



Australian Government

Department of Foreign Affairs and Trade

# Aid Investment Plan

South Asia Regional Development Program

2015-16 to 2018-19

## Strategic priorities and rationale

The South Asia Regional program seeks to address key region-wide barriers to sustainable economic growth.

### Australia's strategic interests

**Australia has a clear national interest in promoting economic growth and regional stability in South Asia.** Australia has a growing trade and economic partnership with South Asia, demonstrated by the commitment to negotiate a Comprehensive Economic Cooperation Agreement with India to unlock trade and investment opportunities. Improved integration across South Asia would promote economic growth, regional stability and poverty reduction, as well as increasing Australia's access to South Asian markets and demand for our goods and services.

### Development context

**South Asia has the highest concentration of poor people in the world** with more than 500 million people still living in extreme poverty. Many more people, particularly women and those working in the informal sector, live just above the poverty line and are extremely vulnerable to economic and environmental shocks and disasters. In the past two decades, over 50 per cent of South Asians (more than 800 million people) have been affected by at least one disaster. **The extent of gender inequality in South Asia is also a major barrier to sustainable and inclusive economic growth.** The ongoing human and economic costs can be greatly reduced when the specific needs and vulnerabilities of women are considered.

**South Asia is among the least integrated regions in the world, restricting the region's growth potential and poverty reduction efforts.** The relatively poor quality of trade-related infrastructure, such as ports, storage facilities and transport (especially highway networks), as well as energy production and distribution networks, are key constraints to growth. The cost of intra-regional trade in South Asia is 50 per cent higher than in ASEAN countries, and intra-regional trade in South Asia accounted for just 5 per cent of total trade in 2014 (compared to 45 per cent across developing Asia).<sup>1</sup>

**There is limited cooperation on shared (and increasingly scarce) water and energy resources.** Further cooperation is needed to meet increased demand for water, food and energy in the face of population growth and to mitigate disaster risks due to climate variability. Energy production is forecast to take up a growing proportion of South Asia's water usage as governments in the region look to expand electricity supply, and its reliability. Indian Prime Minister Modi's recent pledge to provide 18,500 currently power-less villages with electricity within 1000 days is further evidence of this expected increase in demand. The trend in increased demand for food in the region is expected to continue, with its production heavily dependent on water and energy inputs.

Limited physical infrastructure and geographical barriers constrain trade between Bangladesh, Bhutan, Nepal and north-eastern India. Non-tariff barriers – including onerous administrative requirements at borders – contribute to the high costs of trading across borders. **There is increased momentum for regional cooperation particularly in the eastern part of the region, where the borders of India, Bangladesh, Nepal and Bhutan converge.** One example is India's 'Act East' policy, which emphasises economic engagement with its eastern neighbours.

Improved regional connectivity will benefit women, many of whom are engaged in informal trade. This could be through higher incomes as producers and as consumers due to lower priced and better quality traded goods.

### Program priorities

The South Asia Regional program focuses on two inter-related objectives to address region-wide barriers to sustainable economic growth, and strongly aligns with the overarching priorities of the Australian aid program, including in infrastructure, trade facilitation, agriculture and water. Gender equality will be a focus in all our investments under the regional program.

#### Objective 1: Increased water, food and energy security in South Asia to facilitate economic growth and improve the livelihoods of the poor and vulnerable (particularly women and girls)

This objective will be progressed through DFAT's Sustainable Development Investment Portfolio (SDIP) which seeks to respond to major regional development challenges in South Asia - improving transboundary water resource management, increasing access to energy and energy connectivity, and increasing resilient agricultural productivity and farm incomes. SDIP targets these three inter-related sectors where Australia is uniquely placed to contribute its expertise and technologies.

#### Objective 2: Increased regional connectivity through trade facilitation and infrastructure connectivity

The objective will be addressed through the World Bank-implemented Infrastructure for Growth (IFG) program and the South Asia Regional Trade Facilitation Program (SARTFP). IFG aims to meet infrastructure gaps in the region by addressing the major challenge of trade connectivity, integration and climate resilience, both within countries and across the region. SARTFP seeks to

---

<sup>1</sup> ADB Asia Regional Integration Center ([www.aric.adb.org/indicator.php](http://www.aric.adb.org/indicator.php))

improve border trade and connectivity in the eastern sub-region of South Asia, with a particular emphasis on enabling women's participation in trade and economic activity.

