




Australian Government  
AusAID



# South Asia Regional Development Program Strategy 2013-2017

July 2013



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# 1. Summary

The South Asia Regional Development program targets cross-border development challenges that cannot solely be addressed at the country level. It complements Australia's seven country programs in the region: Afghanistan, Bangladesh, Bhutan, Nepal, Maldives, Pakistan and Sri Lanka.

Despite strong growth and significant poverty reduction, South Asia remains home to the world's largest number of people living below the poverty line, with 507<sup>1</sup> million people living on less than US\$1.25 per day.<sup>2</sup> Although the percentage of the population living in poverty has reduced significantly over the past two decades, the actual number of people living in extreme poverty has not changed much due to population growth. Most of the region is off-track to achieve the Millennium Development Goals. Inequality is on the rise. Poverty and vulnerability tend to be concentrated in lagging sub-regions. Patterns of strong economic growth over the past decade have not been sufficient to enable lagging areas to catch up with leading ones.

South Asia is the least integrated developed region in the world in terms of trade and economic connectivity, with the second highest intra-regional trade costs. It is one of the most vulnerable regions to climate change and natural disasters. It also faces long-term water, food and energy security challenges.

The *South Asia Regional Development Program Strategy 2013–2017* outlines the Australian Agency for International Development's (AusAID<sup>3</sup>) South Asia Regional program. The program aims to reduce poverty and promote sustainable and inclusive growth by improving regional cooperation and connectivity. In this program strategy, Australia will focus on two of the region's most important long-term, trans-boundary development issues:

- sustainable development (water, food and energy security)
- regional connectivity (trade facilitation and infrastructure connectivity).

This will primarily support one of the five strategic goals of our aid program—sustainable economic development. The strategy is also consistent with Australia's interests in broader Asia, as set out in the Government's 2012 White Paper—*Australia in the Asian Century*—which centres on regional stability, integration and openness to support trade and investment opportunities.

In South Asia, climate change is making its presence known. The region needs to build resilience to the effects of climate change which is threatening the livelihoods of millions of poor, particularly women and girls, who rely on trans-boundary natural resources for water, food and energy security. The adverse effects of climate change could also undermine individual country economies, regional stability and long-term development gains. Building on existing investments, we are well placed to increase resilience to climate change in South Asia through better management of natural resources across borders and support for efforts to increase access to sustainable forms of energy.

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<sup>1</sup> 2010 figure from PovcalNet, the online tool for poverty measurement developed by the Development Research Group of the World Bank.

<sup>2</sup> World Development Indicators 2013 (provisional for 2010).

<sup>3</sup> AusAID will take the lead role in delivering this program strategy on behalf of the Australian Government.

Lack of regional connectivity and trade continues to limit the region's growth potential. A more integrated region would help achieve accelerated and inclusive growth by addressing the increasing gap between leading and lagging regions. Helping to fill a critical donor gap, we will work through partners to support developing country government priorities. Partner governments in South Asia are increasingly asking us for support in this area and there is enough momentum to continue to build on progress achieved to date.

This regional program will initially focus on sub-regional cooperation on select issues, such as water resource management, non-tariff barriers to trade, and improvement of cross-border infrastructure. There is also potential to explore connectivity developments with East and Southeast Asia. Where it makes strategic sense, we will support single-country initiatives contributing to regional goals, such as building the capacity of water institutes in India.

Australia will maximise the impact of its aid by working with development partners in the region, such as regional bodies and multilateral organisations. We will also work with civil society organisations and bilateral donors to improve our aid effectiveness and coordination. We will seek to draw on our specific knowledge, skills and expertise where there is comparative advantage, in areas such as water resource management, sustainable agriculture and renewable energy.

This four-year strategy is part of a long-term endeavour. Success will be achieved in incremental steps over the next decade and complement our bilateral aid investments, which primarily focus on human development.

## 2. Development Partnership Principles

### 2.1 Principles and commitments

The fundamental purpose of Australian aid is to help people overcome poverty.

This program strategy is guided by the Australian Government's aid policy, *An Effective Aid Program for Australia: Making a real difference—Delivering real results* (Effective Aid), which sets the strategic direction of Australia's aid program through to 2015–16. To give effect to this policy the Australian Government has prepared a *Comprehensive Aid Policy Framework* (2012) which outlines the resources and headline results to be delivered by 2015–16 and sets new standards for the efficient and effective delivery of our aid.

