



Australian Government
AusAID

The Greater Mekong Subregion

AUSTRALIA'S STRATEGY TO PROMOTE INTEGRATION AND COOPERATION
2007–2011

SEPTEMBER 2007



www.ausaid.gov.au



Australian Government
AusAID

The Greater Mekong Subregion

AUSTRALIA'S STRATEGY TO PROMOTE INTEGRATION AND COOPERATION
2007–2011

SEPTEMBER 2007

© Commonwealth of Australia 2007

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Attorney General's Department, Robert Garran Offices, National Circuit, Barton ACT 2600 or posted at www.ag.gov.au/cca

ISBN 978 1 921285 00 4

Published by the Australian Agency for International Development (AusAID), Canberra, September 2007.

This document is online at www.aisaid.gov.au/publications

For more information about the
Australian overseas aid program, contact:

Public Affairs Group

AusAID

GPO Box 887

Canberra ACT 2601

Phone 02 6206 4000

Facsimilie 02 6206 4695

Internet www.aisaid.gov.au

Edited by Clarity Communications Australia Pty Ltd

Designed by GRi.D, Canberra

Printed by Pirion Pty Limited

COVER PHOTOS FROM LEFT TO RIGHT:

The opening of My Thuan Bridge, Vietnam, 21 May 2000.

PHOTO: *Hans Kempf*

*Crowds at the opening of My Thuan Bridge, Vietnam,
21 May 2000.* PHOTO: *Hans Kempf*

Houayxai, Laos border with Thailand.

PHOTO: *Virginia Addison*

Women planting rice, Cambodia. PHOTO: *Kevin Evans*

Contents

EXECUTIVE SUMMARY	1
1 INTRODUCTION	3
2 OVERVIEW	4
Context	4
Key challenges to future subregional economic growth and development	5
3 SUBREGIONAL COOPERATION	8
4 AUSTRALIA'S NATIONAL INTERESTS	9
5 THE MEKONG SUBREGIONAL STRATEGY AND FUTURE PROGRAM	10
Strategy objective and components	10
Rationale	10
Support subregional connectivity through infrastructure investments	11
Enable integration through promoting and facilitating subregional cooperation	12
6 IMPLEMENTING THE STRATEGY	14
Aid effectiveness	14
Cross-cutting issues: gender, environment, HIV/AIDS, corruption	14
Risks	15
ANNEXES	
Annex 1: Performance Assessment Framework	16
Annex 2: Risk matrix	18
Annex 3: Mekong Water Resource Strategy	20



The opening of My Thuan Bridge, Vietnam, 21 May 2000. PHOTO: Hans Kempf

LIST OF ACRONYMS

ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
AusAID	Australian Agency for International Development
BDP	Basin Development Plan
CBTA	Cross-Border Transport Agreement
CSIRO	Commonwealth Scientific and Industrial Research Organisation
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion
MDB	Multilateral Development Bank
MRC	Mekong River Commission
MWRP	Mekong Water Resource Partnership
MWRS	Mekong Water Resource Strategy
NGO	Non Government Organisation
NMCs	National Mekong Committees
O&M	Operations and Maintenance
PAF	Performance Assessment Framework
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific



Greater Mekong Subregion. SOURCE: Asian Development Bank

06-gms2035c RM

Executive summary

The 2006 White Paper on the Australian Government's Overseas Aid Program – *Australian Aid: Promoting Growth and Stability* – emphasises the importance of promoting regional integration and cooperation and identifies the Greater Mekong Subregion (GMS)¹ as a continuing area of priority for Australia.

Economically, the Mekong subregion is one of the fastest growing subregions in the world. Real Gross Domestic Product (GDP) in the subregion grew by almost eight per cent in 2005. As a result of this sustained strong economic growth, all countries in the subregion have made significant inroads into reducing the incidence of poverty.

The main drivers of subregional growth in recent years have been increases in investment, export growth and strong agricultural sector performance, facilitated by progress with openness to trade, integration and reform. The subregion still faces many development challenges: poverty remains pervasive, especially in rural areas; growth relies on finding sustainable ways to meet demands for energy and power generation; and future trade and investment relies on public administration and financial sector reform and overcoming physical infrastructure deficiencies. Cambodia and Laos in particular will remain vulnerable to economic shocks if these development challenges are not addressed.

The Mekong countries are strongly committed to working together on closer cooperation and economic integration at the subregional, regional and global levels. Key organisations promoting integration and cooperation in the Mekong include the Asian Development Bank (ADB), the World Bank, and the Mekong River Commission (MRC). The ADB-led Greater Mekong Subregion Economic Cooperation Program has developed as one of the key organising frameworks to promote development through closer economic linkages.

There are also groups operating on a broader Asia regional basis with Mekong subregional connections including the Association of South East Asian Nations (ASEAN), the United Nations Economic and Social Commission (UNESCAP) and some bilateral donors.

Australia's national interests in the Mekong subregion are strong and broad, encompassing economic, political, security and environmental concerns. Consolidating and expanding bilateral and regional relationships with the subregion are important to Australia's interests in maintaining regional peace and security and enhancing regional economic integration. A number of Mekong countries are important trade destinations for Australian exports. Effective border management within the subregion to facilitate the legal movement of people, goods and

¹ The GMS includes Cambodia, Laos, Vietnam, Burma, Thailand and the Guangxi and Yunnan provinces of China.

vehicles and combat transboundary threats, such as transmissible human and animal diseases, are important priorities for Australia.

The objective of Australia's Greater Mekong Subregion Strategy is 'to enable sustainable broad-based economic growth levels for the subregion through greater connectivity and cooperation.' It promotes integration and cooperation in the Mekong and concentrates on high priority issues already identified by subregion governments which require Greater Mekong countries to cooperate and collaborate to achieve effective solutions. Where appropriate, Australia's strategy will work with existing subregional institutions and programs.

To achieve this, the strategy focuses on two pillars:

i) Support subregional connectivity through infrastructure investments

New and improved infrastructure to support connectivity throughout the subregion is critical to attracting the investment and facilitating the trade essential for the subregion's economic growth and development.

Australia will support efforts to:

- > increase trade and economic growth in targeted economic corridors, especially through the development of roads infrastructure
- > extend the availability of efficient and sustainable energy supplies to improve development outcomes and livelihoods.

ii) Enable integration through promoting and facilitating subregional cooperation

Increased subregional cooperation is necessary to continue building momentum for greater integration, economic growth and sustainable development.

Australia will support efforts to:

- > reduce non-physical barriers that prevent the efficient, legal and effective cross-border movement of goods, vehicles and people
- > improve water resource management in the Mekong Basin.

The Greater Mekong Subregion Strategy complements and links with Australia's bilateral development cooperation strategies, and the aid program's *Asia Regional Strategy 2005–2009*.

The majority of Australia's activities identified in the strategy will be delivered through partnerships and selective co-financing with the Multilateral Development Banks (MDBs) or key subregional institutions.

Australia will seek to strengthen the effectiveness of projects and programs by bringing expertise to a small number of key issues. For example, Australia will:

- > support interventions that benefit the rural poor by providing grants for rural feeder roads that connect to loan-funded arterial transport corridors
- > mainstream HIV/AIDS mitigation measures and gender equality into infrastructure development projects
- > introduce the expertise of Australian immigration and customs authorities to strengthen the design and implementation of cross-border transport protocols
- > strengthen the performance monitoring and reporting frameworks of Australia's development partners.

The strategy's Performance Assessment Framework (PAF) describes how Australia will measure progress against strategy objectives, quality and capabilities. An annual report on program performance will be prepared by AusAID.

Several key risks could impact on the strategy's success, including:

- > any decline in the continued commitment to cooperation and economic integration among the governments of the six Mekong countries
- > tension among countries caused by the growing gap between energy demand and supply
- > access to, and sustainable use of, natural resources which could be further complicated by impacts of climate change.

1 Introduction

The 2006 White Paper on the Australian Government's Overseas Aid Program *Australian Aid: Promoting Growth and Stability* identifies the Mekong subregion as a continuing area of priority for Australia's aid program. This strategy provides overall direction for Australia's subregional engagement with the countries that share the Mekong River and comprise the Greater Mekong Subregion – Cambodia, Laos, Vietnam, Burma, Thailand and the Guangxi and Yunnan provinces of China.