## Implementation approaches

We will maximise our impact by focusing on the eastern sub-region of South Asia. This includes the north eastern states of India, Bangladesh, Bhutan and Nepal. Focusing both our investments (regional economic connectivity and sustainable development) in the same geographic region deepens our engagement and the opportunity for inter-linkages and greater impact.

**We will leverage partnerships to maximise our impact.** We will invest in existing programs and institutions that have a proven track record. Our investments through SARTFP and IFG will be via the World Bank in consideration of its convening power, credibility among partner governments, analytical and technical assistance capabilities, and its ability to provide and attract significant financial resources. Our investments in SDIP will be through a select number of both Australian and South Asian partners who progress the objectives of the program through different expertise in policy engagement, capacity building and technology transfer.

**We will focus our investments on issues where Australia has a comparative advantage and/or there are funding gaps.** For example, Australia has significant expertise in water resource management, which provides an entry point to engage in policy dialogue and share technology and expertise. Water will be one of the critical drivers of stability in South Asia, with India alone forecast to increase its demand for water by 100 per cent by 2030 for competing uses such as electricity (including hydropower).<sup>2</sup> Our investments in regional connectivity will address the infrastructure and trade facilitation gaps that are fundamental to supporting economic growth. Both programs will build on previous investments in the region, including results from SDIP Phase 1, and will use existing relationships and networks to promote our objectives.

**The South Asia Regional program will continue its consolidation agenda,** completing its transition from a wide ranging set of investments to a more targeted program around two key objectives. This limits the ability of the program to respond to challenges beyond identified areas of engagement.

## Performance management

Progress towards Australia's aid objectives under the South Asia Regional program will be assessed against performance benchmarks for 2015-16 and reported through the annual Aid Program Performance Report (APPR). Future year performance benchmarks will be determined following the review and analysis of the APPRs.

*Aid objective 1: Increased water, food and energy security in South Asia to facilitate economic growth and improve livelihoods of the poor and vulnerable (particularly women and girls)*

**Performance benchmark** Improvements in the region's agriculture, energy and water management capabilities through SDIP efforts, as showcased through at least 5 examples.  
The design of the second phase of the SDIP is approved, for mobilisation in July 2016.

*Aid objective 2: Improving cross border regional economic connectivity through trade facilitation and infrastructure connectivity*

**Performance benchmark** SARTFP mobilised with 3 activities commencing implementation.

**Cross-cutting performance benchmark** Increased focus on gender equality and women's empowerment across the SARTFP and SDIP program activities, evidenced through at least 5 examples of gender sensitive approaches being adopted.

---

<sup>2</sup> Indian PM Modi recently announced that 18,500 villages will receive electricity within 1000 days.

## Mutual obligations

Progress on regional integration through inter-governmental organisations in South Asia has been slow compared to other parts of Asia (e.g. ASEAN). However, there are signs of willingness by South Asian Governments to progress closer regional integration evidenced through bilateral and regional undertakings and the South Asia Regional Program will support this momentum. For example, in October 2014 Nepal and India signed the 'Power Trade Agreement', which envisages connecting the national grids of the two countries; and there has also been progress on regional water sharing arrangements, through the recently established BBIN (Bangladesh, Bhutan, India and Nepal) joint working group. Moreover, in November 2014 South Asia Association for Regional Cooperation (SAARC<sup>3</sup>) countries signed on to the SAARC Framework Agreement for Energy Cooperation (Electricity), to enable development of the cross border energy trade. In the absence of specific region-wide arrangements on regional connectivity, SDIP and SARTFP programs will be aligned to, and be dependent on, progress by partner governments in implementing both regional and bilateral measures which support regional integration.

## Monitoring, review and evaluation

**Program results frameworks will be used to track performance against program objectives**, the results of which will feed into the South Asia Regional APPR. Both SDIP and SARTFP will source external technical support for developing performance frameworks and monitoring progress against them. Identifying the extent to which our investments in sustainable development and regional connectivity are promoting gender equality and women's empowerment in the region will be at the core of our approach

---

<sup>3</sup> Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka