



# Mekong connectivity: development cooperation statement 2009–10

November 2010

## Summary

Australia's assistance to the Mekong subregion is focused on opening opportunities for trade within the Mekong—and between the Mekong and the rest of the world—through greater connectivity. This builds on Australia's strong trade and investment links with the subregion, as well as our close involvement in wider Asian economic integration. China and Thailand are among our most important commercial partners; Vietnam is a growing priority; and as Laos and Cambodia continue to develop, their openness to international market opportunities will grow.

New subregional projects in 2009–10 include supporting the rehabilitation of the Cambodian national rail network, studying the feasibility and design of a Mekong Delta bridge critical for southern Vietnam's connectivity, and initiating discussions with the Asian Development Bank (ADB) on a multi-year funding agreement to improve Mekong trade and transport facilitation. The latter will build on Australia's existing support to Greater Mekong Subregion (GMS) Cross-Border Transport Agreement (CBTA) implementation.

While progress is being made in implementing the subregional program, most activities face significant delays. Despite working closely with our partners, results at this stage are not as strong as were expected. This is reflected in the mixed performance rankings for 2009–10 shown in Table 1.

The challenges faced in achieving subregional connectivity objectives do not lie in direct project implementation alone. The Mekong subregion is an increasingly complex aid environment. The dramatic growth in aid flows from China, the Republic of Korea and Japan, and the concentration of their aid in transport and energy infrastructure activities, present both challenges and opportunities for Australian aid.

Despite the challenges, the significant potential gains through increased Mekong connectivity mean we should persevere. Greater connectivity will lead to economic growth and poverty reduction. The ADB Institute forecasts a potential US\$28 billion increase in total trade between Mekong countries as a result of greater connectivity.<sup>1</sup> The World Bank estimates that, for each US\$1 of aid to trade facilitation and regulatory reform, developing countries can reap returns as high as US\$697.<sup>2</sup> Research published by the Centre for International Economics in 2010 (funded by the Australian aid program) has underlined the strong links between trade and transport facilitation and economic growth, as well as the room for improvement in

<sup>1</sup> ADB Institute, *Transport Infrastructure and Trade Facilitation in the Greater Mekong Subregion*, ADB Institute working paper no. 130, January 2009, p. 18.

<sup>2</sup> World Bank, *Aid for Trade Facilitation*, World Bank Policy Research working paper no. 5064, September 2009, p. 18.

Mekong countries to meet regional best practice.<sup>3</sup> These reports provide strong evidence of the benefits of sustained investment in Mekong subregional connectivity.

**Table 1: 2009 Quality-at-implementation/Quality-at-entry criteria by activity**

Project name	Partner	Quality-at-implementation criteria					
		Relevance	Effectiveness (achievement of objectives)	Efficiency (implementation progress)	Monitoring & evaluation	Sustainability	Gender equality
Vietnam: Mekong Transport Infrastructure Development	World Bank	5	4	4	3	4	4
Vietnam: Southern Coastal Corridor	ADB	5	4	4	4	4	4
Vietnam: Rural Energy Distribution	World Bank	3	2	2	2	2	2
Cambodia: Southern Coastal Corridor	ADB	5	2	2	3	3	4
Cambodia: Road Asset Maintenance	ADB	5	3	3	3	4	4
Cambodia: Rural Electrification	World Bank	5	2	2	3	4	3
Cambodia: Rail Rehabilitation <sup>a</sup>	ADB	5	4	4	5	4	4
Laos: Northern Transport Improvement Project	ADB	5	4	4	3	3	4
Laos: Rural Electrification	World Bank	5	4	3	3	4	4
HIV Mitigation in Infrastructure	ADB	5	4	3	3	3	5
CBTA <sup>a</sup>	ADB	4	3	2	3	3	2
Average		4.7	3.3	3.0	3.2	3.5	3.6

<sup>a</sup> Based on quality-at-entry scores.

