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ANNEX II

to the Commission Implementing Decision on the financing of the annual action plan in favour of the Islamic Republic of Pakistan for 2022

Action Document for ENERGY Plus: Energy for Climate Resilience in Gilgit-Baltistan (GB) and Chitral district in Khyber Pakhtunkhwa (KP)

This document constitutes the annual 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 CRIS/OPSYS business reference Basic Act	ENERGY Plus: Energy for Climate Resilience in Gilgit-Baltistan (GB) and Chitral district in Khyber Pakhtunkhwa (KP) OPSYS: ACT-60554 Financed under the Neighbourhood, Development and International Cooperation Instrument (<u>NDICI-Global Europe</u>)
2. Team Europe Initiative	Yes Pakistan: Building back better through Green Jobs Creation
3. Zone benefiting from the action	The action shall be carried out in Pakistan, in the province of Gilgit-Baltistan (GB) and Chitral district in the Khyber Pakhtunkhwa (KP) province
4. Programming document	Multi-annual indicative programme for Pakistan for 2021-2027
5. Link with relevant MIP(s) objectives / expected results	Contribution to MIP's priority area 1 (Green Growth) by promoting clean energy security and sustainable natural resources management in the province of Gilgit Baltistan and the Chitral district in the Khyber Pakhtunkhwa province.
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	MIP's priority area 1 - Green Inclusive Growth
7. Sustainable Development Goals (SDGs)	Main SDG : 7 – Affordable and Clean Energy Other significant SDGs: 5 – Gender Equality 8 – Decent Work and Economic Growth 11 – Sustainable and Resilient Human Settlements 13 – Climate Action
8 a) DAC code(s)	233 – Electricity Production, renewable sources (50%)

	312 – Forestry (30%) 151 – Government and Civil Society (20%)			
8 b) Main Delivery Channel	22000			
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 checked="" type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input 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"/>
	Trade development	<input checked="" type="checkbox"/>	<input 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 type="checkbox"/>	<input checked="" 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 type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Climate change adaptation @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective
Digitalisation @		<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
digital connectivity		<input type="checkbox"/>	<input checked="" type="checkbox"/>	/
digital governance		<input checked="" type="checkbox"/>	<input type="checkbox"/>	
digital entrepreneurship		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital skills/literacy		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital services		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
Connectivity @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	/	

	energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	/
	transport	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	education and research	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	Migration @ (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @ (methodology for marker and tagging under development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): 14 02 01 31 Total estimated cost: EUR 31.5 million Total amount of EU budget contribution EUR 30 million			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	Direct management through: - Grants			

1.2 Summary of the Action

The Action focuses on promoting green economic growth by increasing clean energy supply and uptake through an integrated approach aiming at reducing pressure on natural resources, enhancing biodiversity and contributing to climate change adaptation and mitigation.

Pakistan is the fifth most vulnerable country to climate change (CC) in the world and the selected project area – Gilgit Baltistan (GB) and the Chitral District, Khyber Pakhtunkhwa (KP) – is a unique and critical mountainous biodiversity hotspot located at the confluence of Hindu Kush, Himalaya, and Karakorum mountain ranges, which is also one of the most sensitive areas to climate change impacts in the country and suffers from increasingly erratic weather patterns. The project area is home to 1.3 million and is prone to natural disasters such as rockfalls, landslides, snow avalanches, or Glacial Lake Outburst Floods (GLOF) are increasingly frequent and severe (National Climate Change Policy, 2012; National DRR Policy, 2013). In the longer run climate change is leading to aggravating soil loss while the glacial mass is receding, reducing water availability in the region and the whole Indus Basin. Out of a mean annual flow of 176 billion m³ in the Indus River, of which almost 90% is used for irrigation providing water for 90% of the food production in Pakistan, around 40–70% comes from glacier melt and snow off the Himalayas.

Firewood collection exacerbated by demographic growth is putting a significant strain on natural resources in a region where only 4% of the total area is covered by natural forest while 5% is occupied by tree plantations. The main source of energy in the region is firewood, used mostly for cooking and heating, which represents 45% of the current energy mix, followed by LPG (30%). Electricity from hydropower plants (19%), and kerosene oil (6%) reaches 98% of the population in GB but the total installed capacity of 148.69 MW in 119 hydropower stations is largely insufficient by about 242 MW to meet the demand, which results in 15 to 18 h daily power outages and only basic lighting being possible in rural areas. GB region is not connected to the national grid and does not even have a regional grid. Hunza district, the area benefiting from the 1.5 MW hydropower plant built by the Action, has the greatest opportunities for economic development based on tourism and only 2.5 MW of electricity generation capacity for a total demand of 6 MW in Summer and 10 MW in Winter. This entails that all tourism related business relies on diesel generators.

Pakistan experienced in 2022 the worst floods in the country in more than a decade with the monsoon season. The southern and central provinces have been the most severely impacted, in particular the Balochistan and Sindh provinces, but Punjab and Khyber Pakhtunkhwa were also highly affected. Widespread flooding and landslides have had severe repercussions for human lives, property and infrastructure. The floods have resulted in the loss of agricultural crops and livestock, absence of safe drinking water, and difficulties in distribution of food, with a negative impact on livelihoods as well as on the overall food security of the population, including the refugee population, at a time of rising prices of essential commodities.

In response to these issues, the Action is designed with the overall objective of increasing climate-resilience and boost sustainable economic opportunities in Gilgit Baltistan and Chitral. Energy generation will be linked to economic development by supporting efficient use of electricity by SMEs and supply chains, including digitalisation with relation to tourism development.

There are three specific objectives:

1. Promote a **sustainable transition to renewable energy** through resilient infrastructure, efficiency measures and youth and women led energy enabled private sector green solutions, including support to digitalisation.
2. Increase the **viability and sustainability of natural resources management**, with the accent on a vast afforestation programme
3. Strengthen multisector, participatory planning, implementation and monitoring in energy, water and natural resources sectors involving local government and civil society

The Action is aligned to the EU's global priorities to promote sustainable, inclusive development, along with prosperity and stability, and to step up efforts on climate change adaptation and mitigation, with a focus on afforestation. It will increase access to clean and sustainable energy to foster inclusive and sustainable green growth, including enhanced rural business and agricultural value chain development. The Action fits in MIP's Priority Area 1 - Green Inclusive Growth, focusing on the specific objective 4. 1 Development of renewable sources of energy for rural areas, and 4.2 Increased use of electricity from renewable energy by producer.

SDGs 7, 13, 8 11 and 5 are addressed through this Action. Considering the impact of firewood collection on women's lives in Gilgit-Baltistan as well as their under-representation in the labour market, the Action also contributes to the EU Gender Action Plan's Objectives 14 and 16. The Action is part of the TEI for Pakistan 'Building back better through Green Jobs Creation' and will complement and create synergies with a planned German climate change intervention at federal level. AFD is also exploring possible complementary actions on energy in the same region.

The Action contributes to the EU Global Gateway Initiative in its general objective of tackling the most pressing global challenges for the people and the planet by boosting smart, clean and secure links in energy across the world. It is also aligned with EU Indo-Pacific strategy, contributing to sustainable and inclusive prosperity, green transition, and connectivity.

