and others. All these trade associations in their own capacity and influence will play an important role for information on and outreach to their respective sectors. Pro-active associations may become important hubs for their sectors on requirements on environment, climate change and labour rights for international trade. Relevant associations or management companies of industrial estates including Korangi Association of Trade and Industry (KATI, Karachi), Sialkot Tannery Association Guaranteed Limited (STAGL) or Punjab Industrial Estates Development and Management Company (public-private partnership) will also be relevant actors to address issues for the industrial sector. City chambers might be engaged if cross-sectoral issues in the business environment on local level shall be addressed. Trade Unions, confederations and Associations of Workers, like the Pakistan Textile, Garments and Leather Workers' Federation and Pakistan Workers federation shall be engaged to include the worker's perspective. The action will improve accessibility of support services to SME value chains, including input supply, marketing and financial services which in turn will also strengthen the domestic market as a solution provider.

Research institutes and technical universities, such as Lahore University of Management Sciences (LUMS), National University of Science and Technology (NUST), National Engineering University (NED) in Karachi, or National Textile University Faisalabad (NTU), can play a vital role in conducting research to identify most effective and innovative circular solutions, conduct comparable and feasibility (if needed) studies on circular practices and solutions, support in product innovation and support training and capacity building of relevant stakeholders.

Partners:

Financial intermediaries, like commercial banks will be relevant partners for the accelerator scheme with their green financial products that are accessible to SMEs. Karandaaz, a local NGO may be an interesting partner with its concessional loans for green transition of SMEs. State Bank of Pakistan (SBP) can be a relevant partner for the development of the legal framework of green finance, e.g. as the action might cooperate with SBP on the existing Green Finance Policy. The SBP can also be engaged with its training arm the National Institute of Banking and Finance (NIBAF) for capacity development of commercial banks on green finance. The Export Development Fund (EDF) is providing funding for infrastructure projects, like Central Effluent Treatment Plants and also funds for clusters of companies that could be tapped by SMEs for greening of their businesses.

Multinationals (MNCs), importing companies and brands: The role of MNCs in the green transition of Pakistan is crucial. On the one hand they can provide with technological transfers (clean energy solutions, energy efficiency)

and investments (direct, PPP). On the other hand, the role/influence of the companies in the business conduct of the domestic companies cannot be overlooked. SMEs in Pakistan are part of the supply (and value) chain of larger MNCs, the domestic SMEs often respond to the requirements of MNCs in terms of Corporate Social Responsibility, supply chain improvements (sustainable sourcing and green logistics) and demand stimulation (green products and consumer behaviour). Thus, the requirements of the MNCs are often the biggest incentives for SMEs to green transition their production. Examples in country such as Engro (investment in renewable energy projects) and Unilever (implement sustainable agricultural practices in their supply chain) are an example of the different possible ways in which the MNCs can be approached to be integrated in the discussion around this action overall objective.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The **Overall Objective** (or impact) of this action is to enhance the competitiveness of Pakistan's private sector and deliver green and inclusive growth.

The **Specific Objectives** (or Outcomes) of this action are to;

1. Improve quality, implementation and enforcement of a legislative framework conducive to sustainable SME development.
2. Foster a successful green transition of targeted pilot export-oriented small and medium-sized enterprises (SMEs) in designated sectors, especially those led by, employing or benefitting women.
3. Facilitate targeted green investments for sustainable development of industrial sector.

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives are:

contributing to Outcome 1 (or Specific Objective 1)

- 1.1 Enhanced capacities of targeted federal and provincial institutions to design, review and implement policies and regulations that promote a conducive environment for inclusive, gender responsive, sustainable development of small and medium-sized enterprises (SMEs).
- 1.2 Strengthened capacity of the public sector to improve compliance with international agreements/standards and promote the green transition.

contributing to Outcome 2 (or Specific Objective 2)

- 2.1 Improved capacities for green innovation, competitiveness, and compliance with international requirements of selected export-oriented SMEs (with a focus on those led by women, employing or benefitting women) in targeted sectors.
- 2.2 Improved access to finance for green investments in selected export-oriented SMEs (with a focus on those led by women, employing or benefitting women) of targeted sectors.
- 2.3 Stronger and more competitive private sector by improving linkage between export-oriented SMEs (with a focus on those led by women, employing or benefitting women) with domestic business service providers.

contributing to Outcome 3 (or Specific Objective 3)

- 3.1 Established dialogues between all key identified stakeholders for improving compliance to national and international commitments.
- 3.2 Development of bankable projects supported based on challenges, priorities and green investment opportunities identified through PPD platforms.

3.2 Indicative Activities

Outcome 1

Indicative activities relating to Output 1.1 may include:

Provision of expertise and international best practice examples for designing and/or reviewing the policy framework for sustainable development of SMEs that are gender responsive and ensure inclusivity. This support will be extended upon the request of the GoP. This may also include support to the Export Development Fund to improve the Funds' working procedures and the definition of the Funds' windows for financing (around PKR 20 billion/year) to better cater for the green transition of SMEs.

Indicative activities relating to Output 1.2 may include:

- Awareness raising among relevant public institutions about existing and upcoming international requirements, particularly related to GSP+ and regulations/directives under the EU Green Deal, including support to identify the impacts of these requirements on Pakistan's economy and gaps in the existing policy framework and procedures to comply with these requirements.
- Support on the demand of the GoP to set up structures and procedures to track development of international requirements, systematically gather and assess information on impact and progress of different regulations on different sectors and capacity development of staff in respective government departments.