**Definitions of rating scale**

**Satisfactory (4, 5 and 6)**

6	Very high quality
5	Good quality
4	Adequate quality; needs some work to improve

**Less than satisfactory (1, 2 and 3)**


3	Less than adequate quality; needs significant work
2	Poor quality; needs major work to improve
1	Very poor quality; needs major overhaul

## Mekong subregional program logic

The 2008–09 Mekong Connectivity Statement detailed the logic underpinning Australia's Mekong subregional program.<sup>4</sup> AusAID's 2009 internal quality review of the program confirmed this logic remains compelling and relevant.

<sup>3</sup> Centre for International Economics, *Economic Benefits of Trade Facilitation in the Greater Mekong Subregion*, Centre for International Economics, Canberra, August 2010.

<sup>4</sup> AusAID, *Mekong Connectivity Statement 2008–09*, Canberra, October 2009, available at: <www.ausaid.gov.au/publications>, (accessed 10 November 2010).



The subregional program rests on two pillars. The first comprises a set of grant aid investments in transport and energy infrastructure, totalling approximately \$170 million, to improve the subregion's physical connectivity. The second comprises Australia's support for subregional cooperation in trade and transport facilitation, so that Mekong countries can realise the gains offered by greater physical connectivity. Australia is also supporting work to address the social impacts arising from greater connectivity across both pillars.

### Progress since the 2008–09 Mekong Connectivity Statement

Initial progress has been made in implementing Australia's \$170 million investment in subregional connectivity. This co-financing is part of the more than US\$1 billion in infrastructure projects led by the multilateral development banks in the Mekong subregion. Together, these projects will have a positive impact on millions of poor people in Mekong countries. These projects are also aligned with the Association of Southeast Asian Nations (ASEAN) Connectivity Master Plan, issued by ASEAN Leaders at their 17<sup>th</sup> Summit in Hanoi, Vietnam, in October 2010. Australia's support has not only been financial. We have provided consistent and credible engagement in project supervision focused on crosscutting issues such as HIV risk mitigation, gender, human trafficking, environment and resettlement.

Key outcomes in 2009–10 include:

- > maintaining a strong focus on **donor harmonisation**, with positive results like the inclusion of Korean-funded civil works along the Southern Coastal Corridor in Vietnam under key ADB – AusAID supervision arrangements
- > improving **monitoring and evaluation** of co-financed transport and energy infrastructure projects through direct AusAID involvement, particularly where multilateral development bank activity managers are not in-country, and through involvement of AusAID-funded sectoral expert consultants
- > ensuring a strong focus on **integrating the ADB-led GMS program into other regional initiatives** in which Australia is active, particularly through ASEAN's Economic Community agenda. ADB will consolidate these links through a proposed Australian-funded program to support GMS trade and transport facilitation
- > including **gender strategies** in multilateral development bank-led infrastructure projects, and additional technical support through AusAID-funded consultants (the value added in this area was recognised by an invitation for AusAID to present on best practice at a high-level World Bank gender workshop in January 2010)
- > addressing the potential negative impact of infrastructure improvements on **HIV transmission**, including through the successful implementation of a \$6 million ADB-led activity on infrastructure and HIV in the Mekong
- > ensuring plans to address **human trafficking, resettlement and other crosscutting issues** are implemented in line with the safeguard policies of multilateral development banks
- > successfully advocating **greater ADB and World Bank activity management in-country**, including through posting additional professional staff to the Mekong
- > increasing the safety and efficiency of **trade along the Mekong River** through Australian Mekong Water Resources Program support of the Mekong River Commission's navigation work.



AusAID has also provided additional sector expertise to the multilateral development banks, which has been critical in improving the quality of Australian co-financed projects at an early stage of implementation.

Because the majority of Australian funds will ultimately finance the construction of transport infrastructure, implementation delays have resulted in limited progress in this regard so far. It should be noted that implementation delays are common to the majority of infrastructure projects financed by all donors in the Mekong subregion.

### Challenges remain, and implementation is slow

The mixed performance across the subregional program is reflected in both quality-at-implementation and quality-at-entry report scores for 2009 (Table 1).

The relevance of the subregional program to wider development needs was judged to be its strongest-performing characteristic, followed closely by the program's gender-related results. The program was weakest in implementation progress, with performance reports indicating that all activities needed 'some', 'significant' or 'major' work by AusAID, the multilateral development banks and government partners to improve implementation progress.

All of the activities in the subregional program are likely to achieve their stated objectives, but not within the timeframes originally planned. A number of activities are delayed by more than 12 months. That these delays are consistent across the subregional program appears to hold a lesson for future infrastructure work in the Mekong and the likelihood of construction works being delayed.

Setbacks in approvals and procurement processes are the most common cause of implementation delays. Cost increases and activity re-design are also causes for delay, as is the case with the 15-month delay in starting construction of the Southern Coastal Corridor in Cambodia.

However, the recent or imminent start of physical implementation for a number of activities reduces—but does not remove—the risk of further significant delays in 2010–11. In Laos, for example, while there were initial delays in the Rural Electrification Project, implementation is now on track and the activity is likely to be completed within the expected timeframe. Rehabilitation works have already begun on the Cambodian rail network, and road construction work is underway on the Northern Transport Network Improvement Project in Laos.

The slow progress in implementing the GMS Cross Border Transport Agreement underlines the challenges of engaging in complex, partner government-led policy reform processes. As the potential returns on investments in trade and transport facilitation are exceptionally high, AusAID will continue to work closely with the ADB in this area of the GMS program.

### Working with other donors is a priority

As each subregional activity is co-financed by Australia but managed by the multilateral development banks, working with other donors is a hallmark of the subregional program. Although Australia's objectives in each activity are closely aligned with those of the banks, there is room to further intensify existing partnerships with the banks. This includes increasing communication between review missions, better coordinating publicity material on



co-financed projects, and continuing policy discussions with both the ADB and the World Bank on addressing development challenges in the Mekong.

The rapidly growing aid programs of China, the Republic of Korea and Japan are reshaping the aid landscape in mainland Southeast Asia. Increasing aid from these donors represents opportunities as well as challenges for Australia. We enjoy close, positive relationships with these donors, and will remain open to the potential for more direct collaboration with them in the Mekong. Where we already co-finance projects with these donors (as with the Republic of Korea) we will continue to engage on project coordination issues, focusing on applying social and environmental safeguards.

## Future directions for 2010–11

While AusAID's focus across the subregional program is on effective implementation of the current set of Australian-financed activities, in 2009–10 AusAID embarked on a significant new program to rehabilitate the Cambodian national rail network. AusAID will continue to consider new investments that represent a similar high rate of return through economic growth, improved subregional connectivity and poverty reduction.

### Continuing to improve infrastructure in Vietnam

On 31 October 2010, Australia's Prime Minister announced that Australia will provide \$160 million for the Central Mekong Delta Connectivity Project in Vietnam. Australia's grant aid contribution will support the design of, and supervision for, the entire project, and provide a large share of the costs of building the Cao Lanh Bridge across a tributary of the Mekong River. This will be Australia's largest single aid project in mainland South East Asia, and a priority for AusAID's Mekong subregional program in the years ahead.

### Streamlining trade and transport facilitation

In 2010–11, Australia will begin funding a new multi-year project with the ADB as a successor to our support for CBTA implementation.<sup>5</sup> A new program of work on Mekong trade and transport facilitation was endorsed by GMS ministers in August 2010 at their annual Ministerial Conference in Hanoi. AusAID has been closely involved in the design of this program, and will provide funding of \$6 million for its implementation. AusAID will also work to ensure that GMS trade facilitation objectives are aligned with those pursued by other regional bodies, including through ASEAN and Asia-Pacific Economic Cooperation processes.

### Engagement with the multilateral development banks and other donors

In the year ahead AusAID will continue to pursue better coordination with the World Bank and ADB. Improved communication on projects, public communications and Mekong policy issues will be a focus. AusAID will also look to extend Australia's close bilateral relationships with China, the Republic of Korea and Japan as the scale of their aid programs in the Mekong continues to grow.

<sup>5</sup> Subject to project approval by the ADB Executive Board.



### Fewer, larger projects in the medium term

In the medium term, as existing activities are completed, Australia will endeavour to fund a smaller set of projects, with each involving greater funding than at present. This will lower management costs and allow AusAID to focus more closely on priority activities.