The Action will contribute to the Government's recovery efforts further to the disaster caused by the floods, based on the recommendations of the Post-Disaster Needs Assessment (PDNA).

2 RATIONALE

2.1 Context

With a rapidly growing population of 217 million (2019, WB) and with a per capita income of USD 1,285 (2019, WB), Pakistan is facing a range of serious interlinked challenges. Nearly 39% (2018, MPI, UNDP) of Pakistanis live in multidimensional poverty, with the highest rates of poverty in the provinces of Khyber Pakhtunkhwa and Balochistan, and a constant 25% of the population has not had access to electricity for the last two decades. Pakistan is placed fifth on the list of countries most vulnerable to climate change, according to the Global Climate Risk Index 2020, and it is also a major country of origin, transit and destination of refugees and migrants. Women's situation remains a challenge with the country ranked 151 out of 153 countries on the Global Gender Gap Index (GGGI) 2020. Amidst the COVID-19 pandemic, Pakistan experienced a real GDP contraction of 0,5% during 2020. In 2021, growth is estimated to have rebounded to 3.9% and is projected to reach 4% in 2022 (2021 WEO, IMF). In parallel, the increasing youth bulge provides the country with a potential demographic dividend while at the same time representing a challenge in terms of employment and service provision.

Focusing on renewable energy generation and afforestation, this Action is part of the AAP 2022 for Pakistan under priority 1 Green Inclusive Growth, and targets sustainable, natural resource-based, green job creation based on renewable energy in some of the areas bordering Afghanistan, in this case the administrative region of Gilgit-Baltistan and Chitral district in the province of Khyber Pakhtunkhwa. The aim is to contribute to stability in the region, increasing trade exchanges, preventing radicalisation and tackling root causes of migration.

The Action contributes to the EU's global priorities to promote sustainable, inclusive development, along with prosperity and stability, and to step up efforts on climate change adaptation and mitigation, including afforestation. It will increase access to clean and sustainable energy to foster inclusive and sustainable green growth, including enhanced rural business and agricultural value chain development. The Action fits in MIP's Priority Area 1 - Green Inclusive Growth, focusing on the specific objective 4. 1 Development of renewable sources of energy for rural areas and 4.2 Increased use of electricity from renewable energy by producer.

Articulated around a clear focus on climate change adaptation and mitigation and contributing strongly to green growth and value chain development, the Action is fully aligned with the European Green Deal and demonstrates 'EU as a Global Leader' by supporting the development of the renewable energy sector, in alignment with the Paris Agreement and 2030 Agenda. The Action meets the objectives of the New European Consensus on Development, in particular priorities 2.1, 2.2 and 2.3, which cover access to clean energy, quality jobs for young people, private sector development. The Action also contributes to the EU Gender Action Plan's III in the thematic areas related to green transition and digital transformation and promoting economic and social rights and empowering girls and women. SDGs 5, 7, 8, 11, 13 are addressed. The Action will contribute to the Government's efforts to recover from the effects of the severe floods caused by the 2022 monsoon season by building the resilience of communities to the effects of climate change.

In Pakistan, there is increasing political interest and commitment for the development of a renewable energy market, making energy accessible and affordable for all and diversifying the national energy supply mix. This will contribute to supporting existing industries and Pakistan's future ambitions (tourism, digital and green growth).

This action will strengthen the EU's position as a first line partner of Gilgit Baltistan and Chitral, and will complement and create synergies with a planned German climate change intervention at Federal level, as part of the TEI. The Action aligns with the EU-Pakistan Strategic Engagement Plan (2019) and responds to the UN 2030 Agenda for Sustainable Development (2015). In addition, by supporting green enterprises, the Action will contribute to decent and productive employment, poverty eradication, and sustainable value chains.

The Action is aligned with Government of Pakistan's strategic objectives of energy security and affordability, economic development, environmental protection, sustainable growth, and social equity as presented in the Alternative and Renewable Energy Policy 2020. At a broader level, the Action contributes to the Government's 'Vision 2025', which has identified private sector-led growth as a priority for making Pakistan a more globally competitive and prosperous country. The proposed interventions align with Pakistan's Policy for the Power Generation Policy 2015 and the National Electricity Policy 2021. The Action also represents a significant contribution to the effective implementation of the country's Nationally Determined Contribution (NDC) submitted to the United Nations Framework Convention on Climate Change (UNFCCC). In addition, the Action contributes to achieving goals established within Pakistan's Indicative Generation Capacity Expansion Plan¹ (IGCEP), which calls for hydropower to comprise 40% of the country's national energy balance by 2030. Furthermore, the Action will contribute to specific development priorities in Gilgit-Baltistan under the newly announced Socio-Economic Development Plan (2020-2025), a five-year joint programme between the Government of GB and Government of Pakistan which has among its priorities the establishment of a regional power grid along with increasing productivity in agriculture, livestock and fisheries through promotion of agro-based and food processing industries.

Beyond the domestic context, the Action contributes to the EU Global Gateway Initiative in its general objective of tackling the most pressing global challenges for the people and the planet by boosting smart, clean and secure links in energy across the world. Consistent with EU democratic values and high standards, the Action has been designed with idea to promote green, clean and secure energy infrastructures and catalyse private sector investment while ensuring good governance, transparency and equal partnerships.

2.2 Problem Analysis

Short problem analysis:

The Action recognizes the urgent need for comprehensive solutions to improve climate resilience based on mobilising key stakeholders across the government, civil society and private sector through productive partnerships. Addressing priority gaps, the EU support will foster a project intended to strengthen climate-resilience by focusing on the nexus between energy, natural resources management and climate-forward socio-economic development.

While Pakistan has made headways over the last few year on increasing power generation, 25% of the population has remained with no access to electricity for the last 20 years, and disparities in access and reliability are widespread. 71% of the country's population (144 million people)² has either no access to electricity or experience a daily average of more than 12 hours of blackouts³. Key obstacles to electricity provision stem from insufficient generation capacity, under-developed and inefficient distribution networks, and inefficient or under capacitated operations.

The territory of Gilgit Baltistan faces severe electricity shortages which hamper economic opportunities and result into a heavy dependence on firewood and fossil fuels. In the Hunza district installed generation capacities amount to 2.5 MW, while according to the Government of Gilgit Water and Power Department the estimated needs reach 6 MW in Summer months and 10 MW in Winter. For electricity transmission a majority of the project area relies on 11 kV feeders, and only in a few areas around the cities of Gilgit and Skardu the power supply network has been upgraded with 66 kV transmission lines. As a result, the overall transmission and distribution system experiences tremendous operational difficulties in terms of selective tripping and load management, resulting in high line losses (52%). In Chitral, line losses are estimated at 20% to 35% due to the poor distribution network

¹ [https://www.nepra.org.pk/Admission%20Notices/2019/09-September/IGCEP%20Plan%20\(2018-40\).pdf](https://www.nepra.org.pk/Admission%20Notices/2019/09-September/IGCEP%20Plan%20(2018-40).pdf)

² International Finance Corporation, 2018

³ World Bank, Sustainable Energy for All (SE4ALL) database (2018)

and the deficit in terms of technical expertise, funds availability for maintenance, and operational inefficiencies relating to the metering and billing system.