Outcome 2

Indicative activities relating to Output 2.1 may include:

1. Design and implement competition and technical assistance formats (**SME greening accelerator scheme**) to identify, select and support export-oriented SMEs in the targeted sectors, giving preference to women entrepreneurs. The selection process and design of support will be developed by the implementing partner in close consultation with the EU Delegation in Pakistan and will include clear selection criteria ensuring respect to the principles of transparency, fair competition, equal participation, no corruption and inclusivity.
 - Provide technical assistance to the successful applicants focused on greening business processes and operations, (e.g. through environmental audits and support in implementing its recommendations leading to reduced environmental footprint), increase productivity, improve quality, reduce production losses in the supported SMEs and based on feasibility develop solutions for digitization and traceability, support in accessing information, prepare for compliances, and provide assistance with pilot testing of innovative solutions. Where relevant, the action will establish or if already existing, utilise the enterprise improvement teams that has worker and management representation for better application of improvement initiatives. This will not only ensure ownership and sustainability to the assistance but will also indirectly help create a conducive environment to further labour standards compliance by strengthening social dialogue and improving worker manager relations at the enterprise level. The tentative number of enterprises that will be supported by the SME greening accelerator scheme is estimated between 100 and 150 (figure to be fine-tuned during inception and implementation phase).

Indicative activities relating to Output 2.2 may include:

- Following the competition format structure, develop an **Innovation Challenge Fund** (matching grant scheme) for financing of SMEs graduating from the technical support (SME greening accelerator scheme) provided under 2.1 to support green investments in their enterprises. The Challenge Fund could use an existing financial vehicle to reduce costs (already established in the implementing partner structure or a local financial vehicle such as i.e. Karandaaz⁵).

⁵ Karandaaz is a not-for-profit special purpose vehicle set up under Section 42 in August 2014. Karandaaz is the implementation partner of the Enterprise and Asset Growth Programme (EAGR) and Sustainable Energy and Economic Development (SEED) programme of UK's Foreign, Commonwealth & Development Office (FCDO). SEED is grant funded by FCDO whereas EAGR is co-funded by FCDO and Bill & Melinda Gates Foundation on grant basis. Karandaaz promotes access to finance for micro, small and medium-sized businesses through a double bottom line investment platform and financial inclusion for individuals by employing technology enabled solutions.

- Grants will be allocated through a competitive, fair and transparent process to eligible organisations on the basis of a set pre-defined appraisal criteria (such as clear alignment with circular economy principles, the potential for scale, the potential to generate more and better jobs, inclusion, and additionality) and will be managed by the implementing partner, in close consultation with the EU Delegation in Pakistan. The selection format will be established to ensure replicable solutions to the rest of industry. Different type of calls will be set up such as call for proposals, call for solutions or/and call for ideas.
- Support will be provided to SMEs and domestic service providers to leverage other financing sources (access to finance). There are various financing opportunities in the market, beyond commercial banks, also offered by the Government of Pakistan that can enable enterprises to fund various greening interventions leading to business growth such as EDF, Karandaaz and other financial institutions. However, lack of information, clarity of eligibility and other factors limit enterprises to benefit, and the action will also play a role in establishing the necessary support that enables enterprises to identify and benefit from other financing opportunities available.

Indicative activities relating to Output 2.3 may include:

- In order to sustain and expand results under output 2.1, domestic service providers' capacities will be developed in providing green transition technical support to SMEs.
- Activities may include mapping domestic service providers offering services and products relevant to the selected export-oriented SMEs in the areas of innovation, competitiveness, green transition, compliance and digitisation.
- Develop a competitive accelerator scheme targeting domestic service providers and provide successful applicants with technical support and capacity development to enable them to improve and grow their business and to establish contacts with potential clients under the export-oriented SMEs.

Outcome 3

Indicative activities relating to Output 3.1 may include:

- To enhance impact for the export-oriented SMEs that are benefiting from the innovation challenge fund, support will be provided to strengthen public-private dialogue in the localities of supported SMEs.
- The action will map existing dialogue platforms, make recommendations and provide technical support to make them more practice-oriented (e.g. establish technical working groups or allow for regular participation of external advisors).
- Identification of challenges related to sustainable development of export-oriented SMEs, e.g. related to compliance with international standards.
- Development of knowledge base through research and assessments, and outlining of possible (innovative) solutions with involvement of potential stakeholders like CSOs and academia. In case no platform exists, the action will support establishing such a platform.

Indicative activities relating to Output 3.2 may include:

- Support to the development of bankable investment projects identified in 3.1 through the collection of data and development of (feasibility/environmental impact) studies.
- Working in close cooperation with Team Europe partners (who will be actively engaged in the action) and beyond, the action will provide support in identifying available financing opportunities.

3.3 Mainstreaming

Environmental Protection & Climate Change

The action will complement green and just interventions from the private and public sectors side and support a sustainable and inclusive economy recovery and development. Furthermore, environmental protection and climate change mitigation and adaptation are key aspects of the transition towards a green and circular economy and are aspects of the Action. Fully in line with the European Green Deal ambitions, the action mainstreams a broader approach aimed at supporting the transition to a green and circular economy. The principles of the circular economy - designing out waste and pollution, keeping products and materials in use for as long as possible, and regenerating natural systems - can deliver positive environmental impacts together with financial savings.

Increased production and trade may also have certain negative or positive impacts on environment and climate change. On the one hand, more trade and investment activities can put more pressure on the environment and contribute to further climate change. On the other hand, with the revenue and income generated from the increased trade and investment in resource-efficient production and circular economy, Governments and Industry may have more financial resources to tackle environmental problems and promote the agenda for investments in sustainable development.