The subregion faces many development challenges. This strategy concentrates on some of the higher priority issues which require Greater Mekong

countries to cooperate and collaborate to achieve effective solutions. It supports Australia's interest in assisting the poorest countries in the subregion and focuses on Cambodia, Laos and Vietnam.

The strategy does not replace Australia's bilateral development cooperation strategies but rather should be read in conjunction with the strategies prepared for each country receiving Australian aid. Australia will continue to implement significant bilateral programs in Cambodia, Laos and Vietnam based on country-specific analysis and priorities. This Greater Mekong Subregion Strategy also needs to be read in conjunction with the Australian aid program's *Asia Regional Strategy 2005–2009*.

2 Overview

CONTEXT

The White Paper emphasises the importance Asian economic integration has to sustained regional economic growth. Consolidating and expanding bilateral and regional relationships in the Mekong is important to Australia's interest in maintaining peace, security and enhancing prosperity in the region. The relative diversity among the economies of Mekong countries and their relatively low level of integration offers untapped opportunities. Thailand, China and Vietnam, for example, provide large markets and have strong regional knowledge which helps them continue to strengthen economic development. Poorer Mekong countries can benefit from this by building effective relationships with these countries. There is still a need to overcome knowledge and income gaps and to ensure benefits gained from regional cooperation and resources are shared equally among all countries in the subregion.²

The goal of regional governments to increase economic integration has received increased impetus with ASEAN's accelerated plans to form an economic community by 2015. Australia has actively promoted regional integration and cooperation for more than 30 years through support for ASEAN, the Asia-Pacific Economic Cooperation (APEC)

and other regional organisations working towards this goal. Regional integration is also an important goal of the ADB which has established an Office of Regional Economic Integration.

A range of initiatives for Asian subregional cooperation have been developed, with varying country membership, reflecting geographic proximity and differing levels of economic development in ASEAN countries.³ In 1992, with the ADB's assistance, the six countries of the Mekong subregion entered into a program of economic cooperation, designed to enhance economic relations among the countries.⁴

Economically, the subregion is one of the fastest growing subregions in the world. Real GDP in the Mekong grew by almost eight per cent in 2005. As a result of sustained strong economic growth, all countries have made significant inroads into reducing the incidence of poverty. However, in absolute terms large numbers still live in poverty, especially in rural areas. About three quarters of the 310 million people in the subregion live in rural areas and depend on subsistence or semi-subsistence agriculture for their livelihood. Poverty is also concentrated among ethnic minorities and socially disadvantaged groups.

² World Bank GMS Strategy Note, April 2006.

³ For example, Brunei-Darussalam-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA).

⁴ The ADB's Greater Mekong Subregion Economic Cooperation Program.

TABLE 1: MEKONG SUBREGION DEVELOPMENT INDICATORS

COUNTRY	GROSS NATIONAL INCOME PER CAPITA 2003 (\$USD)	ACCESS TO WATER (% OF POPULATION)	LIFE EXPECTANCY (YEARS)	ADULT LITERACY (% OF POPULATION)	GENDER DEVELOPMENT INDEX
Cambodia	300	34	57	74	97/136
Laos	340	43	55	69	100/136
Vietnam	480	73	71	90	80/136
Burma	n/a	80	61	90	n/a
China	1 100	77	72	91	64/136
Thailand	2 190	85	70	93	58/136

Source: Gross National Income per capita, World Development Indicators, World Bank, 2005; other indicators: Human Development Report, UNDP, 2006. (Gross Development Index also from the Human Development Report).

The subregion also suffers from serious gender inequalities. Attention to girls' education and womens' economic engagement is paying dividends but care is needed to maintain progress in the face of increasing economic inequalities.

Cambodia and Laos remain vulnerable to economic shocks which could see large numbers of people slip back below the poverty line and these countries' development indicators continue to lag behind others in the subregion (Table 1). High population growth rates in Cambodia and Laos have not translated into rapid expansion of per capita incomes.

KEY CHALLENGES TO FUTURE SUBREGIONAL ECONOMIC GROWTH AND DEVELOPMENT

TRADE AND INVESTMENT

The World Bank and ADB point to the continued importance of trade and investment in sustaining pro-poor and rapid economic growth in coming years as a major challenge in the subregion. Greater investment would diversify and broaden the base for economic growth. However, achieving greater levels of investment will require strong investor confidence in the quality of governance in subregional countries. Continued efforts to reform economic and public sector management and support private sector development – so the private sector can become a stronger engine of growth, better support improved

rural productivity and strengthen civil society – are critical. Corruption remains a significant impediment to broad-based economic growth and poverty reduction in the subregion because it diverts and distorts the allocation of resources and increases the cost of doing business.

FINANCIAL SECTOR DEVELOPMENT AND INTEGRATION

Another challenge in the subregion is the low levels of financial sector development and integration, which reflects the large role the state has historically played in allocating resources in countries such as Vietnam, Cambodia and Laos. Improving the effectiveness of the financial system so it mobilises domestic capital and allocates it to the highest-return investments is a major challenge that must be met. Similarly, the weak and diverse regulatory structures, poor corporate governance and impediments such as capital account controls and constrained financial services trade – all of which negatively impact on promoting greater trade linkages – must be addressed.

PHYSICAL INFRASTRUCTURE

Overcoming the challenges of physical infrastructure deficiencies and bottlenecks is fundamental to attracting increased levels of investment and trade expansion. Poor infrastructure deters investment and impedes private-sector development, job creation



Fish market, Laos. PHOTO: Virginia Addison

and the ability to help the rural poor. Ensuring that poor communities benefit from investment in physical infrastructure is important.

The ADB assesses that sharing in the region's growth, particularly for the poorest countries, will depend heavily on a country's ability to carry out infrastructure investments, and improve the efficiency of delivering infrastructure services, in support of regional trade opportunities. Effective regional infrastructure cooperation is therefore crucial.⁵ Improved transport linkages among all countries of the subregion are critical to the efficient passage of goods between countries and between remote or landlocked areas and the main ports in the subregion.

TRADE

The pace of trade and regional economic integration is an important driver of growth. Improved physical connectivity between countries and trade liberalisation has significantly increased trade integration in East Asian economies in recent years. Deeper subregional economic integration is critical if less developed countries, such as Cambodia and Laos, are to fully benefit from improved connectivity, access to markets, and greater cross-border flows of goods, services, capital and people.⁶

However, the World Bank assesses that more trade policy reforms, including 'behind-the-border' reform, in part driven by global and regional trade commitments (such as lowering barriers to markets), are essential for improving economic cooperation and growth and supporting increased intra-Greater

Mekong Subregion trade. Opportunities to expand subregional trade, increase investment and improve economic integration are, however, influenced by progress with cross-border initiatives. Effective cross-border systems can move goods to market more quickly and more cheaply. Areas to improve include streamlining customs procedures, improving port infrastructure, border management, transport logistics and standards.

AGRICULTURE

Agriculture has the potential to account for a major share of exports from the subregion. The challenge in expanding agricultural markets lies partly in improving food safety and quality standards, and agricultural health – especially if higher-value, better-quality products are to be exported. Strengthening standards for food safety – as well as sanitary and phytosanitary, animal and agricultural health – are needed. So are ways to develop efficient supply chains, currently hindered by inadequate access to reliable roads and ports, so subregional countries can shift to higher value agriculture and fishery products.

ENERGY

The challenge of accessing energy is a national security issue for many states in Asia. In the subregion demand for oil, which is needed for growth in transport and economic activity, is likely to exceed capacity for production, raising questions about energy sustainability. The World Bank estimates that, in the next 15 years, two-and-a-half times more electricity will be needed in the

5 Asian Development Bank, Japan Bank for International Reconstruction, World Bank, *Connecting East Asia, A New Framework for Infrastructure*, ADB, Manila, 2005.

6 Asian Development Bank, *Regional Cooperation and Integration Strategy*, 2006.

subregion to sustain present rates of economic growth. Developing lower-cost and sustainable sources of power supply are therefore critical. Access to clean energy and more efficient use of energy are also critical.⁷

CLIMATE CHANGE

As regional energy consumption rises, so do greenhouse gas emissions and the potential for destructive climate change. The impact of climate change in extreme weather events and shifts in rainfall volume and patterns in the subregion has important implications for growth and sustainable development. International cooperation is needed to support climate change adaptation and mitigation initiatives such as water resource management and energy management.

WATER RESOURCES

The sustainable use and management of the Mekong River's water resources is a challenge. The subregion needs a framework to manage competing interests and resolve disputes. This is vital to enabling and sustaining economic growth.