In parallel, overharvesting trees and shrubs for heating and cooking is increasing soil erosion and reducing fertility. It has also increased social, economic, and ecological vulnerabilities of mountain communities which are further exacerbated by climate change induced variability in temperature and precipitation. Dwindling forests and trees plantations in the project area are the main source of energy for cooking and heating as well as an important potential source of income (timber, fire, fruits, honey), which makes it critical the need to support support rural communities in sustainable land use including reforestation.

Access to clean energy make a strong enabler to unlock sustainable economic opportunities and jobs when combined with increased capacities of entrepreneurs by providing, training, advice and market linkages. In the case of villages relying on diesel generators for electricity supply, clean energy reduces energy expenditures, leading to tangible avenues to promote digitalisation, and green economic activities.

Regarding gender aspects, lack of gender disaggregated data and women's underrepresentation in energy sector can be highlighted.

Addressing the above challenges, the Action will simultaneously work on increasing renewable energy generation (hydropower) and improving efficiency and resilience of power distribution networks to catalyse sustainable socio-economic development as well as to address severe on-going deforestation in the territory of Gilgit Baltistan and Chitral. The Action will also strongly link energy generation to sustainable economic development by supporting efficient use of electricity by SMEs and supply chains including supporting digitalisation and building capacity of government partners for policy-making and implementation in the energy and natural resources management sectors.

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

The main rightholders of the Action are the populations in the regions of Gilgit-Baltistan and Chitral, particularly women, youth and the most marginalised households and communities within the targeted areas. Over 200,000 people across the programme area will benefit from improved acces to clean energy and strengthened natural resources management, enhancing the long-term resilience of rural communities. A do-not harm approach will be applied through all the phases of the Action to ensure proper engagement with the different religious and ethnic communities. Civil society organisations and communities will be involved in the planning, implementation and handover processes representing different communities and groups, including business associations, women and those living in vulnerable situations.

Key stakeholders will be the Gilgit-Baltistan Water and Power Department (WPD), and the Pakhtunkhwa Energy and Department Organisation (PEDO), which have purview on energy provision within the region and will be the final recipient of the power infrastructures built by the Action. Agriculture and Forest Departments in the provincial governments have established a forward-looking strategy to leverage agriculture assets to contribute to local economic development while preserving biodiversity and reverting environmental degradation. They will play a coordination role in all the project activities relating to natural resouces management.

The nature of the activities in response to the specific challenges of the Action area demands solid implementing partners with proven capacities and recognition by local governments and communities. The Action will be managed by the Aga Khan Foundation – Portugal, with infrastructural energy components being implemented by the recently founded Northern Pakistan Energy Limited (NEL), the provincial energy utility company created by AKF as a vehicle for a 30-year public-private-partnership with the Governement of GB for electricity generation and distribution in Hunza district. By this Agreement signed in 2020, NEL is entrusted to (1) operate, maintain and expand the existing hydropower facilities and distribution lines in the Concession area; (2) design and submit to the provincial government's approval a billing and tariff system ensuring consumers' affordability and cost recovery; (3) transfer back to the provincial government, at the end of the concession period, all the concession assets including new hydropower facilities constructed during the concession period to meet power demand in Hunza district. As part of the implementation of this concession agreement, NEL has designed a 10-year hydropower plan for the Hunza river comprising four run-of-the river hydropower plants of 1.65MW each. AKF is funding with its own resources and a loan from the State Bank of Pakistan the construction of the first HPP of this plan, while the second one will be supported through this Action.

The Aga Khan Rural Support Programme (AKRSP) has 40 years of experience in economic development, natural resources management and basic service provision in the area, resulting into an unique position when it comes to capacity building with local communities and governments. Other AKDN implementing partners include the Aga Khan Planning and Building Service (AKPBS), the Aga Khan University, and the Karakoram International University, together with other educational and research partners. The latter will be leveraged to build capacity and human resource for the renewable energy sector and generate knowledge on the impact of energy generation and consumption practices on climate vulnerability.

During the inception phase a further stakeholder analysis will be conducted, with a particular emphasis on gender, with which relevant capabilities will be assessed: the capabilities of duty-bearers to fulfil their obligations towards rights-holders (regulations, systems, monitoring mechanisms, etc.) and rights-holders' capacities to claim their rights related to the sector (i.e. access to information, access to services, capacity to pay for electricity, discrimination).

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to foster a climate resilient low-carbon economy and society in Gilgit Baltistan and Chitral

The three Specific Objectives (Outcomes) of this action are to:

1. Promote a **sustainable transition to renewable energy** through resilient infrastructure, efficiency measures and youth and women led energy enabled private sector green solutions
2. Increase the **viability and sustainability of natural resources management**
3. Strengthen multisector, participatory planning, implementation and monitoring in energy and natural resources sectors involving local government and civil society.

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

Contributing to Outcome 1 (or Specific Objective 1)

- 1.1 Increased hydropower generation capacity and optimized electricity transmission and distribution network is established leading to enhanced access and quality and reliability of electricity for residential, public and commercial use, while contributing to greenhouse gas emission reduction and climate change mitigation.
- 1.2 Increased efficiency and affordability in the use of electricity by households and SMEs.
- 1.3 Increased capacities of entrepreneurs to access digitalization and green economic opportunities, with an accent on women and youth, through the establishment of renewable energy powered technological hubs and energy enabled enterprises and supply chains in agriculture, tourism and construction.

Contributing to Outcome 2 (or Specific Objective 2)

- 2.1 Improved tools for effective adaptation strategies integrating ecosystem and biodiversity management at community level
- 2.2 Increased forest cover in the target area

Contributing to Outcome 3 (or Specific Objective 3)

- 3.1 Strengthened capacity of public and civil society partners for sustainable development planning in the power, water and natural resources management sectors.
- 3.2 Improved knowledge of climate change impacts and adaptive strategies and evidence generated for policy formulation.

What are other MS doing in this area?

The Action will benefit from complementarities with interventions by Germany and Italy. Under the Hydropower and Renewable Energy programme, Germany is planning a Skills for green jobs in the energy sector (EUR 10 million), as well as an afforestation programme (EUR 13.5 million). Italy is providing a EUR 20.5 million soft loan to support through IFAD the Gilgit-Baltistan Economic Transformative Initiative, which is supporting land and infrastructure development, research/development on water management, DRM, and support to value chains. Italy is also funding in Gilgit-Baltistan an initiative implemented by UNDP to promote a scientific based approach to monitor climate and glaciers in Pakistan mountain regions in order to support hydrogeological risk prevention.

3.2 Indicative Activities

SO1 - Sustainable transition to renewable energy

Activities related to Output 1.1

Construction of a on-grid 1.56MW hydropower plant and at least 10 100KW off-grid microhydropower plants to increase renewable energy supply.

To fill up the significant gap between power generation and demand in Hunza district, the Action will support the construction of the **second** 1.56MW hydropower plant in the frame of a larger 10-year hydropower plan for the Hunza river comprising four run-of-the river hydropower plants of the same capacity. In addition to this, in remote villages of Gilgit Baltistan and Chitral with little prospect of benefitting from grid connectivity in the short to medium term, off-grid micro hydropower plants (50 to 100MW) will be constructed.