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions)

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA (Environmental Impact Assessment) screening

The EIA (Environment Impact Assessment) screening classified the action as Category B (not requiring an EIA, but for which environment aspects will be addressed during design).

Outcome of the CRA (Climate Risk Assessment) screening

The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment). This project aims to reduce carbon emissions and mitigate climate change, in line with regional NDCs through policy reforms, and private sector development with a focus on transition to CE.

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality and empowerment of women is a significant objective within the action. The core elements for a G1 action are described as following:

1. Conducting a specific gender analysis of the project and using it for designing the action. In addition, a Global Gender Gap Report was published by World Economic Forum in 2023 including detailed information on Pakistan, and the Government of Pakistan published a Climate Change Gender Action Plan in 2022. The findings from both documents are included in the present action document.
2. Gender equality objectives/expected outcomes and outputs: Specific Objective 2 and Outputs under this SO contain a special focus on empowerment of women, similarly under Specific Objective 3, participation of women in dialogue processes is focused to ensure inclusivity in addressing challenges and formulation of solutions.
3. Indicators and data disaggregation: the indicators in the log frame are disaggregated by sex, where applicable.
4. Monitoring and evaluation on gender equality: the gender equality-based approach will be mainstreamed into the monitoring and evaluation of the project.

The Action also addresses gender equality and empowerment of women on activity level. The Accelerator scheme and the seed and matching grants will have specific windows for women. The female target group of the schemes is significantly increased through inclusion of domestic service providers, mostly start-ups and SMEs with higher share of women entrepreneurs compared to SMEs in selected sectors. In the PPD formats measures will be taken, e.g. through rules of business, to increase the proportion of women and to strengthen their participation.

The Action is well-aligned with the EU Gender Action Plan 2021-2025 (GAP III), in particular with two thematic areas:

- i) Strengthening economic and social rights and empowering girls and women, and
- ii) Addressing the challenges and harnessing the opportunities offered by the green transition and digital transformation.

Human Rights

Respect for human rights, including women's rights, is a fundamental value of the European Union. The action contributes to promoting the creation of decent jobs through support of compliance with core conventions under GSP+, of which seven are focusing on human rights and eight on labour rights⁶. Interventions of the action may

⁶ <https://gsphub.eu/conventions>

focus among others on improvements of occupational health and safety and chemical management. The transition to a circular economy shall be promoted through inclusive policies and practices and give due attention to those sectors of the population that may be affected, including those who are most marginalised, excluded or discriminated against and living in vulnerable situations. At the same time, it works towards improving the labour conditions of workers employed in the circular economy. It will do so by applying a human rights-based approach respecting five working principles: respect to all human rights, participation, non-discrimination, transparency, and accountability in every step of the Action. Furthermore, the action aims to do no harm, will promote responsible business practices and will address the human right for a clean environment. Analyses and assessments will be conducted to incorporate specific work on Business and Human Rights and mainstream the human rights-based approach and responsible business conduct.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action labelled as D0.

In all activities all possible measures will be taken to ensure inclusive policy dialogues. Therefore, attention will be paid to ensure and enable the participation of people with disabilities in the transition to a green and circular economy. PwD will have a priority level in the selection of enterprises in Component II.

Reduction of inequalities

Pakistan's economic growth rate in 2023 was inadequate to sustain poverty reduction and high inflation, especially food inflation, combined with limited wage growth, which is particularly impacting poor and vulnerable households. Increased food insecurity, declining affordability of education and health services, and poor air quality aggravate multidimensional poverty. Fiscal consolidation measures, like reduced public spending on construction and declined spending under the Benazir Income Support Programme (BISP) also affect the poor.⁷ The Action's support in this respect is indirect. The need for qualified workforce for the green transition and improvement in overall business figures of the SMEs supported may contribute to improve the income situation of workers in the targeted industries, while positive effects on working conditions can be expected from improvements in occupational health and safety and compliance with international requirements on environment and labour-rights. Contributions to reduction of inequalities are thus intended but due to the design of the Action rather indirect. Strengthening of competitiveness of SMEs can have a positive impact on employment, the support of women (G1-marker) shall strengthen women entrepreneurs and employment. The reduction of inequalities is thus a relevant cross-cutting issue of the Action, however, not a main focus and contributions mainly indirect, thus the action is labelled as I-0.

Democracy

The Action promotes institutional coordination, cooperation, and consultation with relevant stakeholders. The Action will support a culture of social inclusion, institutional dialogue, data sharing and knowledge dissemination as well as participation of private sector and other partners in decision-making processes. This approach shall help to address information and communication failure between public and private sector but also between inter and intra governmental institutions.

Conflict sensitivity, peace and resilience

Activities will be developed in an inclusive manner with a strong attention to facilitate dialogue. Through promoting decent jobs and circular economy, the Action is expected to positively contribute to the resilience of the people and of enterprises and a more sustainable use of natural resources. Mitigation of emissions from industries shall also reduce conflicts with neighbourhoods around industrial areas.

Disaster Risk Reduction

Building resilience and preventing disasters are particularly relevant when it comes to the link between sustainable management of natural capital and climate change adaptation. Promoting greener business models and circular economy has positive impact on mitigating environmental disaster risks. Targeted improvements in key sectors,

⁷ The World Bank (2024). Pakistan Development Update – Fiscal Impact of Federal State-Owned Enterprises. <https://thedocs.worldbank.org/en/doc/140b30353b40dbb294cca42bcb86529a-0310062024/pakistan-development-update-april-2024-fiscal-impact-of-the-federal-state-owned-enterprises>

like management or substitution of hazardous chemicals, reduction of air and water pollution or promotion of workers health may contribute to reducing the risk of accidents and diseases.