Our aid program is guided by five strategic goals: to save lives; promote opportunities for all; build sustainable economic development; build and support effective governance, and respond effectively to humanitarian crises and natural disasters. We focus our efforts in areas where we can make a difference and where our resources can most effectively and efficiently be deployed.

The *South Asia Regional Development Program Strategy 2013–2017* gives effect to this by focusing on sustainable development (water, food and energy security) and regional connectivity (trade facilitation and infrastructure connectivity).

Effective Aid recommends that in South Asia, Australia should work through partnerships to deliver the aid program. We will maximise the impact of our assistance by working with proven and effective development partners on the basis of mutual accountability. Critical to accountability is our commitment to be more transparent about financial and operational information, results and performance. As a result, we support greater transparency in the operations of all of our development partners. This enables us to better measure and report on the impact of our development efforts, fosters accountability and promotes greater coordination. Australia will focus on the quality of our programs and encourage our partners to adopt the same standards of transparency and accountability as we do, as outlined in AusAID's Transparency Charter (2011). We will also improve aid effectiveness and coordination by working with civil society and multilateral organisations and bilateral donors.

AusAID will take the lead role in delivering this program strategy. AusAID will seek to draw on Australian expertise where there is comparative advantage, in areas such as water resource management, sustainable agriculture and renewable energy.

### 2.2 Joint focus on results

Australia and the eight countries we work with in South Asia (Afghanistan, Bangladesh, Bhutan<sup>4</sup>, India, Maldives, Nepal, Pakistan and Sri Lanka) have signed up to international commitments to delivering aid focused on results, consistent with the *Paris Declaration for Aid Effectiveness* (2005), *Accra Agenda for*

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<sup>4</sup> Although Bhutan is not a signature to the Paris Declaration or the Accra Agenda, it is committed to improving aid effectiveness by taking a leading role in coordinating and harmonising development partners.

*Action* (2008) and *Busan Partnership for Effective Development Cooperation* (2012). We will deliver our aid program in line with these international commitments.

Australia will review aid delivery through this program strategy period annually. We will document progress in comprehensive yearly program performance assessments, which will be made publicly available.

## 3. Context and rationale for Australian aid in South Asia

### 3.1 Poverty and need

Despite a significant decline in the proportion of people living in poverty, South Asia remains the region with the largest number of poor. Sixty-seven per cent live on less than US\$2 a day, and 31 per cent on less than US\$1.25 a day.<sup>5</sup> Poverty and vulnerability is concentrated in lagging regions, including some border areas and landlocked countries (which are also least developed countries—Afghanistan, Bhutan and Nepal).

Large and uneven differences exist across populations within the region's countries, including in health, nutrition, status of women, education and employment status. Development gains continue to be offset by population growth, rapid urbanisation, natural disasters, conflict and political instability. Gender inequality is widespread, especially in health, education and employment, holding back the region from achieving its full productive potential. Inflationary and current account pressures, progress in mobilising revenue and containing fiscal deficits remain ongoing challenges. Massive infrastructure deficits, particularly in energy and transport, are binding constraints to growth.

Despite the challenges, South Asia is the second fastest-growing region in the world, with growth rates averaging 7.3 per cent between 2000 and 2011. The global slowdown<sup>6</sup> had a significant impact on growth and export levels. Signs of recovery are starting to emerge in South Asia however growth and exports are yet to reach pre-crisis levels. The region has a limited range of exports and a limited number of markets. However, its medium and long-term prospects for becoming an important source of global growth remain intact, particularly through India's economy, and as long as the region can address its major development challenges.

Not enough jobs have been created in the formal sector to absorb the region's rapidly growing young labour force, projected to double by 2050. The mismatch between labour market concentration and share of gross domestic product (GDP) across sectors is of concern. GDP is concentrated in the services sector, yet the agriculture sector sustains the largest share of employment, particularly for the poor. Despite this, the agriculture sector has reduced its contribution to GDP over time. Manufacturing, with a few exceptions, remains stagnant in its share of employment.