ENVIRONMENTAL DAMAGE AND NATURAL RESOURCE DEPLETION

A broad challenge facing the subregion is the environmental damage and natural resource depletion from unconstrained and poorly managed exploitation of resources, which is creating negative economic, social and environmental outcomes. Deforestation through inappropriate agricultural practices and resource management are increasing soil erosion, flooding and damage to river habitats. Strategies to minimise these negative impacts must feature strongly in development planning.

HIV/AIDS AND OTHER PANDEMICS

HIV/AIDS and other pandemics are real threats to the future prosperity of the Mekong subregion. Without an effective prevention strategy the number of HIV cases in Asia by 2010 could exceed that of Africa today.⁸ Regional approaches to HIV/AIDS are emerging in importance. They respond to regional dimensions such as the interconnections within the subregion through drug trading routes, improved land transport links and population mobility.⁹ Zoonotic diseases, such as Avian Influenza, have had a major, negative impact in the subregion, including through loss of human life and the economic consequences of a damaged poultry industry. Regional cooperation is essential for managing and mitigating the human and economic impacts of pandemics.

GENDER INEQUALITY

Rapid economic growth and changing socioeconomic conditions have important gender implications and this is another challenge facing the subregion. For example, as wage employment becomes more typical in the lesser developed economies of the Mekong, more men than women are in paid work and women remain in lower paid and less secure jobs. Women are increasingly responsible for unpaid subsistence agriculture. Land tenure (particularly for ethnic minority women) and household gender inequality are other important challenges.

Improved data collection on gender indicators is essential for progress. Also, gender equality across Mekong countries, including through integration into subregional cooperation initiatives, must be sustained to ensure consistent, equitable economic growth.

7 Wainwright, E and Anderson, I. Asia: *Analytical Report for the White Paper on Australia's Aid Program*, AusAID Canberra 2006.

8 Science vol 304, June 2004.

9 HAARP Project Design Document 2006.

3 Subregional cooperation

Mekong countries are strongly committed to closer cooperation and economic integration at subregional, regional and global levels. Key organisations promoting cooperation and integration include the ADB, World Bank, and MRC as well as groups operating on a broader Asia regional basis

(for example, ASEAN, APEC and UNESCAP) and some bilateral donors. The ADB-led Greater Mekong Subregion Economic Cooperation Program has developed as one of the key organising frameworks to promote regional integration and cooperation.



Crowds at the opening of My Thuan Bridge, Vietnam, 21 May 2000. PHOTO: Hans Kempf

4 Australia's national interests

Australia's national interests in the Greater Mekong Subregion are strong and broad, encompassing economic, political, security and environmental concerns. Closer engagement with Asia in general is an abiding priority in Australia's 2003 Foreign and Trade Policy White Paper.

Consolidating and expanding bilateral and regional relationships within the subregion are important to Australia's interests in maintaining peace and security and enhancing economic integration. A number of Mekong countries are important trade destinations for Australian exports. Therefore, effective border management, including migration management and the legal movement of people, goods and vehicles, together with a

strong commitment to the rule of law and gender equality, improved cooperation between law and security agencies, anti-corruption and respect for human rights, are key themes in Australian Government policy.

Combating transboundary threats, such as transmissible human and animal diseases, are other important priorities. Australia already has strategies for combatting HIV/AIDS, pandemics and emerging infectious diseases internationally which emphasise regional responses, including for the countries of the Mekong subregion. Sustainable environmental management in the Asia-Pacific, including forest management and climate change, are also important interests for Australia.

5 The Greater Mekong Subregion

AUSTRALIA'S STRATEGY TO PROMOTE INTEGRATION AND COOPERATION 2007–2011

STRATEGY OBJECTIVE AND COMPONENTS

Australia's engagement in the Mekong subregion is guided by the strategic framework identified in the Australian Government's White Paper:¹⁰ accelerating economic growth, fostering functioning and effective states, investing in people and promoting regional stability and cooperation, with gender equality and working in partnership as overarching principles.

The goal of Australia's Greater Mekong Subregion Strategy 2007–2011 is: 'to enable sustainable broad-based economic growth levels for the subregion through greater connectivity and cooperation.'

To achieve this, the strategy:

- i) supports subregional connectivity through infrastructure investments
- ii) enables integration by promoting and facilitating subregional cooperation.

RATIONALE

The strategy aligns with the aid program's overall objective to reduce poverty and promote sustainable development. It specifically supports the White Paper's themes of accelerating economic growth and promoting regional stability and cooperation. Stronger economic growth and sustainable

development will address the White Paper's goal to foster functioning and effective states, particularly in Cambodia and Laos.

The Greater Mekong Subregion Strategy focuses on challenges best addressed through a subregional approach rather than a bilateral or broader Asia regional program approach. Establishing the strategy's priorities involved assessing whether challenges had already been identified as priorities by subregional governments and which governments had agreed to implement solutions through subregional mechanisms.

The strategy's subregional approach also builds on lessons learned from AusAID's experience in implementing regional programs and recent international reviews of regional programs.¹¹ Key lessons include the need for: participating countries to be committed to their regional effort; governance arrangements to give participating countries a voice; linkages with bilateral programs; and improved sustainability.

The strategy was also informed by Australia's direct experience with transport infrastructure in the subregion, specifically the construction of the My Thuan Bridge in Vietnam and the Friendship Bridge between Thailand and Laos. The MDBs and Japan are key donors financing infrastructure in the subregion and have undertaken significant analytic

¹⁰ The White Paper on the Australian Government's Overseas Aid Program *Australian Aid: Promoting Growth and Stability*, 2006.

¹¹ For example, *The Development Potential of Regional Programs*, Independent Evaluation Group, World Bank, 2007.



Customs officers checking goods arriving in Lao Bao, Vietnam from Thailand via Laos. PHOTO: John Howard

work to identify infrastructure priorities. For this reason, the infrastructure programs included in The Greater Mekong Subregion Strategy should be in partnerships with the MDBs.

SUPPORT SUBREGIONAL CONNECTIVITY THROUGH INFRASTRUCTURE INVESTMENTS

New and improved infrastructure to support subregional connectivity is critical to attracting investment and facilitating the trade needed for future economic growth and development.

OBJECTIVE A1: INCREASING TRADE IN TARGETED ECONOMIC CORRIDORS

Inadequate transport links to domestic, regional and international markets is a major factor in restricting trade and investment growth within the less developed Mekong countries. The most remote areas, which are far removed from transport corridors, lack access to wider markets. Improving transport connections between rural communities and urban and regional centres is required to improve rural productivity.

Significant transport infrastructure is required to connect poor and remote areas to established (or planned) subregional economic corridors. Transport infrastructure must be supported by appropriate operations and maintenance (O&M) funding. This is a major hindrance in the subregion. Broader

corporate governance issues associated with providing infrastructure have resulted in sub-optimal outcomes. In addition, opening economic corridors, particularly through transport infrastructure, can increase transmission of diseases such as HIV/AIDS (through increased population mobility) and place women and children at greater risk of trafficking. These issues must be addressed in an integrated way.

To achieve this objective Australia will provide support largely through partnership arrangements and co-financing with MDBs in these areas:

- > *providing transport infrastructure in targeted areas*
Australia will selectively support high-priority subregional transport infrastructure requirements especially in remote and disadvantaged areas.
- > *integrating policies for O&M, procurement, poverty, gender and HIV/AIDS into planning and implementation*
Australia will promote the use of effective policy in these areas by engaging with bilateral and subregional partners. Australia will help build capacity for targeted institutions in partner governments.
- > *measuring development progress of transport infrastructure and associated policy reform*
Australia will work closely with development partners to strengthen the collection of performance information.



Trucks arriving at Savannakhet, Laos, a key border crossing on the East West Corridor from Vietnam to Burma.
PHOTO: John Howard

OBJECTIVE A2: INCREASING THE AVAILABILITY OF EFFICIENT AND SUSTAINABLE ENERGY SUPPLY

In poorer Mekong countries a proportion of rural poor live without electricity. Improving rural energy infrastructure is vital to growth. The World Bank estimates that in the next 15 years, two-and-a-half-times more electricity capacity will be needed if the subregion is to sustain its present rate of economic growth. Developing a less expensive and more efficient power supply and enabling access to clean, sustainable energy is therefore critical.

The lack of financial capital to fund on-grid energy infrastructure is a major constraint in rural areas. This is compounded by the relative inefficiency of rural electricity grid systems which leads to higher costs, lower use and poor overall financial performance by electricity authorities. In some remote rural areas providing on-grid power is not seen as economically viable – there is a need for technology to establish off-grid power generation (for example, solar and mini hydropower).

To achieve this objective Australia will provide support largely through partnership arrangements and co-financing development with the MDBs in these areas:

- > *providing targeted on-grid electricity infrastructure*
Australia will support high priority rural electricity infrastructure requirements focusing on the needs of remote and disadvantaged areas.

- > *providing alternative sources of rural energy*
Australia will support developing and applying sustainable and alternate energy options for remote rural areas.
- > *integrating policies to improve power sector efficiency, poverty and gender into planning and implementation*
Australia will promote policies to improve power sector efficiency. This will include incorporating poverty and gender issues into policies to promote equity and effectiveness. Australia will also help build capacity for targeted institutions within partner governments.
- > *measuring development progress of rural electricity infrastructure and associated policy reform*
Australia will work closely with development partners to strengthen the collection of performance information.

ENABLE INTEGRATION THROUGH PROMOTING AND FACILITATING SUBREGIONAL COOPERATION

Increased subregional cooperation is necessary to continue building momentum for greater integration, economic growth and sustainable development.

OBJECTIVE B1: REDUCE NON-PHYSICAL BARRIERS TO ACHIEVE EFFICIENT AND EFFECTIVE CROSS-BORDER MOVEMENT OF GOODS, VEHICLES AND PEOPLE

Barriers preventing the efficient and effective legal cross-border movement of goods, vehicles and people are a problem in the subregion. They constrain further economic integration, economic growth and international competitiveness. Border management issues include customs, migration management, anti-corruption measures, control of drug and people trafficking and control of cross-border transmission of animal and plant diseases. Effective cross-border communication remains important.

Divergent national policies and weaknesses in subregional border cooperation are major constraints to improving cross-border movement. This is compounded by lack of infrastructure and institutional and technical capacity, particularly at remote crossings. While English is the accepted common language of the subregion proficiency is still weak particularly in poorer countries and poorer areas.

To achieve this objective Australia will provide support by:

- > *promoting cross-border cooperation*
Australia will work with the ADB and partner countries to implement the Cross-Border Transport Agreement (CBTA), including training and relevant infrastructure. The CBTA is expected to mitigate key non-physical barriers to the efficient and controlled cross-border management of transport, customs, immigration and quarantine inspection.
- > *delivering an English proficiency development initiative*
Australia will deliver an English language skills development initiative to help improve communication and cross-border cooperation.
- > *measuring the impact of the CBTA*
Australia will work closely with development partners to strengthen the collection of performance information.

OBJECTIVE B2: IMPROVE WATER RESOURCE MANAGEMENT IN THE MEKONG BASIN

Effective and sustainable use of natural resources in the subregion, particularly the water in the Mekong Basin, is critical to economic growth. There is potential for increasing tension between riparian states as water demand and usage increases. There is a need for a strategic and integrated approach to water resource management to address the rapid level of development in the subregion and the high sensitivity of cross-border water issues.

To achieve this objective Australia will provide support by:

- > *strengthening the institutional framework for managing Mekong Basin resources for the benefit of all subregional countries*
Australia will work to strengthen the MRC and the National Mekong Committees to improve integrated water resource management in the Mekong Basin.
- > *broadening scientific knowledge of the Mekong Basin's water resources*
Australia will provide support to improve availability of reliable scientific data on these water resources, leading to better informed decision making.
- > *planning for comprehensive basin development*
Australia will support the MRC in formulating a resource use plan to identify land suitability based on natural resource limits and other subregional planning priorities.
- > *measuring development progress as a result of improved water resource management*
Australia will work closely with the MRC and other development partners to strengthen the collection of performance information.

6 Implementing the strategy

AID EFFECTIVENESS

Overall, aid effectiveness will be achieved by working in partnership, avoiding duplication and regularly reviewing performance.

WORKING IN PARTNERSHIP

Australia will work in partnership with key subregional organisations, partner governments and donors. Support for existing priorities and programs will enable Australia to contribute to the agreed priorities of Mekong countries. Australia will also actively contribute to policy dialogue to inform good decision making.

AVOIDING DUPLICATION

Australia will avoid duplication caused by parallel structures. The design, implementation and monitoring of activities will be undertaken with key subregional organisations, partner governments and donors. Australia will seek to influence the quality of design and sustainability of activities by drawing on existing knowledge and experience to address issues such as gender inequality and HIV/AIDS.

REVIEWING STRATEGY PERFORMANCE

The strategy's PAF (Annex 1) describes how Australia will measure progress against strategy objectives, quality and capabilities. Where appropriate, Australia will rely on the performance frameworks of its partners.

Progress towards objectives will be reviewed through Australia's Annual Program Performance Update.

A mid-term and final effectiveness review of the strategy will be conducted with key partners. Also, given some elements of the strategy may be completed after the strategy period (for example, infrastructure) it may be necessary for some evaluation to take place a number of years after it officially finishes in 2011.

CROSS-CUTTING ISSUES: GENDER, ENVIRONMENT, HIV/AIDS, CORRUPTION

GENDER

Gender equality applies across all aspects of the aid program's strategic framework. Australia will work with partners to ensure gender equity issues are effectively incorporated into activities supported by the Greater Mekong Subregion Strategy. Gender equality policy and accountability frameworks for partner governments, multilaterals and the MDBs are generally strong and commitments to gender equality are similar to Australia's. Particularly on co-financed initiatives, Australia will work through partner frameworks and take leadership to ensure gender equality is effectively integrated into initiatives. Australia will measure outcomes for gender equality and collect sex disaggregated data under individual activities supported by the subregional strategy and at the strategy level.

ENVIRONMENT

Many environmental issues are transboundary by nature and the rapid economic development in the subregion brings with it environmental impacts.¹² There is increased awareness by regional governments of the need to balance the maintenance of a healthy environment with economic growth.

The environmental impact of development in the Mekong Basin is a priority in the MRC's program, but protecting the environment of the Mekong River and the basin catchment is also a cross-cutting issue that must be accounted for in all activities in the subregion. Sustainable management of the natural resources of the basin and managing potential negative impacts of water sector and land-use activities is an important priority for Australian assistance under the Mekong Water Resource Strategy (MWRS) (Annex 3).

The impact of climate change (extreme weather events and shifts in rainfall volume and patterns) also represents major risks to the subregion. Significant increases in rainfall could exacerbate flooding, while a major decrease could lead to further drought. Research will be undertaken as part of the MWRS to better understand these risks and identify potential measures to mitigate them.

HIV/AIDS

The Australian Government has made a global commitment of \$1 billion to 2010 to fight HIV/AIDS with a major focus on the Asia-Pacific region. Mainstreaming HIV/AIDS education and prevention activities is part of AusAID's HIV/AIDS assistance policy.

Infrastructure programs – particularly transport corridors – can facilitate the spread of HIV/AIDS. An HIV/AIDS-infrastructure initiative will be developed and funded under the strategy, reflecting the important link between HIV/AIDS prevention and infrastructure development in the region.

CORRUPTION

The strategy places high priority on Australia working with its partners to minimise the risk of corruption. Corruption is a major impediment to growth, effective government and poverty reduction in the subregion, which undermines aid effectiveness. Australia will focus on actions that minimise the risk of corruption and support stronger procurement and management systems for the activities identified in the strategy.

RISKS

The major risks to effectively implementing the strategy include:

- > a decline in political stability in the Greater Mekong Subregion
- > reduced commitment among the six countries of the subregion to cooperation and economic integration
- > a growing gap between energy demand and supply in the region
- > natural disasters and emerging infectious diseases that: negatively impact on economic growth; change development priorities; and interrupt implementation of aid programs
- > poor management of the Mekong's water resources that could lead to increased tension in the subregion
- > the impact of climate change in extreme weather events and shifts in rainfall volume and patterns in the subregion, increasing floods and drought natural
- > inadequate anti-corruption efforts.

A Risk Matrix (Annex 2) assesses these risks in more detail. Risk levels form part of the ongoing review of the strategy.

¹² *Aid and the environment – building resilience, sustaining growth*, AusAID, 2007.

Annex 1

PERFORMANCE ASSESSMENT FRAMEWORK

GOAL/OBJECTIVES		MEKONG STRATEGY PERFORMANCE MEASURES		
		DEVELOPMENT OUTCOME INDICATORS	POLICY/INSTITUTIONAL OUTCOME INDICATORS	WHITE PAPER/CROSS-CUTTING OUTCOME INDICATORS
				GENDER (G) ANTI-CORRUPTION (AC) HIV/AIDS
To enable sustainable, broad-based economic growth levels for the subregion through greater connectivity and cooperation.		<ul style="list-style-type: none">> GDP national, sub-national (provincial)> FDI national, sub-national (provincial)> foreign trade, national, sub-national (provincial)	<ul style="list-style-type: none">> targeted subregional institutions assessed to be operating effectively> targeted subregional agreements and policies effectively implemented	
A. SUPPORT SUBREGIONAL CONNECTIVITY THROUGH INFRASTRUCTURE INVESTMENTS				
1	Increasing trade in targeted economic corridors.	<ul style="list-style-type: none">> amount of freight, vehicles, people using transport infrastructure> proportion of identified beneficiaries (communities) defined as poor> travel time to targeted border crossings of identified beneficiaries (target, actual)> goods and services trade at targeted border crossings (target, actual)	<ul style="list-style-type: none">> institutional capacity in targeted institutions> effective O&M infrastructure policy promoted and implemented under the strategy> effective and transparent procurement policy promoted and implemented under the strategy> level of evidence of country-level policy action due to above	<ul style="list-style-type: none">> effective and transparency in procurement policy (AC)> poverty, gender and HIV/AIDS considerations are explicit and visible in infrastructure provision> increased HIV/AIDS awareness among beneficiaries
2	Increasing the availability of efficient and sustainable energy supply.	<ul style="list-style-type: none">> electricity supply cost for identified beneficiaries (target, actual)> electricity access for identified beneficiaries (target, actual)> proportion of beneficiaries rural poor> proportion of energy provision alternate and/or sustainable	<ul style="list-style-type: none">> institutional capacity in targeted institutions> effective and transparent procurement policy	<ul style="list-style-type: none">> effective and transparent procurement policy (AC)> women and men participate equitably in decision making about infrastructure at community levels

B. ENABLE INTEGRATION THROUGH PROMOTING AND FACILITATING SUBREGIONAL COOPERATION

1	Reduce non-physical barriers to the efficient cross-border movement of goods, vehicles and people.	<ul style="list-style-type: none"> > target border crossing clearance times (target, actual) > goods and services trade at targeted border crossings (target, actual) > amount of freight, vehicles, people crossing targeted borders 	<ul style="list-style-type: none"> > number of cross-border transport agreements ratified under the Greater Mekong Subregion's CBTA (target, actual) > level of evidence of country-level institutional/ policy action due to (above) agreements > greater English language proficiency in targeted bodies and institutions 	<ul style="list-style-type: none"> > target border crossing clearance times (target, actual) (AC) > effective action taken at subregional level to address people trafficking
2	Improve water resource management in the Mekong Basin.	[a set of indicators is to be identified through further consultations with the MRC]	<ul style="list-style-type: none"> > institutional capacity in targeted institutions > assessed effectiveness of Mekong Basin management structures > level of evidence of country-level action due to MRC agreements > proportion of key development proposals submitted and assessed by Mekong River management structures > institutional links between MRC, ADB/WB and Australian institutions 	<ul style="list-style-type: none"> > gender considerations are explicit and visible

Annex 2

RISK MATRIX FOR THE GREATER MEKONG SUBREGION: AUSTRALIA'S STRATEGY TO PROMOTE INTEGRATION AND COOPERATION 2007–2011

RISK	SOURCE	LIKELIHOOD	CONSEQUENCE	RISK LEVEL	TREATMENT
1. A decline in political stability in the subregion.	Country	3	3	2	Monitor potential causes for increased tension. Likely focal countries/areas in the subregion. Identify opportunities to contribute to reducing tension levels.
2. Reduced commitment to subregional cooperation and integration.	Regional	3	4	3	Monitor regional cooperation. Support effective regional organisations and programs aimed at improving cooperation such as the ADB's Greater Mekong Subregion program and ASEAN.
3. Growing gap between demand and supply of energy in the subregion.	External	4	4	3	Support programs to increase access to and availability of alternate renewable energy supplies.
4. A hike in the price of oil reduces international trade and reduces economic growth leaving governments unable to contribute counterpart funds.	External	4	4	3	Monitor regional economic issues. Identify opportunities to support research into renewable energy sources and alternate energy options for transport.
5. Increased prevalence and transmission of infectious diseases.	Regional	3	4	3	Monitor prevalence of infectious diseases. Review strategy if necessary to increase support for agencies and programs in the region seeking to reduce prevalence and transmission.
6. Increasing tension over access to water and competing interest for water use.	Regional	3	3	2	Monitor access to water in the subregion. Review activities under the strategy to strengthen integrated water resource management in the subregion.

7. Climate change has significant impact on weather patterns in the region, increasing floods, drought, natural disasters.	External	4	3	2	<p>Monitor reporting on climate change internationally.</p> <p>Monitor reporting on changing weather patterns in the region.</p> <p>Research the impact of climate change for the subregion.</p> <p>Encourage increased focus on climate change.</p> <p>Encourage planning for climate change adaptation.</p>
8. Insufficient or inappropriate AusAID or partner government human and/or financial resources to manage the program.	Program	2	3	2	<p>Minimise administrative burdens.</p> <p>Review strategy to assess need for increased training and skill development for in-country management.</p>
9. Decline in confidence in regional organisations, especially the MRC and the ADB.	Regional	3	3	2	<p>Work with other donors to assess the situation and identify strengthening activities.</p> <p>Develop programs to address weaknesses.</p>
10. Inadequate donor coordination reduces Official Development Assistance effectiveness.	Regional/ program	2	2	1	<p>Maintain efforts to improve harmonisation.</p> <p>Actively support donor coordination and cooperation.</p>
11. Anti-corruption efforts inadequate.	Program	4	3	3	<p>Strengthen anti-corruption activities in cooperation with other donors.</p>
12. Agricultural practices not environmentally sustainable.	Regional	3	4	2	<p>Monitor land management practices.</p> <p>Support regional (and bilateral) programs to propagate and enhance sustainable agricultural practices.</p>

KEY

L = likelihood	5 = almost certain	4 = likely	3 = possible	2 = unlikely	1 = rare
C = consequence	5 = severe	4 = major	3 = moderate	2 = minor	1 = negligible
R = risk level	4 = extreme	3 = high	2 = medium	1 = low	

Annex 3



The Mekong River is a vital means of transport in the Delta. PHOTO: Olivier Cogels

MEKONG WATER RESOURCE STRATEGY 2007–2011

EXECUTIVE SUMMARY

The Mekong River's 795 000-square-kilometer watershed includes six of Southeast Asia's richest and poorest countries – Cambodia, China, Laos, Burma, Thailand and Vietnam. The government in each country is eager to use the river's water resources for their economic development strategies. However, careful consideration must be given to the potential negative impact of exploiting the river's water including through flooding, fisheries loss, disruption of natural flushing, sedimentation, the impact of river-bank agriculture, and salt water intrusion in the Delta.

Australia has actively helped with development planning and environmental protection in the Mekong Basin for the past decade. The focus for subregional support to date has been the Mekong River Commission (MRC) program but Australia

has also supported town and rural water and sanitation development and flood control projects in the Mekong Delta in Vietnam and irrigation development for agriculture in Cambodia through bilateral country programs. New opportunities have recently emerged for Australia to apply knowledge gained through past assistance programs to appropriate development under the World Bank and the Asian Development Bank (ADB) formulated Mekong Water Resources Assistance Strategy (MWRS).

The 2006 White Paper on the Australian Government's Overseas Aid Program – *Australian Aid: Promoting Growth and Stability* – has identified Mekong countries as an important priority. Efficient use of freshwater resources and improved access to clean water continues to be a focus and this MWRS gives effect to the White Paper recommendations and forms a key component of AusAID's new The Greater Mekong Subregion: Australia's strategy to promote integration and cooperation 2007–2011.

The goal of the MWRS is:

... to promote subregional cooperation to reduce poverty and achieve sustainable development through equitable and efficient use and management of the water resources of the Mekong River and its tributaries.

This goal reflects the overarching objective of Australia's aid program and recognises the social, economic and environmental demands that increasingly compete as the Mekong Basin develops.

The MWRS has three strategic objectives:

1. Strengthening the institutional framework for integrated water resource management in the Mekong Basin, with a focus on the MRC and National Mekong Committees (NMCs).
2. Improving scientific knowledge of the water resources of the Mekong Basin, with a focus on improving the MRC's knowledge base and analytical capacity.
3. Supporting comprehensive basin planning for the sustainable, equitable and efficient use and management of the Mekong Basin's water resources.

These strategic objectives reflect the recommendations of the White Paper. The MWRS will be implemented in partnership with Australian whole-of-government partners and cooperation will be sought with other donor agencies, the World Bank and the ADB. The MRC will remain a key partner agency throughout the life of the strategy.

Key to implementing the strategy is the establishment of a Water Resource Unit with a Water Resource specialist in Vientiane who will establish close links with the MRC, other donors and the regional World Bank/ADB Mekong Water Resource Partnership program (MWRP). The Water Resources program manager will also be available to assist country programs in the Mekong subregion.

The MWRS's effectiveness and performance will be assessed through a results framework – the primary program review. The risk environment is assessed as moderate and highlights the need to strengthen regional cooperation, regional institutions and regional programs aimed at regional integration.

INTRODUCTION

The Mekong is the world's twelfth longest river, stretching 4 880 kilometers from its source on the Tibetan Plateau to its outlet on the coast of Vietnam. It is the eighth largest river for annual runoff and perhaps the least exploited major waterway in terms of dams and water diversions. The Mekong's 795 000-square-kilometer watershed includes six of Southeast Asia's richest and poorest countries – Cambodia, China, Laos, Burma, Thailand and Vietnam. The governments of these countries are eager to promote economic development using the Mekong's water resources.

Development potential exists for agriculture, fisheries, hydropower and navigation. However, careful consideration must be given to the potential negative impact of exploiting the river's water including through flooding, fisheries loss, disruption of natural flushing, sedimentation and salt water intrusion in the Delta.

Australia has actively helped with development planning and environmental protection in the Mekong Basin for the past decade. The focus for this support has been the MRC program – from 1996 to 2005, Australia provided more than A\$9 million to the MRC, ranking the country about eighth among donors. Australian expertise at senior levels in several MRC program areas has allowed Australia to 'pull above its weight'. Australia has also supported water resource management, town and rural water and sanitation development in the Mekong Delta in Vietnam and irrigation development for agriculture in Cambodia. In the Mekong Delta, AusAID has also assisted the North Van Nao water control projects (originally identified by the Interim Mekong Committee).

The White Paper has identified the Mekong countries as an important priority for the aid program. Intra-regional cooperation provides a valuable opportunity to link the rapidly growing economies of Vietnam, Thailand and southern China to the vulnerable, more slowly growing countries of Cambodia and Laos. Efficient use of freshwater resources and improved access to clean water continue to be a focus for the aid program and the White Paper identifies the Mekong as a region where Australia can add significant value.

This strategy focuses on the sustainable management and use of water resources in the Mekong River Basin which is seen as a critical foundation for the water-related programs implemented through the bilateral country programs.

This Mekong Water Resource Strategy is a key component of AusAID's new The Greater Mekong Subregion: Australia's strategy to promote integration and cooperation 2007–2011.

WATER RESOURCE MANAGEMENT IN THE MEKONG BASIN

KEY ISSUES AND CHALLENGES

Agriculture

Nearly 75 per cent of the Mekong's population is employed in agriculture, fisheries and forestry. Improving agricultural productivity is critical to raising the incomes of poor rural communities and the river offers significant potential for expanding productive irrigation and improving efficiency of water use where irrigation exists. Agricultural development, especially the region-wide increase in dry-season cropping, will likely place growing pressure on water resources during the low-flow dry season. Already there are signs of emerging tensions in the subregion with Vietnam concerned about increasing salt intrusion in the delta due to decreased flows, especially in the dry season when more water is extracted for irrigation. Thailand is keen to resist limits on water extraction and is seeking to 'import' water from Laos. Cambodia also faces strong pressure to expand irrigable areas.

However, expansion of irrigation in the Basin risks increasing salinity in both surface water and groundwater.

Fisheries

The Mekong River is one of the world's most diverse and prolific natural fisheries. About 40 million people are engaged in fishery in the Mekong at least part time with an estimated annual fish harvest worth about US\$2 billion. There is no doubt that fishery is important to the livelihoods of the rural poor and broader economic growth. However, increasing population pressure and economic development threaten its sustainability. Cambodia in particular emphasises protecting the Tonle Sap, the region's most important freshwater fishery and a key site of agricultural production.

Renewable energy and the environment

The Lower Mekong River Basin has an estimated potential for hydropower development of about 30 000 MW. While only a small part of this has been developed (2000 MW or seven per cent), it is estimated that by 2020 electricity demand in the Mekong could be six times greater than in 1993. As of August 2005, the MRCS had compiled member states plans for more than 50 new dams for power generation (under the Basin Development Plan process and as required under the 1995 Agreement). Well planned hydropower facilities can help meet the demand for energy with reduced greenhouse gas emissions. Providing a reliable and sufficient power source is also essential for building a favourable investment climate that can serve as a platform for improved economic growth. A reliable power supply system will bring significant benefits to connected rural households and hydropower will provide revenue to governments.

However, there is widespread concern and uncertainty about the impacts of large dams (on the mainstream and tributaries) including on Mekong flows, the natural systems of the river basin, reduction in sediment load (leading to bed scouring and bank erosion), migration paths of fish stocks and the connection between the river and floodplain that forms the basis of the basin's extraordinary fisheries wealth. The social impacts of dam building

have also raised significant concerns, especially among affected communities and civil society groups. Tension has recently increased between Vietnam and Cambodia about the downstream impacts of dams built on Mekong tributaries in the Vietnamese highlands.

River transport

River transportation is an efficient way to access different areas of the basin, move goods and establish links with regional and global markets. Inland water transport reaches some of the most isolated communities in the river basin and provides freight transport where road access is poor or where there is demand to move bulk materials (for example, related to mining). There is huge potential for river transport to regain its position as an important aspect of the regional infrastructure network – it is cheaper to develop and maintain port and river facilities than it is road and rail networks and the cost of moving people and cargo using river transport is low.

Improved river transportation capabilities enhance regional growth and integration through attracting investment, connecting isolated areas and improving livelihood opportunities.

For Cambodia, inland waterways play a vital role in moving goods and passengers, particularly in the rainy season when they can accommodate large vessels. Waterways are also emerging as a source of tourism with cruises on the Mekong River between CanTho in Vietnam and Phnom Penh in Cambodia. In northern Laos, river transport into southern China has increased significantly following dredging and blasting of a passage through a section of rapids. Upgrading Mekong River navigation and maintaining river facilities could improve the lives and incomes of the basin's people through increased employment and trade opportunities.

Floods and drought

In 2000, more than 800 people lost their lives due to excessive flooding and the economic damage caused by flooding was assessed at more than US\$400 million. In 2001, more than 300 people lost their lives due to flood and the economic damage

was assessed at more than US\$100 million. In 2002, large floods again caused loss of life and property in the four riparian countries. Flash floods have devastated large areas in the MRC member states. In each of these years, between one and eight million people were affected by floods.

Improved flood management and mitigation remain essential and will in the future be more in demand than ever. The complex flood problems of the Lower Mekong Basin require an integrated floodplain management approach and significant attention to transboundary and regional issues.

The impact of droughts is also widespread throughout the basin. In 2004 alone, 19 000 villages in Thailand faced a chronic shortage of water. Climate change creates uncertainty for future river flows. Evidence is mounting that the glaciers on the Tibetan Plateau that feed the Mekong River are melting, raising fears of more intense flooding in the wet season and more severe drought in the dry season. Changes in rainfall patterns and intensity in the mountains of Laos and Vietnam also raise concerns about flows in the river as well as the future of fisheries in Lake Tonle Sap and the lower Mekong Basin.

Community engagement

More than 56 million people live in the lower Mekong Basin and depend on the water resources of the river either directly or indirectly for their livelihood. Using the river's waters will have implications for these people and they need to be involved in decision making.

Effective participation and community-driven development need to be better integrated into national and MRC planning processes. Improving public access to the knowledge resources of the MRC is critical to improving community participation in river basin development.

Over recent years, local community based organisations have emerged to give voice to the concerns of people affected by river basin changes. For example, small community based organisations are now advocating on behalf of the fisherfolk on Lake Tonle Sap and the people living along the Sesan River affected by the Yali Dam in Vietnam.



Women planting rice, Cambodia. PHOTO: Kevin Evans

Facilitating links between these organisations and the NMC is important and there is evidence that NMCs are consulting such community groups over the impact of changes in the river. National and international Non-Government Organisations (NGOs) play an important role in assisting these organisations to have their voice heard both through publications and meetings with government officials and the MRC.

AUSTRALIA'S INTERESTS

An objective of the 2006 White Paper is to continue to focus on the Mekong as a region with opportunities to link rapidly growing countries with vulnerable, slowly growing countries through intra-regional cooperation.

The White Paper also recommends focusing on managing freshwater resources for human consumption and more efficient water usage. The Water and Australian Aid Policy notes that rising competition for water has the potential to increase tensions between users, both within and between countries. In the Mekong region water looms as a major transboundary issue that could threaten security and stability.

Effective partnerships are essential to mobilising the political will and financial and technical resources needed to address freshwater issues in the region.

Australia has a strong track record of forging partnerships on water issues.

Australia has provided approximately \$8.1 million to the MRC over five years to 2006 focusing on strengthening the technical and hydrological data collecting capacity of the organisation as well as supporting the MRC Secretariat. The ability of the MRC to provide advice to member countries and assess the likely impact of development on the basin's water resources depends on the quality of data collected and the capacity of the organisation to provide support for knowledge-driven decision making by the riparian states. While the MRC has gained the trust of the riparian states and donors, a stronger institutional framework, more proactive approach to good river basin management and stronger analytical capacity will ensure sustainable development that accounts for social, environmental and economic consequences in the region. Australia has also given priority to maintaining environmental flow in the Mekong to protect the river's health and fisheries.

The strong partnership between the MRC and the Murray Darling Basin Commission draws on Australian experience in transboundary water management to strengthen the MRC. It also strengthened ties between the countries of the Mekong Basin and has helped establish participatory approaches to water management issues.

The Australian Centre for International Agricultural Research (ACIAR) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO) support several initiatives on water resources management in the Mekong Basin.

This strategy gives priority to strengthening links between MRC programs and the Australian bilateral country strategies in the subregion. It is consistent with Australia's commitment to donor harmonisation and the Paris Declaration on Aid Effectiveness.

LESSONS LEARNED

By international standards the Mekong Basin has abundant water resources and relatively low rates of use. However evidence is mounting that wide areas of the basin are at risk of degrading, at least temporarily. Resource planning and management are now critical issues if permanent degradation is to be avoided. There is a need for a strategic, integrated approach to water resource management given the region's rapid level of development and the high sensitivity of cross-border water issues. Already there are signs of increasing tension between riparian states as water demand and usage increases. The MRC has a good record of addressing this emerging issue and is respected by the four member states. However, as the World Bank has observed: 'a stronger institutional framework supported by a well developed knowledge-driven decision support system is needed with a commitment from member countries to cooperate and manage the Mekong resources for the benefit of all.'

The NMCs play a pivotal role in giving effect to MRC programs and approaches at the national level. However, the influence of each NMC on its respective parent line ministry and government varies. To adequately fulfil their role they need to strengthen their capacity. It is also evident that member countries are looking for practical outcomes to improve their understanding of the MRC as an organisation that is helping plan for development in the river basin – it is not, in other words, just a body undertaking scientific studies.

In the past, Australia has concentrated on building the MRC's knowledge base and strengthening its technical capability. Establishing basic river data is essential to building the MRC's capacity to undertake

basin-wide planning and gain support from member countries. The MRC partnership with the Murray Darling Basin Commission has made a significant contribution to strengthening the knowledge based approach to basin planning and management in the Mekong Basin. Data and information management, as well as analysis of such data, is critical to an effective river basin organisation. It is a continuing process that requires ongoing resources.

A key achievement of Australian support for the MRC has been the successful negotiations and signing of a Data Sharing Agreement between the four member states. This agreement provides the basis for sharing the data that underlies the flood warning system operating in the lower Mekong Basin.

The future of the Mekong Basin will be strengthened by closer cooperation with China as well as cooperation between the governments of all six riparian countries.

AUSTRALIA'S MEKONG WATER RESOURCE STRATEGY

STRATEGY OBJECTIVE

The goal of Australia's MRWS is:

To promote subregional cooperation to reduce poverty and achieve sustainable development through equitable and efficient use and management of the water resources of the Mekong River and its tributaries.

This goal will be achieved through three strategic objectives:

1. Strengthening the MRC and the NMCs to improve integrated water resource management in the Mekong Basin.
2. Improving availability of reliable scientific data on the Mekong Basin's water resources, with a focus on improving the MRC's knowledge base and technical capacity.
3. Supporting basin development planning for the sustainable, equitable and efficient use and management of the water resources of the Mekong Basin.

RATIONALE

The strategy's goal reflects the overarching objective of Australia's aid program and the 2006 White Paper's theme of promoting regional stability and cooperation. It also recognises the increasingly competitive social, economic and environmental demands faced by Mekong countries as they seek to use the shared water resources of the Mekong River for national development.

In the MWRS Australia will maintain its focus on the Greater Mekong Subregion and support programs that strengthen integration in the subregion. The strategy also aims to improve the management of freshwater resources to ensure more efficient water usage. Partnership with the World Bank, the ADB and other donors will be sought in implementing the strategy.

Strategic objective 1

Strengthening the Mekong River Commission and the National Mekong Committees to improve integrated water resource management in the Mekong Basin.

Strategic objective 1 affirms the importance of a strong and effective institutional framework in the basin for integrated water resource management and Australia's commitment to provide most of its assistance for this in the region to the MRC as the international river basin organisation of the four member states of the MRC. Stronger cooperation between the four members and the two dialogue partners (China and Burma) is key to avoiding potential conflict as the riparian countries look to the shared water resources of the Mekong River to satisfy the increasing national demand for water.

Australia is aware of weaknesses in the current institutional arrangements in the subregion and will help strengthen the capacity of the MRC and the four NMCs. Increased capacity in member countries is critical for improved use of MRC technical capacities, data, and basin development scenarios and plans. While the MRC is the organisation established by subregion countries to manage and develop water resources in the basin, Australia recognises the

important contribution the World Bank and the ADB make to regional cooperation in integrated water resources management.

Under this objective, Australia will:

- > Maintain strong support for the MRC as a knowledge-based river basin organisation with riparian ownership and engagement, recognising that an effective MRC is critical for integrated water resource management and governance in the Mekong Basin.
- > Provide assistance and work with the MRC to shape the Integrated Capacity Building Program which targets both the National Mekong Committees and MRC staff.
- > Strengthen the partnership between the MRC and Murray Darling Basin Commission by working with the MRC Secretariat to better target knowledge and skills transfer.
- > Integrate the subregional program of support for the integrated water resource management and the MRC into the AusAID bilateral country strategies with the riparian states, especially where AusAID works with relevant national line ministries.
- > Support wider regional cooperation by engaging the World Bank and the ADB in integrated water resource management programs, including the MWRP.
- > Seek opportunities to enhance cooperation between China and the MRC, including joint study tours and workshops on legal, technical and governance issues.
- > Endeavour to provide scholarships targeted to water resource management under the new Australian Scholarships initiative with potential students to be identified by relevant national line ministries, the NMCs and the MRC.
- > Identify opportunities to place Australian Youth Ambassadors for Development and volunteers with integrated water resource management expertise in the region and opportunities for MRC and NMC personnel to be placed in Australian agencies to gain on-the-job training and development.

Strategic objective 2

Improving availability of reliable scientific data on the water resources of the Mekong Basin, with a focus on improving the Mekong River Commission's knowledge base and technical capacity.

Strategic objective 2 builds on Australia's past commitments to the MRC and affirms the unique role of the MRC as the knowledge centre for Mekong water resources. Under this objective, Australia will help the MRC fulfil its role as an international river basin organisation with established systems for data collection and research and capacity to integrate and analyse this information so it is useful for effective and equitable decision making. Australia will assist the MRC, in consultation with the NMCs and national line ministries, to prepare a framework document for the Information and Knowledge Management Program.

Australia recognises the importance of increasing knowledge of the groundwater resources of the region. Lack of knowledge of groundwater resources in the basin is critical for development in the subregion and data collection is urgently needed to assess the quality and quantity of groundwater and the risks to future supplies, especially from increased salinity. Opportunities to help with research into groundwater resources and integrate groundwater data into hydrological models will be explored during the period of this strategy.