Other considerations if relevant

The promotion of digital solutions and technologies will be promoted where appropriate, as a pivotal aspect to support the circular transition. The Action will work based on existing solutions, e.g. for digital traceability or digital platforms for trade, in which sellers are pre-screened for compliance with relevant requirements. Existing products and services can be used and adapted to the local context, preferably in collaboration with local actors (e.g. companies, research institutes, universities, service providers) to build-up know-how and capacities within Pakistan.

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External risk	Macro-economic instability	Medium	High	Financial and productive support to SMEs will strengthen their capabilities to face macro-economic instabilities while their inclusion into wider value chains and market can counter-balance twin deficit in the country.
External risk	Weak business/ institutional framework	High	Medium	Public private dialogues will aim to ensure strengthening of communication between the public and private sector, allowing for regulatory frameworks to be better adapted to the needs of the private sector and accountability of the public sector. It will also help improve the trust deficit existing between public and private sector.
Internal risk	Trust deficit between public and private sector	Medium	Medium	Although trust deficit is an ongoing issue in Pakistan and can potentially have a high impact in private sector development, the development of public private dialogues foreseen to be supported by the action explicitly aims to reduce this deficit seeking to develop common plans and share responsibilities in the targeted sectors for the development of exporting SMEs and the industrial sector.
External risk	Poor Governance and corruption	Medium	Medium	Risk mitigated by strengthening institutions and accountability through capacity development, data creation, digitisation and reporting and monitoring; the use of the public sector –private sector dialogue is also a possible mitigating

				factor. Specific SME/beneficiaries selection criteria will be developed in Component 2 to ensure equal participation, non-discrimination, transparency and avoid corruption.
External risk	Limited sustainable trade and access to value chains	Medium	Medium	Risk mitigated supporting the sectors selected and clustering actions to multiply the impact and strength of the businesses connecting them to institutions such as customs to address challenges. Also enabling businesses take action based on research and credible data
External risk	Large scale natural disaster or Climate vulnerability increased	Medium	Medium	Promoting sustainable development through environmentally friendly practices and reducing carbon emissions can help mitigate the risk of natural disasters in Pakistan. Small and medium-sized enterprises (SMEs) can work with government agencies to enforce compliance with environmental standards and build a more resilient and sustainable economy.
Internal risk	Limited capacity or appetite of SMEs to commit in greening of their businesses.	Low	High	The sectors selected will be those with high export orientation, thus facing severe pressure for compliance with international rules and regulations.
Internal risk	Bankable projects may not find immediate financing and lag may disinterest partners	Medium	Medium	Ongoing engagement with all partners, support with the identification of different windows, and the strengthening of the cooperation between actors from different background will increase the chances that partners stay committed and to ensure that financing can be secured. On top of that the allocation of finance to the component working on this will ensure efficiency and concrete actions throughout the project life.
People and organisations	Limited commitment to gender equality and women's empowerment by the targeted institutions and non-state actors.	H	H	Ensuring that all projects have gender/women as a significant objective. Full involvement of the benefitting institutions in the design of gender related interventions.

Lessons Learnt:

Following lessons from other projects and programmes have been taken into account during the proposed programme's planning and design:

The green transition (including renewable energy, energy and resource efficiency and circularity) of businesses in Pakistan can only be achieved through an interplay of different measures, with **access to green finance being the most important issue** that needs to be addressed. This is one of the key lessons from the *Resource and Energy Efficient Technologies in the Sugar Sector (IREET)* Project implemented between 2018-2022.

The challenges with green financing of SMEs can be further detailed:

The environment of textile and leather SMEs is not conducive, with **coordination gaps between government, financial institutions and intermediaries**. Support for coordination among stakeholders and capacity building of actors have been identified as suitable approaches to address the gap.

A **pipeline of bankable green investment projects is missing** as SMEs lack tailored business advisory and financing required to develop capacities do identify and invest in sustainable consumption and production measures.

Green finance products for textile/leather SMEs are missing as there is limited green business facilitation and integration of environmental risk management in banks' core activities.

These lessons have been derived from the *International Labour and Environmental Standards (ILES) Application in Pakistan's SMEs, Growth for Rural Advancement and Sustainable progress Pakistan and Accelerate Prosperity Asia* Projects.

The planned Action is including these learnings in its multi-level approach, which is targeting the coordination gap through PPD (SO1 and SO3), works on access to green finance for SMEs (SO2) and supports the development of bankable projects (SO3).

Dialogue and exchange in a multi-stakeholder approach has been identified by BetterWork – a collaboration between the United Nations' International Labour Organisation (ILO) and the International Finance Corporation (IFC) – as the basis for tackling multi-dimensional issues in the targeted industries.

This learning has been strongly considered in the planning of action that is foreseeing the implementation of PPD forums on national level and local level (SO3) under engagement of public and private sector, academia, research and financial institutions. Thus, information and communication gaps shall be bridged and expertise and decision power of different stakeholders combined.

3.5 The Intervention Logic

The underlying intervention logic for this action is that by improvement of the legislative framework for sustainable SME development, technical assistance and support with access to finance for export-oriented SMEs and domestic service providers and by facilitating green investments in the sustainable development of the industrial sector the competitiveness and business environment of Pakistan's private sector, creating green and inclusive growth and sustainable decent jobs (Impact) will be improved.

The improvement of quality, implementation and enforcement of the legislative framework for sustainable SME development shall be supported through strengthening of capacities of federal and provincial institutions to design, review and implement respective policies and regulations in compliance with international agreements and environmental standards. Through capacity development, sharing of knowledge, expertise and international best practices, guidance and implementation support to key stakeholders from federal and provincial level will be enabled to improve the quality of the legislative framework and to steer its implementation and enforcement for a conducive environment for sustainable development of SMEs and in compliance with international agreements and standards. Given that key actors remain interested to receive support in the outlined areas and committed to apply the gained knowledge and support, this will lead to a more conducive legal framework for sustainable SME development.

The green transition of export-oriented SMEs shall be fostered through an SME Accelerator and an Innovation Challenge Fund, with specific windows for women. The Action will identify ideas or solutions, and select projects or service providers via a competitive format. Through technical assistance the successful applicants will upgrade their knowledge and skills related to topics like green business processes and practices, traceability, compliance, certification or/and access to finance. With an Innovation Challenge Fund, the Action will provide selected graduates from the Accelerator with seed financing through a matching grant as well as clustered actions involving different organisations and thus enable them to upscale, enhance and green their businesses, realise innovations and at the same time build a credit history. The Accelerator and the funding will provide specific windows for domestic service providers relevant for the export-oriented SMEs thus that they can improve and upscale their products or services and better serve the export sector. Through the promotion of linkages between export-oriented SMEs and the service providers and a multistakeholder collaboration with academia, the ecosystem for research and solutions will be strengthened and thus the competitiveness of the private sector increased. Provided that a critical number of SMEs and domestic service providers understand the need for a green transition to stay competitive and have the capabilities to participate successfully in the competitive formats of the Accelerator and MGF the participating firms will be thus prepared for a successful green transition.

Targeted green investments for sustainable development of the industrial sector shall be facilitated through dialogue platforms of key stakeholders that identify green investment opportunities for which bankable projects shall be developed. If relevant key stakeholders from public and private sector, academia, and researchers engage in a meaningful dialogue backed by evidence-based data, engage technical experts or form technical working groups, they will be able to identify green investment opportunities. With support of the Action and through the engagement of financial experts and financing institutions the key stakeholders can develop bankable projects for some of the identified opportunities, e.g. for the construction of a Common Effluent Treatment Plants (CETP), and thus facilitate targeted green investments for sustainable development of the industrial sector. Moreover, the same platforms of dialogue will also be used to identify issues, advocate solutions and address challenges associated with implementation of laws and policies focused on green transition and sustainable growth of the industry.

3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention. On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action. The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

PROJECT MODALITY (3 levels of results / indicators / Source of Data / Assumptions - no activities)

Results	Results chain (@): Main expected results (maximum 10)	Indicators (@): (at least one indicator per expected result)	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	OO: To enhance the competitiveness of Pakistan's private sector, through green and inclusive growth.	1 Environmental performance index 2 Volume of Pakistan exports to EU of targeted sectors. 3 Pakistan Global Competitiveness Index ranking 4 B ready score (Business ready report of World Bank)	1. EPI score 24.6/100 (2022) 2. EUR 7.9 Billion (2023) 3. 133 / 148 countries (2022) 4. First report due on 25 Sept 2024	1. tbd 2. tbd 3. tbd 4. tbd	1. EPI index report published on https://epi.yale.edu with 2024 report due on 3 June 2024 2 Ministry of commerce publications, Euro stat reports on trade, DG Trade Annual Report 3. GCI report from WEF	<i>Not applicable</i>

					4. B Ready report (world Bank)	
Outcome 1	SO1: Quality, implementation and enforcement of a legislative framework conducive to sustainable SME development improved.	<p>1.1 Adequacy of the legal framework (B-Ready World Bank Indicator under International Trade component)</p> <p>1.2 Level of business environment conducive for sustainable SME development</p>	<p>1.1 tbd</p> <p>1.2 tbd</p>	<p>1.1 tbd</p> <p>1.2 tbd</p>	<p>1.1 B ready report published by World Bank</p> <p>1.2 Pre and post assessment of the action using a calculation tool following calculation tool following B-ready report calculation under international trade as reference</p>	<p>Key institutions at federal and provincial levels remain willing to use their increased awareness and abilities to improve and enforce the legal framework to promote sustainability and competitiveness of SMEs. Overall external factors including economic, political and environmental conditions remain predictable with limited to nonexternal shocks</p>
Outcome 2	SO2: Foster a successful green transition of export-oriented small and medium-sized enterprises (SMEs) in designated sectors, especially those led by women, employing or benefitting women.	<p>2.1 Volume of exports of SMEs segregated by ownership based on gender</p> <p>2.2 Volume of green investments in export oriented SMEs segregated by ownership based on gender</p>	<p>2.1 tbd</p> <p>2.2 tbd</p> <p>2.3 0/2024</p> <p>2.4 0/2024</p>	<p>2.1 tbd</p> <p>2.2 tbd</p> <p>2.3 tbd</p> <p>2.4 tbd</p>	<p>2.1 Progress reports of the EU-funded intervention</p> <p>2.2 Outcome based assessment</p>	<p>With increasing awareness of international commitments and witnessing attached benefits of compliance through</p>

		<p>2.3 Number of SMEs using production facilities supplied by renewable energy (disaggregated by sex for the owner of SME)</p> <p>2.4 Amount of treated water recycled with EU support</p>			<p>2.3 Outcome based assessment</p> <p>2.4 Outcome based assessment</p>	<p>practice, more and more SMEs of selected sectors are seeing the need to invest in green transition and environmental compliance to remain relevant and competitive in the market</p>
Outcome 3	SO3: Facilitate targeted, green investments for sustainable development of industrial sector.	<p>3.1 Number of bankable Projects approved</p> <p>3.2 Volume of green investments in targeted sectors.</p>	<p>3.1 0/2024</p> <p>3.2 tbd</p>	<p>3.1 tbd</p> <p>3.2 tbd</p>	<p>3.1 Progress reports of the EU-funded intervention</p> <p>3.2 Baseline (in inception phase) and endline survey</p>	<p>Actors from public and private sector work together and take fact-based decisions for the development of bankable projects and understands its need in the greater interest of all and in line with increased global compliance needs</p>
Output 1.1	1.1 Enhanced capacities of targeted federal and provincial institutions to design, review and implement policies and regulations that promote a conducive environment for sustainable development of small and medium-sized enterprises (SMEs).	<p>1.1.1 Number of policies designed/ existing reviewed as per need identified for promoting conducive environment for sustainable development of SMEs;</p> <p>1.1.2 Number of Institutional strengthening interventions supported in targeted federal and provincial institutions to promote</p>	<p>1.1.1 0/2024</p> <p>1.1.2 0/2024</p>	<p>1.1.1 tbd</p> <p>1.1.2 tbd</p>	<p>1.1.1 Progress reports of the EU funded intervention, draft policies reviewed, designed</p> <p>1.1.2 Progress reports of the EU-funded intervention</p>	<p>- Key federal and provincial institutions understands the rising need to remain competitive and work towards a conducive environment. They accept support and are</p>

		, sustainable development of SMEs				ready to compliment the capacity developed with actions aimed to promote an environment conducive for sustainable development of SME. - Overall administrative arrangements and political stability remains constant.
Output 1.2	1.2 Strengthened capacity of the public sector to improve compliance with international agreements / standards and promote the green transition	<p>1.2.1 Knowledge level of officials in targeted institutions on Pakistan’s international commitments (including gender and human rights commitments) and its possible impacts (%)</p> <p>1.2.2 Number of gaps analysis conducted of existing policies and frameworks</p> <p>1.2.3 Number of technical interventions supported to improve compliance and promote green transition</p> <p>1.2.4 Training sessions conducted on international reporting obligations and requirements</p>	<p>1.2.1 tbd</p> <p>1.2.2 0/2024</p> <p>1.2.3 0/2024</p> <p>1.2.4 0/2024</p>	<p>1.2.1 tbd</p> <p>1.2.2 tbd</p> <p>1.2.2 tbd</p> <p>1.2.2 tbd</p>	<p>1.2.1 Progress reports of the EU-funded intervention, survey among targeted stakeholders</p> <p>1.2.2 Progress reports of the EU-funded intervention, Gaps analysis reports</p> <p>1.2.3 Progress reports of the EU-funded intervention</p> <p>1.2.4 Progress reports of the EU-funded intervention, Training reports</p>	<p>Key federal and provincial institutions remain interested in support to improve their capacities and understanding on international commitments and are willing to review and improve the policy framework and its implementation for improving compliance to international commitments</p>

						- Overall administrative arrangements and political stability remains constant
Output 2.1	2.1 Improved capacities for green innovation, competitiveness, and compliance with international requirements of export-oriented SMEs (with a focus on those led by women, employing or benefitting women) in selected sectors	<p>2.1.1 Number of SMEs that completed the SME Greening Accelerator Scheme</p> <p>2.1.2 Percentage Environmental compliance of SMEs that completed SME Greening Accelerator Scheme</p> <p>2.1.3 Percentage productivity of SMEs supported</p> <p>2.1.4 Percentage quality of production of SMEs supported</p> <p>2.1.5 Percentage cost of production of SMEs supported</p>	<p>2.1.1 0/2024</p> <p>2.1.2 tbd</p> <p>2.1.3 tbd</p> <p>2.1.4 tbd</p> <p>2.1.5 tbd</p>	<p>2.1.1 tbd</p> <p>2.1.2 tbd</p> <p>2.1.3 tbd</p> <p>2.1.4 tbd</p> <p>2.1.5 tbd</p>	<p>2.1.1 Progress reports of the EU-funded intervention</p> <p>2.1.2 Pre and post environmental audit of SMEs</p> <p>2.1.3 Baseline and endline survey among SMEs</p> <p>2.1.4 Baseline and endline survey among SMEs</p> <p>2.1.5 Baseline and endline survey among SMEs</p>	<p>- A model for green accelerator scheme is developed that is in line and customised to the complex needs of SMEs.</p> <p>- The SMEs understands the support, owns the support in line of its greater interest and fully engage at all levels of support extended.</p> <p>- Overall buyer orders remain constant/ predictable so that SMEs can accept the support without facing businesses disruptions</p>

Output 2.2	2.2 Improved access to finance for green investments in export-oriented SMEs (with a focus on those led by women, employing or benefitting women) of selected sectors.	2.2.1 Number of SMEs supported through Challenge Fund. (disaggregated by sex for the owner of SME) 2.2.2 Number of SMEs supported to leverage other financing opportunities (disaggregated by sex for the owner of SME)	2.2.1 0/2024 2.2.2 0/2024	2.2.1 tbd 2.2.2 tbd	2.2.1 Progress reports of the EU-funded intervention 2.2.2 Progress reports of the EU-funded intervention	- A critical number of SMEs from selected sectors remains interested and capable to participate in the calls for proposals. - Other potential financiers remain ready and committed to support the SMEs in green financing
Output 2.3	2.3 Stronger and more competitive private sector by improving linkage between export-oriented SMEs (with a focus on those led by women, employing or benefitting women) with domestic business service providers	2.3.1 Number of domestic service providers capable to offer quality inclusive, gender responsive, green transition technical support and business development services 2.3.2 Number of SMEs in the targeted sectors purchasing services from supported domestic service providers (disaggregated by sex for the owner of SME)	2.3.1 tbd 2.3.2 0/2024	2.3.1 tbd 2.3.2 tbd	2.3.1 Progress reports of the EU-funded intervention 2.3.2 Progress reports of the EU-funded intervention	A critical number of export-oriented SMEs and domestic service providers is willing to invest time and resources to improve linkages and their overall competitiveness.
Output 3.1	3.1 Established dialogues between all key identified stakeholders for improving compliance to national and international commitments	3.1.1 PPDs strengthened/ institutionalised/ newly formed 3.1.2 Number of need based research/studies conducted	3.1.1 0/2024	3.1.1 tbd	3.1.1 Progress reports of the EU-funded intervention,	Responsible local actors from public and private sector including CSOs

			3.1.2 0/2024	3.1.2 tbd	survey among members of PPD 3.1.2 Progress reports of the EU-funded intervention, research reports of the studies conducted mainly through academia and CSOs	and academia in the selected localities remain willing to engage productively to conduct research, overcome knowledge gap, work on innovation and work towards evidence based solutions for the improvement of the local business environment.
Output 3.2	3.2 Development of bankable projects supported based on challenges, priorities and green investment opportunities identified through PPD platforms.	3.2.1 Number of feasibility studies developed for identified green investment opportunities 3.2.2 Number of bankable projects developed	3.2.1 0/2024 3.2.2 0/2024	3.2.1 tbd 3.2.2 tbd	3.2.1 Progress reports of the EU-funded intervention, feasibility studies developed 3.2.2 Progress reports of the EU-funded intervention, draft bankable projects developed	Engaged actors are committed to engage, translate discussions into workable/ bankable projects and take decisions in the greater interest of development of the local business environment

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Islamic Republic of Pakistan.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Budget Support – NOT APPLICABLE

4.4 Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures⁸.

4.4.1 Indirect Management with an entrusted entity

This action may be implemented in indirect management with an entity, which will be selected by the Commission's services using the following criteria:

- Proven track record of implementation of comparable projects.
- Long-standing work experience in Pakistan and physical presence in the country, preferably in Punjab and Sindh.
- Established contacts with relevant public and private actors in Pakistan for private sector development with focus on SMEs and related to environment, climate change and labour rights.
- Experience in competition formats such as call for proposals, ideas and solutions
- Extensive experience in facilitation of public-private dialogues (PPD) on different levels.
- MS agencies, in the spirit of stronger collaboration under Team Europe approach, will be favoured

The implementation by this entity entails the implementation of Component 1, 2, and 3 and will contribute to achieving the related Overall objective as described in chapter 3.1.

4.4.2 Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option)

If the envisaged implementation modality under indirect management above cannot be implemented due to circumstances outside of the Commission's control, Specific Objective 2 may be implemented through direct management (grants). The type of applicants targeted will be legal entities, international organisations, NGOs and/or economic operators such as SMEs.

⁸ <http://www.sanctionsmap.eu/>. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Implementation modalities – cf. section 4.4	
Objective To enhance the competitiveness of Pakistan's private sector, through green and inclusive growth	
SO 1: Improve quality, implementation and enforcement of a legislative framework conducive to sustainable SME development	6 750 000
SO 2: Foster a successful green transition of export-oriented small and medium-sized enterprises (SMEs) in designated sectors, especially those led by women, employing or benefitting women	10 000 000
SO 3: Facilitate targeted inclusive, gender sensitive, green investments for sustainable development of industrial sector	3 000 000
Indirect management with an entrusted entity - cf. section 4.4.1	19 750 000
Evaluation – cf. section 5.2	200 000
Audit – cf. section 5.3	50 000
Totals	20 000 000

4.7 Organisational Set-up and Responsibilities

Sustaining and continuing of reform of donor-funded programmes is problematic in the context of countries like Pakistan. The high turnover in bureaucracy and political volatility delays structural reforms. To manage this programme's Steering Committees are usually used as a mechanism for steering, keeping ownership, and continuity of reforms. However, there is mixed evidence of success. Therefore, some level of innovation is required for this particular action. Therefore, the following is proposed:

At the highest level, a **Project Steering Committee (PSC)** will be established and co-chaired by the Minister for Commerce, Ministry of Climate Change and the EU Delegation. The detailed composition of the PSC will be defined during the inception phase. The main purpose of this committee will be to provide an overall steer and act as a high-level problem-solving forum to address problems impacting progress. This forum will guide at least twice a year the direction of responsive technical assistance by the programme.

At the second and more operative level, technical working groups will be established according to the different programme's components.

At the third level, the Public Private Dialogue platforms engaged under component 3 will also be used to develop evidence and demand for required TA support that will implement reforms within the public sector that strengthen the effectiveness and case for projects being developed for financing. These forums will act

as demand advocacy units and members will be invited to working groups or steering committees as required. A three-tiered approach with strong demand coming from the engaged private sector will ensure that the TA support is purposeful and sustained in an effective manner.