The region is highly vulnerable to food price volatility and dependence on oil imports. Accelerating and sustaining inclusive economic growth, while strengthening resilience to absorb cyclical, structural and external shocks, is crucial.

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<sup>5</sup> World Development Indicators 2013 (provisional for 2010).

<sup>6</sup> The *World Economic Situation and Prospects 2013* report notes that growth of the world economy weakened considerably during 2012 and is expected to remain subdued in the coming two years. The global economy is expected to grow at 2.4 per cent in 2013 and 3.2 per cent in 2014, a significant downgrade from the United Nations forecast of half-a-year ago. The report also foresees a much slower pace of poverty reduction in many developing countries and a narrowing fiscal space for investments in critical areas for achieving the Millennium Development Goals.



## 3.2 Australia's national interests

Our national interests in the region are increasing. Moderate but steady trade flows between Australia and individual South Asian countries are expected to continue (with the exception of India, which is projected to grow more rapidly). Deepened and broader engagement is predicted through closer educational, cultural and people-to-people links, as set out in *Australia in the Asian Century*. We stand to gain through trade and investment opportunities and partnerships as South Asia grows as a result of increased openness, including through integration within the region and with other parts of Asia. The relatively young population implies that South Asia has the potential to have the largest middle class cohort in the world.<sup>7</sup>

Stronger regional cooperation is important to achieving more sustainable development results. Australia became an observer of the South Asian Association for Regional Cooperation in 2008. We are active in the East Asia Summit, of which India is also a member. These relationships help to foster confidence and trust, boost economic growth and strengthen regional stability.

## 3.3 Capacity to make a difference

Progress on sustainable development and regional connectivity in South Asia will likely be gradual and may face intermittent setbacks. Sustained commitment will be required if we are to see improvement.

Our expertise in water resource management, sustainable agriculture and energy efficiency is world-leading. Countries in South Asia are increasingly asking for support to build capacity in these sectors, to work with Australia to undertake research, and for access to Australian technology. Our work on integration and water management in the Greater Mekong sub-region enables us to share lessons learned across sub-regions. We can offer expertise in customs, standards and other border-related procedures to improve regional connectivity.

Working through partners, we will help strengthen regional coordination and ensure marginalised groups are taken into account when planning and implementing programs.

## 3.4 Scale and effectiveness

Funding for the South Asia Regional Development program in 2013–14 is expected to be around \$29.8 million. Assistance in future years will be subject to annual budget allocations. Effective Aid and the *Comprehensive Aid Policy Framework* earmarked the region for increased aid, given the high incidence of poverty, current low base of funding and the effective performance of the aid program in recent years. Total official development assistance to the region has doubled since 2007 and we intend to further increase funding to the regional program over the next four years to 2016–17, subject to decisions taken in our overall budget context.

Consolidation is essential to improve the effectiveness and efficiency of the regional program. The program will be consolidated to address two main development challenges that are trans-boundary and cannot solely be addressed at country level—sustainable development (through water, food and energy security) and regional connectivity (through trade facilitation and infrastructure development). This will enable us to focus our resources and policy engagement to increase the impact of our aid.

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<sup>7</sup> United Nations Economic and Social Commission for Asia and the Pacific 2012, p. 35.

## 4. Strategic priorities for Australian aid

### 4.1 Proposed focus areas, expected outcomes and Australia's contribution

The goal of the Regional program is to reduce poverty and promote sustainable and inclusive growth by improving regional cooperation and integration (connectivity) in South Asia. We will focus on these two most important long-term trans-boundary development challenges, which cannot solely be addressed at country level. In doing so, we will concentrate on priority areas with the potential to have the biggest impact on long-term poverty reduction and sustainable development in the region.

The two trans-boundary development challenges are:

1. **Sustainable development**—targeting trans-boundary water resource management, climate resilient agriculture and increased access to sustainable energy for the poorest and most vulnerable communities.
2. **Regional connectivity**—targeting trade facilitation and infrastructure connectivity, particularly in lagging regions.

These focus areas and expected outcomes are consistent with Australia's aid policy. They support the third strategic goal of our aid program—sustainable economic development—including the objectives of:

- improving incomes, employment and enterprise opportunities
- minimising the negative impacts of climate change and other environmental factors on poor people.

An investment strategy, outlining funding allocations for partnerships over the first four years (2013-17), will be developed to lay the foundation for longer-term Australian engagement in each focus area.

#### Sustainable development

Development progress in South Asia is threatened by pronounced vulnerability to the impacts of climate variability. This vulnerability arises because of the region's variable hydrology (driven by the South Asian monsoon and complex dynamics of the Himalayan glaciers) combined with high poverty, extreme population density and limited intra-regional cooperation.

South Asia is already marked by a high incidence of natural disasters that have, over the last 20 years, affected more than 750 million people and inflicted US\$45 billion worth of damages. In 2010, approximately 65 per cent of the global population exposed to flood—some 45 million people—live in South Asia.<sup>8</sup>

Regional climate variability is projected to increase the frequency and intensity of natural disasters, decrease water availability in many areas, inundate others, reduce agricultural productivity and jeopardise health and livelihoods. Severe or repeated climate shocks have the potential to push whole sub-regions of already vulnerable populations into a persistent poverty trap.

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<sup>8</sup> World Bank 2013, p. 122.

Australia will support and encourage sustainable development in South Asia, focusing on water resource management, climate resilient agriculture and sustainable energy access, including cross-border energy trade. We will prioritise investments in areas where we have a comparative advantage (specific knowledge, skills and expertise), where there are funding gaps, and which are fundamental to poverty alleviation and human development.

As a result, we will:

1. support the region in promoting greater water security through collaborative trans-boundary water resource management, particularly through transferring Australia's best-practice technology and science, and strengthening policy and civil society discussion
2. target the poorest and most vulnerable by focusing on cross-border efforts to develop sustainable, climate-resilient agriculture, and drawing on Australia's expertise in this sector, to enable at least 2 million poor farmers to adopt improved risk-reducing technologies and increase their incomes by at least \$2 a day.
3. help address the urgent need to overcome energy poverty through increasing regional efforts on sustainable energy investment, particularly through support for the enabling environment for the private sector, which requires cross-border cooperation.
4. work bilaterally in Bangladesh and Maldives to strengthen the capacity of governments to integrate climate change considerations across national planning processes, through their nominated multi-donor trust funds, and use our seat at these multi-donor tables to share Australian expertise on water, agriculture and renewable energy.

## Regional connectivity

South Asia is the least integrated region in the world. Intra-regional trade stands at 5 per cent of total trade compared with 50 per cent for East Asia and 30 per cent for Southeast Asia.<sup>9</sup> It is estimated that more than half of the region's export potential remains untapped.<sup>10</sup> Non-tariff barriers—onerous and subjective procedural and administrative requirements at borders—are a primary cause for the lack of intra-regional trade and for the region having the second highest trade costs. South Asia ranks poorly in the World Bank's Ease of Doing Business Index<sup>11</sup> and the World Bank's Logistics Performance Index<sup>12</sup>, reflecting the high cost of trading across borders.

The growing infrastructure deficit, particularly in power and transport, is a binding constraint to South Asia's ability to sustain rapid growth. Inadequate supply of infrastructure is one of the top five constraints for doing business for four of the five countries listed for South Asia. The quality of trade-related infrastructure, such as ports, storage facilities and transport (especially highway networks), as well as information and communications technology infrastructure, is poor. Sub-regions away from key trade corridors face the greatest constraints.

Intra-regional connectivity can help unlock the growth benefit of geographic proximity. Most South Asian countries share a common border with the largest regional partner, India. Reducing distance and division through market integration can help pull weak sub-regions towards income levels they may not be able to achieve on their own, especially those that are landlocked.

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<sup>9</sup> Asian Development Bank (2011), Asia Regional Integration Centre, [www.aric.adb.org/indicator.php](http://www.aric.adb.org/indicator.php)

<sup>10</sup> United Nations Economic and Social Commission for Asia and the Pacific 2012, p. 66.

<sup>11</sup> This index ranks economies from 1 to 185. A high ranking means that the regulatory environment is conducive to business operation.

<sup>12</sup> This index is based on a worldwide survey of operators on the ground – such as global freight forwarders – and provides feedback on the logistics “friendliness” of countries in which they operate.