Rehabilitation and optimization of transmission and distribution network infrastructure and utility operations in Hunza district.

Through rehabilitating and optimization of the capacity of distribution transformers, poles and lines the efficiency and resilience of the power network with a substantial drop in line losses, which will contribute to climate change mitigation.

Activities related to Output 1.2

Conduct awareness raising and promote efficient energy use.

To increase efficiency in the use of electricity in public buildings, energy audits will be conducted and practical, budgeted recommendations will be submitted to responsible public institutions. More efficient use of firewood in households will be promoted through the design and dissemination of cooking stove models adapted to the local conditions. Adoption will be fostered through a smart subsidy programme comprising a contribution from the beneficiaries.

Set up a customer affordability programme to support vulnerable households' access to clean energy, acting as a subsidy mechanism for vulnerable customers. Through the Action, NEL will design and submit to the provincial government a differentiated tariff and billing system for Hunza district allowing for a large access by poor households while ensuring operation costs recovery and economic viability.

Activities related to Output 1.3

Establishment of renewable energy powered technological hubs for digital skills development and entrepreneurship.

The hubs will support digital skills development particularly for youth and women and help catalyse freelancing business opportunities by providing high-speed internet, 24/7 electricity, co-working space, IT equipment, and entrepreneurship counselling. ***Provide training, financing, advice and market linkages to enterprises,*** including business training and mentorship, technical advisory, sector specific technical assistance as linkages to financial institutions for access to seed financing.

SO2- Viability and sustainability of natural resources management

Activities related to Output 2.1:

Support for setting up participatory natural resources management plans in rural communities aiming at making sustainable use of uncultivated land.

In 8 districts in Gilgit-Baltistan villagers will benefit from support to establish the mechanisms and measures to ensure sustainable management of forest and agricultural land along with water sources. This will include uncultivated government-owned land and communal land under the collective ownership of the villagers.

Activities related to Output 2.2:

Implement a Large Afforestation Programme

Resulting directly from the *natural resources management plans*, locally ecologically adapted tree plantation on slope areas will be supported to reduce soil erosion, prevent landslides (DRR), and increase biodiversity, while contributing in the mid and long term to decrease tensions on firewood availability and to provide economic opportunities around greenwood products. Main species will include poplar, walnut, apricot tree, juniper and *Picea Smithiana*, which are either native to the region or have been present for centuries.

SO 3- Local capacity of government and civil society within the energy and natural resources management sectors

Activities related to Output 3.1:

Support the Government's institutional capacity for developing and implementing energy and water masterplans

In a context of likely reducing water availability due to climate change, a special focus will be put on supporting the regional government to prepare and implement river basins management plans including for Hunza river.

Activities related to Output 3.2:

Studies to generate evidence on the climate resilience-energy nexus and leverage knowledge and resources for sustainable mountain development.

Under the coordination of the regional government and in collaboration with research institutions, climate change scenarios in this mountain region will be analysed to assess possible impacts on the energy, water, agriculture, tourism and infrastructure sectors, and propose concrete policies and measures to ensure efficiency and sustainability in the use of natural resources. This will include monitoring water flow in the Hunza river so as to provide sound elements for river basin master plan.

3.3 Mainstreaming

Environmental Protection & Climate Change

Declining water availability due to the melting of Himalayan glaciers along with increasingly erratic weather patterns are the most likely expected negative impacts of climate change in the Action area. The Action will contribute to climate change adaptation by increasing local capacities – both at community and regional government level – to manage efficiently water resources. On the other hand, as firewood remains the major source of energy in the region, the gradual deforestation and desertification of orchards and private gardens is noticeable. The cutting of trees and loss of forests is leading to increased soil erosion, resulting in higher risks of mudflows and landslides, as well as the loss of vital carbon sinks. Furthermore, the felling of fruit and nut trees in order to harvest their wood for firewood is likely to have a serious impact on farmers' income in the future, with potential revenue streams being literally burned. As the demand for energy grows in the region, it is imperative to invest in renewable and sustainable energy sources in order to safeguard the environment whilst also facilitating economic growth and development. Similarly, investment in the latest technologies will enable sustainable agricultural production, by enhancing productivity whilst minimising impact on natural resources across the value chain e.g., through efficient irrigation systems and storage facilities.

Outcomes of the EIA (Environmental Impact Assessment) screening (relevant for projects and/or specific interventions within a project)

The EIA (Environment Impact Assessment) screening classified the action as Category B (for which an EIA will be undertaken). A preliminary environmental impact assessment has been carried out covering the construction of the 1.56MW hydropower plant on the Hunza river, concluding that construction impacts are predictable and manageable with appropriate mitigation measures. The construction of the off-grid micro power plants will require specific environmental impact assessments to be conducted during the implementation of the Action.

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project)

The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment)

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 the empowerment of women and girls is key for the achievement of the project's objectives. One of the three Specific Objectives of the Action explicitly targets women and girls, and all the activities are designed with the view of positively impacting the livelihoods of this target group. Key impacts of energy provision include access to clean cooking, improved education and job creation and support to local businesses in an environmentally friendly manner. Considering the impact of firewood collection on women's lives in GB as well as under-representation in the labour market and in the energy sector itself, the Action aims to provide decent work particularly for youth and women along with equal access and control over clean water, energy, transport infrastructure, thus contributing to the EU Gender Action Plan III:

- Thematic area of engagement – Addressing the challenges and harnessing the opportunities offered by the green transition and the digital transformation – Specific thematic objective – Strategies and agreements on climate mitigation, adaptation, disaster risk reduction and sustainable management of natural resources and biodiversity are more gender-responsive, at local, national, regional and international level
- Thematic area - Promoting economic and social rights and empowering girls and women – Specific objective – Women in all their diversity have improved access to entrepreneurship opportunities, including social entrepreneurship, alternative livelihoods and strengthened participation in the green and circular economy

Gender equality is mainstreamed into all aspects of the Action design, implementation, and delivery strategies, which are adapted for areas with pronounced gender challenges. The design of the Action recognizes that with cultural barriers and restrictions around mobility, the length of time the women dedicate to household work (a burden exacerbated by the prevailing lack of clean, reliable and sustainable energy) hinders their active participation in both social and economic spheres. Interventions will support women's empowerment through access to economic opportunities, whilst also enabling a conducive environment to enhance their participation in community affairs and business initiatives.

Human rights

Pakistan has ratified several key human rights instruments including the Convention on the Elimination of All Forms of Discrimination Against Women (1979), International Covenant on Civil and Political Rights (1966), and the International Covenant on Economic, Social and Cultural Rights (1976). It is also signatory to the International Labour Organization's (ILO) conventions on equal wages, equitable work standards, and participation. In addition to guaranteeing fundamental human rights, Pakistan also underscores the rule of law as the bedrock of government authority by enshrining it as such in the Constitution of Pakistan 1973. In the last few years several improvements have been noticed on the legislative front with the enactment of laws which have enhanced the protection of rights of particular groups including minorities, women and children. However, gaps continue to exist on Pakistan's performance on critical socio-economic indicators e.g., women's economic participation (Pakistan has ranked 151 out of 153 on the World Economic Forum's Global Gender Gap Index 2020), youth unemployment, and overall standards of living (Pakistan has ranked 154th amongst 189 countries on the UN's Human Development Index).

The Action is designed and will be implemented taking into account the need to uphold national and international human rights and to respect the five working principles of the human rights-based approach: respecting all human rights, non-discrimination, accountability, and transparency principles, as well as ensuring participation of all stakeholders.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This implies that < the action is not considered relevant for inclusions of persons with disabilities. However, the main stakeholders

and right holders of the Action include the most marginalised households and communities within the targeted areas, and as such, the inclusions for persons with disabilities will be considered where relevant.

Democracy

The implementation approach ensures that the Action aligns with the principles of Accountability to Affected Populations and that the human rights and interests of communities are actively promoted and safeguarded throughout the project cycle. It will do so through prioritizing engagement with community institutions, enterprises, international technical experts, civil society and government actors. The proposed methods for achieving the results and objectives of this Action are based on tried and tested processes using participatory methodologies in addressing systemic challenges to inclusive growth and development. These include: (i) close and transparent coordination with the government and alignment of interventions with major policies and plans; (ii) effective resource utilization, community mobilization and capacity development to ensure medium and long-term sustainability and ownership of results by beneficiaries, and (iii) improvement of community and institutional capacity for inclusive governance practices.

Conflict sensitivity, peace and resilience

The Action builds on the lessons learned from decades of EU support in areas characterised by fragility and conflict. Strong community engagement combined with an acute understanding of local conflict dynamics and robust coordination mechanisms with all levels of government will be the means for the Action to contribute to maintaining peace and stability in the intervention area, will all the necessary community-level and provincial government mechanisms in place to ensure that possible conflicts are prevented while infrastructures and assets brought by the Action are soundly managed with a strong involvement of local communities.

Disaster Risk Reduction

Disaster Risk Reduction (DRR) is streamlined within the Action to avoid hazardous areas based on ‘appropriateness to the climate’ criteria while selecting a route and materials for the construction of transmission and distribution lines including types of poles, cables, insulators, etc. Reducing carbon emissions, promoting re/afforestation, and facilitating a transition towards a green economy will, over time, reduce the impact of climate-induced natural disasters. In addition, the Action benefits from the expertise and robust data of the Aga Khan Planning and Building Service who has completed Hazard Vulnerability Risk Assessments over 785 sites in Pakistan, including the target areas, and trained more than 50,000 people on Communities Based Disaster Risk Management (CBDRM)

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
1 – External Environment	Low institutional capacity at national and local level hampering project progress	Low	High	Capacity building activities will support the gradual strengthening of technical and management skills of key institutional stakeholders. Community involvement and consultation is paramount to create economic and social dividends as well as greater social cohesion.
		Low	High	The Action directly responds to national and provincial development priorities. Public and industry partners will continue

1 – External Environment	Lack of political support			to be engaged throughout the development and implementation of the Action. AKDN has strong and well-established relationships with the key public stakeholders involved in the Action.
1 - External Environment	Natural Disasters	Medium	Medium	A disaster risk mapping within the specific geographical areas will be carried out, building on previous work with communities in the intervention area to raise risk awareness and emergency response capacity at the local level.
2 – Planning, processes, and systems	Long-term sustainability of program activities	Low	High	Communities and productive users will be involved from the early stages to facilitate awareness, uptake and sustainability of energy services. Sustainability risks will be addressed through design, economic mechanisms and governance, as well as sound social impact assessments. Reliance on goods and services from ecosystems and energy demand will stimulate the interest of communities in sustainability.
2 – Planning, processes, and systems	Disruptions in procurement of specialized materials	Low	Medium	Taking into account previous Actions in Pakistan implemented in unstable environments and market conditions, procurement procedures will be established in accordance with international standards.
3 – People and Organisation	Reluctance of land-users to accept and adopt new approaches and technologies for more sustainable use of ecosystems and conservation of biodiversity.	Low	High	Communities will be involved in the development and implementation of interventions ensuring interest through practical demonstrations, thus ensuring the sustainable satisfaction of their livelihood incentives in the frame of the capacity of the landscape; awareness on sustainability and limits of natural resources' use as well as alternative income generation will be developed. Due diligence, mitigating measures and do no harm approaches will be applied to activities impacting on land ownership and use by communities.
4 – Legality and Regulatory Aspects	Corruption and Financial Fraud	Medium	High	Risk will be mitigated with thorough and transparent procurement and compliance procedures, in line with EU regulations.

5 – Communication and Information	Lack of access to Information and mis-understanding of the Action's objectives, especially in remote contexts			Local partners will leverage a variety of communication tools deemed appropriate in the respective local context and with regard to the respective target groups. This includes strong anchoring in local languages. Communication with stakeholders will be mindful to local nuances and implement an inclusive approach through both formal products (use of printed material, leaflets, brochures, video documentaries), face to face interactions, as well as digital mediums of communication (e.g webinars, social media interactions). Social mobilization will be used as a communication tool, applying a tested three-step dialogue process that builds primarily on face-to-face interactions and concludes with a written term of partnership, clearly communicating roles and responsibilities of partners and communities, and sensitization of stakeholders towards common intended results. In addition, the community conventions, dialogue forums, staff field visits, rapid assessments, exposure visits and monitoring and feedback mechanisms from the communities are used as a two-way communication process to improving results.
6. Do No Harm and Conflict Sensitivity implications				The action will promote inclusion, ensure that unintended negative impacts are mitigating and that opportunities for social cohesion, greater gender equality and conflict prevention are embedded in each action.

Lessons Learnt:

This programme will build on key lessons collected and analysed from past EU-supported initiatives and other development partners' efforts in Pakistan. The approach will notably ensure cost-effectiveness and strong coordination in the energy sector to ensure sustainable investments through efficient and comprehensive planning:

1. Recent EU-funded projects in Khyber Pakhtunkhwa have demonstrated the benefits in terms of economic development and increase resilience of upgrading existing infrastructure by introducing technical improvements able to increase electricity generation capacity.
2. Community mobilisation based on holistic approaches linking ecosystem services, forest restoration and conservation (which necessarily includes water sources management), innovative technologies, agriculture-based economic activities, renewable energy, energy efficiency and social development can empower rural communities to improve their livelihoods, decrease youth migration, and manage sustainably natural resources.
3. Women are particularly affected by degradation of natural resources, disasters, and loss of ecosystem services as well as by insufficient energy supply and inefficient use of energy for cooking and heating. Therefore, women must be involved, willing and able, to play key roles in local natural resources management, renewable energy generation, and energy efficient technologies.

4. Electricity distribution loss reduction programmes implemented by Aga Khan Foundation and its subsidiary Northern Pakistan Energy Limited (NEL) in Gilgit-Baltistan have led to increased generation capacity by 15% and improved energy from 10h/day to 12h/day. The Action will further build on these results to introduce similar cost-effective models.
5. Existing successful community-managed micro power plants in GB and Chitral have demonstrated the benefits of involving beneficiaries in small scale electricity generation and distribution to provide basic services and ensure a sound management of natural resources and particularly water.

3.5 The Intervention Logic

The underlying intervention logic for this action is based on the knowledge about predicted impacts of climate change in the target areas, which will exacerbate existing pressure on ecosystems caused by unsustainable resource use practices putting at high risk the provision of ecosystem services, contributing to increase vulnerabilities, conflict and migration. The proposed Action intends to deploy measures in the energy sector and in support to participatory local governance of natural resources to catalyse sustainable economic and social development in the regions of Gilgit-Baltistan and Chitral.

The Action has been designed around three integrated pillars, which will maximise the contribution of the expected outcomes towards the overall objective:

1. By promoting a sustainable transition to renewable energy through resilient infrastructure, efficiency measures and energy enabled private sector green solutions, it is expected that reliance on carbon-emitting fuels such as firewood will be reduced so as to contribute to greenhouse gas emission reduction and climate change mitigation.
2. Access to electricity will act as an enabler for new opportunities for services, government, and commercial enterprises, allowing for energy-driven industries to be established and further promoting green growth. Previous projects have highlighted how energy-dependent enterprises can increase their focus on the promotion and uptake of climate-smart and labour-efficient technologies (irrigation pumps, sawmills, fuel-efficient cook stoves, electric milk churners, washing machines, etc.) and open paths for digital opportunities. The latter can play a vital role in employment creation, particularly for youth and women.
3. Increased durable use and rehabilitation of key ecosystems and their biodiversity will lead to more durable land-use practices and resilient livelihoods. The reduction of cultivated land due to increased erosion and the deficiency of energy in rural areas are two major challenges that rural communities are experiencing. To sustain key ecosystem service and build climate change resilience, productive reforestation efforts, land management and provision of renewable energy alternatives are needed to reduce pressure on natural resources.
4. Strengthened local capacity, of government and civil society, within the energy and natural resources management sectors will respond to immediate knowledge and capacity gaps and lead to robust local uptake and ownership. This will in turn contribute to the sustainability of the EU investment, promoted climate-forward solutions and Operations & Maintenance models for the established infrastructures.

The results will help achieve the overall objective of increasing climate-resilience and promoting climate forward development contributing to improving the quality of life and boosting sustainable economic opportunities in Gilgit Baltistan and Chitral. These results will also contribute to the ongoing efforts by the Government of Pakistan to develop a National Adaptation Plan for climate change and implement the country Nationally Determined Contribution (NDC), updated in 2021.

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	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data	Assumptions
Impact	To foster a climate resilient low-carbon economy and society in Gilgit Baltistan and Chitral	1. SDG 15.1.1 Forest area as a proportion of total land area in Gilgit Baltistan and Chitral	TBD	1. TBD	1. Businesses' record, endline	
		2. Net Change in Greenhouse Gas Emissions (tCO ₂ e) – tonnes of GHG emissions	2. 0	2. TBD after baseline	2. baseline and endline study	
		3. SDG 7.2.1 Renewable energy share in the total final energy consumption in Gilgit Baltistan and Chitral (GERF 1.3)	3. 19%	3. TBD after baseline		
Outcome 1	E.O.1 Sustainable transition to renewable energy established through resilient infrastructure, efficiency measures and youth and women led energy enabled private sector green solutions	1.1 % Consumption of renewable energy from HPPs/MHPs (GWh/year)	1.1 0	1.1 TBD after baseline	1.1 Company (NEL) records, Annual Surveys/tracer Studies	Macroeconomic stability in Pakistan Tourism sector maintains its recovery pathway after covid
		1.2 Number of full-time equivalent jobs created as a result of the Action (disag by sex, age).		1.2. 500 jobs		
		1.3 Number of people with access to electricity with EU support through: (a) new access, (b) improved access (GERF 2.3), (c) restored access after the destruction caused by the floods 1.4 GERF 2.6 Number of Micro, Small and Medium Enterprises applying Sustainable Consumption and Production practices with EU support (by sex of the owner) 1.5 Number of households using efficient cooking stoves	1.2 0	1.2 TBD after baseline	1.2 Business records, project reports and surveys	
Outcome 2	E.O.2 Increased viability and sustainability of natural resources management	2.1.% GERF 2.2 Areas of agricultural and pastoral ecosystems where sustainable management practices have been introduced with EU support (ha)	2.1.1.: 0%	2.1.1: 80%	2.1 baseline & endline surveys	Conflict level between rural communities remains low in the region Natural disasters such as landslides remain rare and
		2.2. % of smallholders having positive perceptions on the economic viability and sustainability of NRM models introduced by the Action, disaggregated by sex	2.2.1.: 0%	2.1.1: 80%	2.2 sample surveys	
		2.3. Number of hectares of agricultural and pastoral ecosystems where sustainable land and water management practices have been introduced				

						geographically localised
Outcome 3	E.O.3 Strengthened multisector, participatory planning, implementation and monitoring in energy and natural resources sectors involving local government and civil society .	3.1. Extent to which climate and environmental policies, strategies, plans are based on risk and vulnerability assessments, and on gender and conflict analysis of the different impacts of climate change and environmental degradation on women and men (GAP III)	3.1 0%	3.1 70%	3.1 Baseline/endline surveys	Development of the region remains a high priority for the federal government Continuity in development policies and plans by provincial governments

Outputs related to Outcome 1	1.1. Increased generation capacity and Optimized Transmission and Distribution network is established, leading to enhanced access, quality and reliability of electricity for residential, public and commercial use, while contributing to greenhouse gas emission reduction and climate change mitigation	1.1.1 # Megawatts of clean energy capacity installed, disaggregated by type of infrastructures	1.1.1 0	1.1.1 1.5MW	1.1.1 Regular monitoring data collection templates	GB provincial government is able to deliver construction permits according to the works schedule Procurement of specialized materials happens smoothly Rural communities selected for small off-grid hydropower facilities are willing to be involved in the management of the infrastructures
		1.1.2 No. of transmission and distribution network infrastructure/utility operations rehabilitated and optimised (disaggregated by type, e.g. sub-stations, distribution lines, etc.)	1.1.2 TBD after baseline	1.1.2 3 (1 substation, 2 distribution lines)	1.1.2 same as above	
		1.1.3. Number of households with improved access to electricity (disaggregated by total, urban and rural access rates)	1.1.3 TBD after baseline	1.1.3 50,000 HHs	1.1.3 Regular monitoring data collection templates	
	1.2. Increased availability of energy efficient solutions	1.2.1 Number of EE solutions provided through the Action	1.2.1: 0	1.2.1: TBD after baseline	1.2.1. Activity report	
	1.3. Increased capacities of entrepreneurs to access digitalization and green opportunities through the establishment of renewable energy powered technological hubs and energy enabled enterprises and supply chains	1.3.1: Number of Enterprises (Start-ups &SGBS) graduated AP's Business Advisory and mentorship programme (AP), disaggregated by sector) 1.3.2. Number of people and SMEs having access and using digital facilities and connectivity	1.3.1: 0	1.3.1: Start –ups: 156 #SGBs: 90	1.3.1: Accelerate Prosperity Activity reports	
Outputs related to Outcome 2	2.1 Improved tools for effective adaptation strategies integrating ecosystem and biodiversity management at community levels	2.1.1 # and type of adaptation strategies formulated and implemented (disagg. by type of intervention, location)	2.1.1.: 0	2.1.1.: 18	2.1.1 surveyl, periodic monitoring reports	Rural communities are willing to engage in pa participatory natural resouces management process
	2.2 Increased forest cover in the target area	2.2.1 # of locally adapted trees planted	2.2.1: 0	2.2.1: 720,000	2.2.1 Periodic Monitoring reports	
Outputs related to Outcome 3	3.1 Strengthened capacities of public and civil society partners for sustainable development planning	3.1.1 # of people trained (disagg; by type of training, sex)	3.1.1.: 0	3.1.1.: TBD after baseline (– minimum 30% will be women)	3.1.1Activity Reports/Atten dance Sheets	Stability in the pool of government officials involved in energy, water and forest sectors planning
	3.2 Enhanced knowledge of climate change impacts, adaptive strategies and evidence generated for policy formulation.	3.2.1: No. of knowledge pieces developed and disseminated (by type of knowledge piece, topic, and audience reached)	3.2.1: 0	3.2.1: TBD after baseline	3.2.1. Study reports	

		3.2.2. Proportion of supported CSOs and government representatives' reporting increased understanding of gender and inclusion responsive policies and management practices in energy and natural resources (by type of organisation public/CSOs and sex)				
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4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country, 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 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 measures.

4.3.1 Direct Management (Grants)

Grants: (direct management)

(a) Purpose of the grant(s)

The whole Action including all the outcomes and output described in section 3 will be implemented through a grant.

(b) Type of applicants targeted

Applicants must:

- be a legal entity
- be non-profit-making
- be a specific type of organisation such as non-governmental organisation, public sector operator, local authority.
- be established in an eligible countries as stipulated by NDICI-GE

At least one applicant must demonstrate that the below technical capacity requirements are met

- continuous experience implementing development projects in Gilgit Baltistan and Khyber Pakhtunkhwa;
- technical competences in the fields of renewable energy and natural resources management;
- Be legally registered in the Islamic Republic of Pakistan.

The coordinator of the grant agreement must demonstrate sufficient financial capacity to manage the grant agreement.

(c) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the Aga Khan Foundation Portugal (AKF-PT) who will implement the action with entities of the AKF Development network established in Pakistan (namely Northern Pakistan Energy

Limited (NEL), the Aga Khan Rural Support Programme (AKRSP), the Aga Khan Planning and Building Service).

AKF-PT and its development network agencies are in a de facto monopoly situation as stipulated in Article 195(c) of the Financial Regulation. Its long term presence in the region, financial capacities and multisectoral technical expertise covering natural resources management, energy, agricultural value chains, private sector development, and digitalisation make of AKF-PT and its development network agencies the only implementing partner for the development donors working in the area of the project.

Northern Pakistan Energy Limited (NEL), AKF's sister agency and a subsidiary of the Aga Khan Fund for Economic Development (AKFED), benefits from an MoU with the Government of Gilgit-Baltistan to operate on the basis of a 30-year Concession Agreement. Responding to the GB government's request, NEL will develop the energy system to supply clean, reliable, and affordable electricity for all of Central & Lower Hunza, demonstrating the applicability and relevance of a regionally proven model for the operation of an integrated utility company in Pakistan. The GoGB will remain the owner of the infrastructures built through this Action, and will benefit from technical support on energy policies during the concession period. NEL will be responsible for the maintenance of the infrastructures, using for this the income generated with the generation and distribution of electricity in the project area.

Those activities in GB can be considered as having specific characteristics that require a particular type of body on account of its technical competence, as stated in article 195 (f) of the Financial Regulation.

The **specific characteristics of this Action** require the implementing organisation to have particular capabilities in relation to the following:

- *Long-term presence and commitment* – Programming based on an in-depth understanding of community needs developed over decades of work in the region of GB and Chitral, and a clear mandate to remain present even in the light of uncertainty and insecurity;
- *Political capital* – A partner of choice for governments and stakeholders at all levels, with the proven ability to bring together government actors to provide support towards achievement of national and regional priorities;
- *Approach and relevant technical competencies* – A strong ability to design, implement, manage and monitor large scale and high-quality economic programmes, comprised of various elements at different levels, with a coordinated approach and clear strategic direction. Additionally, the Action requires specific experience in the energy sector, including operating a utility company.

The Aga Khan Foundation (AKF) with its sister-agencies of the Aga Khan Development Network (Northern Pakistan Energy Limited (NEL), the Aga Khan Rural Support Programme (AKRSP), and the Aga Khan Planning and Building Service) is the only legal entity with the required continuous presence in the area, financial capacities and technical expertise able to implement the whole scope of the Action, leveraging an affiliated set of development institutions and public-private-partnership solutions. With the multi-expertise and its network of specialised agencies, AKF is the only potential implementing partner in GB able to implement development projects in energy, natural resources management and agriculture value chains. The historic presence of **AKF** in Pakistan and the target regions and complementarity of its agencies enable to comprehensively address gaps within and around the energy sector through solid multi-stakeholder approaches. Since 1969, AKF has formed many productive partnerships and, with the trust built with authorities and communities, has become a key implementing partner for most of the donors in Gilgit Baltistan and Chitral.

4.3.2 Changes from direct to indirect management mode due to exceptional circumstances

In case a direct award to the selected legal entity could not be completed the Action might be implemented through indirect management with a pillar-assessed organisation after a selection process where potential candidates would be invited based on their experience in the project area. The selection criteria will comprise:

- Presence and proven record of rural development projects in GB and Chitral
- Unrestricted access to the Action area
- Expertise in the fields of energy, natural resources management, and capacity building to provincial government in Pakistan

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, subject to the following provisions.

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).

4.4 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution, in currency identified [(If not relevant please delete this column)]
Implementation modalities – cf. section 4.4 The three Specific objectives of the action are to be implemented in Direct management through Grants – total envelope under section 4.4.1	29.5 million	EUR 1.5 million
Evaluation – cf. section 5.2 Audit – cf. section 5.3	500 000	N.A.
Contingencies	0	N.A.
Totals	30 million	EUR 31.5 million

4.5 Organisational Set-up and Responsibilities

To lead on the delivery of the proposed interventions, the implementation will comprise the following four co-applicants :

- **AKF Portugal as the coordinator**
- **Northern Pakistan Energy Limited (NEL):** NEL, a subsidiary of the Aga Khan Fund for Economic Development (AKFED), operates on the basis of a 30-year Concession Agreement signed with the Government of Gilgit-Baltistan's Water and Power Department. Responding to the GB government's request, NEL will develop the energy system to supply clean, reliable, and affordable electricity for all of Central & Lower Hunza as well as demonstrate the applicability and relevance of a regionally proven model for the operation of an integrated utility company in Pakistan. The Action's catalytic investment will advance hydro generation as a key foundation to expand related transmission and distribution infrastructure projects in the region. The pilot in Central and Lower Hunza is viewed as a working example to inform evidence-based policy decisions around the PPP concept and concession models that can address the current energy crisis and can then be extended to wider Gilgit Baltistan and potentially Chitral.
- **The Aga Khan Rural Support Programme (AKRSP):** AKRSP has been active since 1982 through a community-anchored rural development model now widely replicated across Pakistan via multiple other Rural Support Programmes. AKRSP has a presence in all districts of Gilgit Baltistan and

Chitral, a network of 5,000 Village and Women's organizations and 81 Local Support Organizations and a strong experience in engaging communities around natural resources management and clean energy. To date, AKRSP's interventions have resulted in over 140,000 hectares of land being developed, over 60 million seedlings being planted, 1500 nurseries established, 25,000 individuals trained in Natural Resources Management, 2,051 irrigation projects completed. AKRSP also introduced a community managed small hydel projects in the late 80's to meet the rising demand for energy with over 15MW installed across Gilgit Baltistan and Chitral.

- **The Aga Khan Planning and Building Service:** AKPBS aims to address the impacts of Climate Change and create safe and sustainable habitats while providing opportunities for prosperity and well-being for its beneficiaries. It has served over one million people by proactively conducting Hazard Vulnerability Risk Assessments (785 sites assessed) and mapping critical community infrastructures, providing robust technical assistance for maintenance and improvement of 20,000+ households. AKAH, through its flagship and award-winning Building and Construction Improvement Programme (BACIP), has been improving the forlorn living conditions of marginalized communities through a portfolio of home and infrastructure improvement energy, practices, and services around energy efficiency as well as training of over 3,000 artisans on habitat-related skills. AKAH has a strong experience in promoted green building practices, including at a the policy-level, and is member of a cohort with the Government of Pakistan and recognized member of the national advisory committee to formulate green building codes for Pakistan.

In addition to this, the Provincial Government, Civil Society Organisations, and knowledge institutions will be involved in the Action as beneficiaries and, in the case of knowledge institutions, providing specific services for the implementation of outcomes 2 and 3.

- **Government Partners:** Relevant government authorities at the provincial and district and Union Councils levels will be directly engaged through capacity building and sector-specific planning and policy dialogues with the aim of creating a medium to long-term sustainable development vision in the target geography. Subsequent implementation and oversight will also include representation and buy-in from local authorities. Some of the key stakeholders will include:

National level: Consultations and alignment with EU financing agreement with the Ministry of Economic Affairs

Gilgit Baltistan: Planning and Development Department, Water and Power Department, Wildlife and Forest Department

Chitral: Planning and Development Department, Pakhthunkhwa Energy Development Organization, Wildlife and Forest Department

- **Civil Society Organisation :** The Action will also ensure that civil society organisations and communities will be involved in the planning, implementation and handover processes representing different communities and groups, including non-governmental organizations, business associations, women and youth. The Action will include regular engagement and feedback loops to ensure accountability and to inform adaptations that may be required during implementation.
- **Knowledge Institutions:** AKF will leverage its network of research and academic partners in Pakistan, including the Aga Khan University and the Karakoram International University and its institute of Professional Development, who can play an important role in building capacity to train human resources in the energy sector. Internationally, AKF also has an MoU with the International Centre for Integrated Mountain Development (ICIMOD) who benefit from a strong experience and research capacities in climate services, long-term socioeconomic and ecological monitoring, linking science to policy and practice, and advancing the water-energy-food nexus. It also brings its vast experience and expertise in the ecosystem and livelihoods thematic areas, and gender and social inclusion in Natural Resources Management interventions.

A Project Steering Committee will be set up for the programme to meet annually, convening implementing partners and government representatives. The Steering Committee will monitor the progress of the programme and promote and ensure synergies with other activities led by the EU and other stakeholders in

the region. As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission will participate in the above governance structures set up for governing the implementation of the action.

The Aga Khan Foundation – Portugal will act as the Lead Applicant and provide overall grants management, administration and support to ensure compliance with the EU regulations, and will also be the focal point for communications with the EU and for reporting. Whilst each implementing partner will manage the implementation of various components under the proposed action and will engage external partners, contractors, and suppliers as needed, AKF – Portugal will provide backstopping support on programmatic guidance, procurement, financial management and visibility activities. AKF – Portugal and its implementing partners have significant experience in managing and delivering EU-funded actions, as well as those funded by other donors. Beyond the grant reporting arrangements, AKF – Portugal sets up quarterly internal reporting practices of progress against objectives, financial management and expenditure and record keeping verifications.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the 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 (for budget support).

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 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. The project team will include fully or partially dedicated Monitoring Evaluation Research and Learning (MERL) staff in each geography of implementation, both Gilgit Baltistan and Chitral, to ensure rigorous tracking and reporting on results, adaptive management, and rapid feedback loops. This will include field-level project performance monitoring with technical backstopping at a central level.

The project's governance system will also be leveraged to support accountable monitoring. As such, monitoring reports will be presented to the Project Steering Committee on an annual basis, including baseline and end-line, thereby engaging key government partners and stakeholders in validation and progress tracking. 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.

- Data collection and management

Externally led, mixed-methods baseline and end-line assessments will be carried out to measure intended and unintended changes and analyse overall project performance at the impact and intermediate outcome result levels in the logical framework. The assessments will collect qualitative and quantitative data through a variety of methods.

For robust quantitative data collection against the project's outcomes, technical resources have been planned for to ensure climate-relevant data gathering, including required technology (e.g satellite, remote sensing), to

provide information on issues such as GHG emissions, forest cover and land degradation at both the start and end of the project. To track results linked to the sustainable transition to clean energy, utility company records will be utilised to access important quantitative data on energy uses, payments patterns and infrastructure efficiency. Where applicable, government agencies will also be engaged to access statistical information particularly at the provincial and national level. In addition, qualitative data collection will be conducted through other methods such as mobile and household surveys, key informant interviews, and focus group discussions. Primary data collection will be disaggregated by sex and age when applicable and, in order to monitor development and inequalities, disaggregated even further including disability, group, location etc. when applicable. For data management, the project will use a web-based Monitoring, Evaluation, Research and Learning system that is comprised of multiple platforms integrated for collecting, storage, cleaning, analysis and reporting of evidence-based data.

- **Learning and Dissemination**

Through its permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports providing 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 Log frame matrix:

- **Internal Monthly update:** Brief updates on the Monthly achievement of the project
- **Internal Quarterly progress report:** Comprehensive progress report including planned vs actual for activities in the work plan/, outputs and budget.
- **Annual Report:** 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, lesson learned. It will also accompany any special reports, case studies, and evaluation/assessments completed under the project.

In addition, the project has envisaged key knowledge partnerships and outputs for dissemination including studies that will be financed through the Action. Specific interventions have been dedicated to work with research partners on generating evidence and enhance knowledge transfer from the project's data and learnings among stakeholders and public partners.

5.2 Evaluation

Having regard to the nature of the action, a mid-term and final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. The mid-term evaluation will be carried out for problem solving and learning purposes,

The final evaluation 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 will be part of the first programmes delivered in GB as part of the new MIP.

The Commission shall inform the implementing partner at least 60 days 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 partner country and other key stakeholders following the best practice of evaluation dissemination⁴. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

⁴ See best [practice of evaluation dissemination](#)

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.

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.