Australia's assistance will focus on:

- > Successfully completing the installation and upgrade of the network of appropriate hydrological/water quality stations along the Lancang-Mekong mainstream and ensuring this system can be integrated into the new MRC hydrological cycle observing system being developed in partnership with the World Meteorological Organisation.
- > Providing a Senior Technical Program Coordinator for three years who will be responsible for coordinating the scientific/technical program and strengthening the knowledge base of the MRC.

- > Maintaining the partnership between the MRC and the Murray Darling Basin Commission to share Australian water resource management experience and research with the Mekong riparian countries.
- > Encouraging collaboration between Australian research institutions such as the ACIAR, the CSIRO and with the MRC and institutions in the Mekong subregion.

Strategic Objective 3

Supporting basin development planning for the sustainable, equitable and efficient use and management of the water resources of the Mekong Basin.

Strategic objective 3 recognises the essential role of the MRC in formulating a Basin Development Plan (BDP) as required under the 1995 agreement. An integrated water resource management approach has been adopted in formulating the BDP. AusAID is interested in exploring with the MRC opportunities to formulate a 'preferred resource use plan' for the basin that identifies land suitability based on natural resource limits for uses within the catchment. In Phase 2 of the BDP, the MRC and NMCs will further develop and apply the data systems and assessment tools established during Phase 1 of the BDP. The development of basin plans depends on the data system and knowledge base supported under SO2.

The rapid growth in demand for energy in the subregion is increasing pressure for hydropower capacity in the tributaries of the Mekong. Hydropower offers a renewable energy alternative to increased use of fossil fuels and the consequent increase in greenhouse gas emissions. The four member countries have notified the MRC of their plans to build more than 50 dams in the lower Mekong Basin. Australia recognises the urgent need for a strategic analysis of the hydropower options to identify development options with the least potential to cause environmental damage and ensure the protection of the river and its downstream environments.



Waterways: connecting people and markets. PHOTO: Bruce Bailey

Climate change threatens possible significant shifts in rainfall patterns and intensity. The implications for river flows in wet and dry seasons could be substantial. Australian researchers in CSIRO and the Bureau of Meteorology have developed models better able to predict zones of rainfall change under various increased temperature scenarios. AusAID will seek opportunities to establish partnerships between Australian organisations and researchers studying climate change and researchers in the MRC, governments and institutions in the region.

Australian assistance under this objective will:

- > Provide support to Phase 2 of the BDP.
- > Investigate opportunities to help the MRC undertake energy planning in the basin and strategic and environmental analysis of proposed hydropower developments.
- > Seek to establish partnerships between Australian and regional organisations and researchers studying the implications of climate change.

CROSS-CUTTING ISSUES

Women play a key role in agriculture and fisheries in the region and ensuring their effective participation in planning and development activities is critical for effectiveness. Improved access to the knowledge resources of the MRC is an important step in increasing participation and gender equity. Consistent with Australia's concern to ensure the aid program makes a real contribution to achieving greater gender equity in development, Australia will encourage participation of women in the work of the MRC and in all activities funded by Australia.

The environmental impact of development in the Mekong River Basin is a priority in the MRC program, but protecting the environment of the Mekong River and the basin catchment is also a cross-cutting issue that must be taken into account in all activities in the subregion. Sustainable management of the basin's natural resources and managing potential negative impacts of water sector activities will remain a priority for Australian assistance to Mekong water resource management.

Mainstreaming HIV/AIDS education and prevention activities in relevant programs in the region is an AusAID policy that will be applied in this program. HIV/AIDS is particularly acute in border areas and has often spread along transport routes. Opportunities will be sought to link existing HIV/AIDS prevention programs with activities under this strategy.

Consistent with the White Paper recommendations, the MWRS will cooperate with relevant sections in AusAID to develop a strategy to reduce the risk of corruption in activities supported by Australia. Australia will work closely with partner organisations to develop and implement effective anti-corruption measures.

IMPLEMENTING THE STRATEGY

MANAGING IMPLEMENTATION

Implementation of the MWRS will be focused in Vientiane with the establishment of a MWRS Unit. The unit will be staffed by a technical advisor for water resources in the subregion, a program manager and two to three locally engaged support staff.

In cooperation with AusAID's Mekong section, the unit will manage Australia's engagement with the MRC and other multilateral water resource programs and be available to help strengthen water resource management activities in bilateral country strategies and strengthen links to research institutions in the region and to community based organisations. The MWRS Unit will seek to increase the coherence and integration of Australia's WRM engagement in the subregion.

TIMEFRAME

This MWRS spans the period 2006–2010 and matches the timeframe of the MRC Strategic Plan. This timeframe will not prevent AusAID from responding to the inevitable change that will occur in the region over the next four years, as the strategy is broad and principles based.

HARMONISATION

Despite significant donor interest from more than 15 donors, the lack of donors residing in Vientiane inhibits regular donor coordination meetings. Australia will continue to look for opportunities to promote coordination and harmonisation of views among MRC donors. The Water Resource Adviser to be based in Vientiane will enhance Australia's capacity to contribute to harmonisation amongst donors to the MRC. Donors have also expressed their readiness to consider providing program funding to the MRC and Australia supports this approach. The independent organisational review conducted in late 2006 is expected to assist a move towards program funding to the MRC.

PARTNERSHIP

A whole-of-government approach will be central to implementing this strategy and opportunities will be sought to engage relevant Australian government agencies in this. Australia has considerable experience in water resource management that can be adapted to the needs of the Mekong Basin. Active partnerships with significant institutions such as the Murray Darling Basin Commission and ACIAR will be encouraged under this strategy.

Australian NGOs have extensive programs in the subregion with AusAID-NGO cooperation agreements current in Cambodia, Laos and Vietnam. NGOs have strong interest in the social and environmental impacts of development in the region especially with the resources of the Mekong and have published research studies on several water resource management issues, such as the future of Lake Tonle Sap.

Several Australian institutes and universities undertake research targeted on the Mekong and their insights and understanding will help inform Australian engagement in the region. Where appropriate and in cooperation with relevant regional organisations, AusAID will commission analytical work in support of the strategy.

In the region, Australia will seek partnership with other donor organisations and actively engage in aid harmonisation in line with the Paris Declaration. Close cooperation will be sought with multilateral agencies working in the subregion.

PERFORMANCE FRAMEWORK

A strategy results framework will provide the basis for assessing the performance of the strategy and be the primary program review and effectiveness tool for the MWRS. Australia will not be responsible for implementation of all activities under the MWRS and so development of a performance framework at the program level will depend on cooperation from partner agencies. Consequently AusAID will encourage its principal partner, the MRC, to develop a performance framework for reporting to donors on the impact and effectiveness of its programs. This would be part of a wider initiative carried out by the MRC to develop and improve standardised systems to ensure timely and accurate reporting to donors. Performance measures at the regional and program level for Australia's engagement will depend on data collected by implementing agencies under their monitoring and evaluation systems.

Australia will give high priority to the development of a harmonised approach to program monitoring, in cooperation with riparian states and other donors. Common approaches will be sought for the development of common performance indicators at the beginning of an activity, common financial reports, agreed frequency for periodic progress reports and a regular forum for discussing concerns.

RISK ASSESSMENT

This strategy assumes continuing stability in the subregion and a continuing commitment among riparian countries to cooperate in using Mekong water resources. A key role of the MRC is to nurture trust between member countries and encourage cooperation so the continued effective functioning of the MRC as a river basin organisation is a key factor in mitigating this risk. Continued Australian support for the MRC will help.

Maintaining member state commitment to the MRC and its programs is critical to the effectiveness of the organisation and improved cooperative management of the water resources of the basin. The capacity of the NMCs to influence policy and practice in their line ministries and agencies remains a significant risk to effectively implementing agreed procedures for water management. Strengthening the capacity of the NMCs and increasing member country participation in the MRC is a key strategy objective that will help mitigate risk.

The impact of climate change in extreme weather events and shifts in rainfall volume and patterns in the region also pose major risks to the management of the river. Significant increase in rainfall could exacerbate flooding while a significant reduction in rainfall could exacerbate drought in the region and increase the demand for water from the river. Glacier melting in the headwaters of the Mekong on the Tibetan Plateau also poses risks for the seasonal flow of the river and the quantity of water that enters the lower Mekong Basin. Research will be undertaken to increase understanding of this risk and identify potential measures to mitigate the risk.