Potential partners: An indicative overview of potential partners from Government, private sector, academia and research institutes, international organisations and NGOs and financial intermediaries and their potential role in the project is provided in section 2.2. The inception phase should be used to conduct a more detailed analysis of the potential partners and their roles and to decide on modes of cooperation. While this could be just non-formalised engagement in PPD forums or working groups, it could also entail cooperation based on a non-binding MoU or grant agreements through intermediaries selected in accordance with section 4.4.1.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission, represented by the European Delegation will participate in the above governance structures set up for governing the implementation of the action as well as to the SMEs' selection and matching grant award process (both the greening accelerator scheme and the innovation challenge fund) in coordination with the implementing partner. It may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this action and ensuring effective coordination.

4.8 Pre-conditions

There are no specific pre-conditions to this action.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

- The project team will include fully or partially dedicated Monitoring and Evaluation staff. It is recommended to have at least one dedicated person in Punjab and one in Sindh to ensure rigorous tracking and reporting on results, adaptive management, and rapid feedback loops.
- The monitoring will include field-level project performance monitoring, e.g. through visits in participating factories.
- The findings from the monitoring reports shall be presented at the Project Steering Committee for validation and progress tracking and to provide guidance on corrective action if required.

Monitoring of progress: The project monitoring system will focus on: (i) assessing the rates of physical execution of yearly planned activities/sub-activities against planned annual and end targets; (ii) verifying compliance by all actors with agreed calendar and deadlines; (iii) assessing the rate of financial execution against the provisional planned budget; and, (iv) providing input to the quarterly and annual reporting.

Standardized templates shall be developed for data collection and reporting and included in agreements with implementing partners.

All monitoring and reporting shall assess how the action is considering the principle of gender equality.

Results measurement:

- **Baseline:** A baseline survey will be conducted for indicators for which this is applicable as per the logframe. The survey shall be conducted by a third-party service provider in the first year of the Action to document the status of the target beneficiaries and their business environment prior to the commencement of the project interventions. This baseline will be the reference against which in the mid-term review and completion survey changes will be measured.
- **Mid-term review (MTR):** A MTR combined with a mid-line assessment will be conducted by the implementing entity at half-time of the project duration to assess progress against the targets and to compare with the baseline values to measure changes. The MTR shall identify implementation bottlenecks and suggest corrective actions.
- **Completion Survey:** The project will conduct a final assessment towards the end of the project implementation time, to gauge the outcomes realised, as well as to document changes on the impact level and indicate the contributions from the project. The survey must cover all indicators in the log frame and may also feed into the project completion report.
- Primary data will be collected disaggregated by gender where applicable.
- Where applicable project partners from public and private sector will be engaged in the data collection, e.g. by ensuring that relevant representatives of the respective governmental institution participate in survey or are made available for interview.
- For data management and storage, the project will use a centralised M&E system that allows team members to access the data.
- The indicators related to climate mitigation under component 2 will be further defined in detail at the time of inception of action. The indicator 2.1.2 referring to levels of environmental compliance, whose findings will determine the environmental impact of technical support and will be calculated through pre and post environmental audits of the SMEs supported, will specifically be further defined. Under this indicator, sub indicators that directly link to environmental compliance will be factored in including but not limited GHG emissions, chemicals management, water resource use and management, waste management and its disposal, and energy utilization and efficiency and results data will accordingly be measured.

The permanent internal, technical and financial monitoring system will provide accurate account of implementation of the Action, difficulties encountered, changes introduced, lessons learned and degree of achievement of its results as measured based on indicators from the log frame matrix. Dissemination and learning from the information of the monitoring system shall be ensured through the following reporting system:

Learning and knowledge management

A knowledge management strategy will be prepared during the inception phase of the project, including identification of created or acquired knowledge, knowledge storage, knowledge sharing and dissemination, and knowledge utilisation within the project.

Knowledge mapping can be conducted regularly to identify where and how knowledge is being generated, knowledge information should be stored in a centralised knowledge repository (ideally an online storage database), and internal sharing and dissemination can be achieved through a comprehensive reporting system, including:

- **Internal monthly updates:** Brief updates on monthly achievements of the project.
- **Internal quarterly progress reports:** Comprehensive progress reports including planned vs actual for activities in the work plan/ outputs and budget.
- **Annual reports** Comprehensive report showcasing the annual progress of the project against the planned targets for the reporting year. This report will include updates on Programmatic results

(outputs and outcomes), update of the Performance Monitoring Matrix, operational updates, and project financial updates.

- End of project report: Submitted at the closure of the project as a deliverable, which will be the sum of all the achievement through the project implementation. It will include comprehensive details on the project performances, implementation, challenges, and lessons learned. Products of the Action, like special reports, case studies, or evaluation/assessments completed under the project will be provided along with this report.
- Knowledge Products: Project progress presentations, fiche, case studies and other important materials as and when required will be prepared for dissemination at the relevant platforms.

A dedicated M&E, knowledge management and communication section with suitably qualified and experienced staff is part of the organisational arrangements at the PMU offices.

5.2 Evaluation

Having regard to the importance of the action, mid-term and final evaluations will be carried out for this action or its components via independent consultants contracted by the Commission.

Mid-term evaluations will be carried out for problem solving and learning purposes, in particular with respect to additional EU support, e.g. in a future phase of the action.

Final evaluations will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the action complements other EU support on the green / circular economy at regional and country levels.

The Commission shall inform the implementing partner at least 01 month in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

In addition, all evaluations shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment and disability inclusion.

The financing of the evaluation may be covered by another measure constituting a Financing Decision.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

In line with the 2022 “[Communicating and Raising EU Visibility: Guidance for External Actions](#)”, it will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner

countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.