Helping to fill a critical donor gap, Australian aid will support private sector development by addressing business-enabling issues in trade facilitation. The regional program will therefore focus initially on sub-regional cooperation (Bangladesh, Bhutan, India and Nepal) on priority issues including non-tariff barriers to trade and improvement of cross-border infrastructure (across select transport corridors). This work also has the potential to strengthen connectivity developments with Southeast and East Asia.

## 4.2 Program approaches and ways of working

Australia's assistance will be partner-led. Consistent with Effective Aid, this model of aid delivery is preferred in South Asia. Under this model, we will not lead the design of development programs, but support the priorities and commitments of partner governments. We will do so through partnerships with selected regional bodies and multilateral organisations, other bilateral donors and civil society organisations. We will work with partner governments to develop individual partnership agreements that set out mutually agreed principles and values, contributions by each partner, accountabilities of each partner, results reporting, governance, as well as communication and information sharing.

The underlying assumption of this model is that working 'through' partners (including by investing in their existing programs and institutions) is more efficient, more effective and provides better value for money than does designing, managing and implementing stand-alone development programs. We will therefore work with our 'portfolio of partners', including multilateral organisations, civil society organisations and regional bodies, to address sustainable development and regional connectivity challenges in four ways:

1. policy and governance reform
2. supporting regional networks for policy discussion and collaboration
3. technical assistance and capacity development
4. technology transfer and demonstration programs.

We will provide our partners with flexible funding (where suitable). This will allow them to support their fundamental mandates, capitalise on key emerging opportunities and invest in innovations rather than prescribed projects and activities.

This model gives us the potential to leverage additional funds within multilateral development banks for implementation of larger projects in relevant areas of interest.

## 5. Program performance and risk management

### 5.1 What success will look like at the end of the program strategy

The challenges being addressed by the *South Asia Regional Development Program Strategy 2013–2017* require long-term investment to realise sustainable and meaningful results. The time horizon for the program strategy is 12 years (to 2025). This recognises that many fundamental reforms required for sustainable development and regional connectivity cannot be fully achieved in the first four years of the time horizon (2013–17). Achieving outcome milestones in these first four years will be important, however, and will lay the foundation for longer-term Australian engagement.

By the end of the program strategy, having worked in close partnership with partner governments and other development partners, we will have contributed to the sustainable development and regional connectivity achievements described here.

#### Sustainable development

Under sustainable development (water, food and energy security), sustainability of the region's water resources will be increased, inclusive economic growth will be supported through energy access, and carbon emissions minimised. Human development, regional instability and poverty reduction will not be adversely impacted by climate change.

In the medium to longer-term, Australia will contribute to these outcomes:

- strengthened institutions and data-sharing for water resources management across borders (at basin-scale)
- increased resilience to climate change through the uptake of climate-resilient agricultural practices (such as water use efficiency) across the region
- strengthened regional-enabling environment (regulatory and market) for increased access to sustainable energy, particularly in lagging regions
- improved regional implementation of disaster risk reduction measures, particularly targeted at the most vulnerable, such as for floods and drought
- increased incorporation of the work of scientific and technical alliances at the regional scale on climate change into policies and actions of national governments.

#### Regional connectivity

Under regional connectivity (trade facilitation and infrastructure connectivity), the costs of, and time required to, trade along particular transport corridors will be reduced, especially for small and micro-enterprises, women and other marginal traders. Australia will invest in research, analysis and modelling activities that will enable us to better understand the impacts of broader regional connectivity outcomes on different populations.

In the medium to longer-term, Australia will contribute to these outcomes:

- developed regional value chains
- increased trade in diversified and value-added goods
- increased institutional capacity and coordination along particular transport corridors
- increased incomes and employment opportunities in lagging areas
- strengthened private sector development and civil society engagement.

## Evaluation and results

Our contribution will be analysed through AusAID's annual program performance report process. Other reviews, such as an AusAID-managed mid-term review and independent reviews, will be conducted on the regional-level impact of program-level activities during the term of the program strategy. Issues to be analysed include the quality of policy discussions with partners, improvements in aid coordination and the effectiveness of the integration of bilateral, regional and global programs.

Key milestones related to the program strategy that will be analysed include:

- consolidation into the two focus areas ('pillars') of sustainable development and regional connectivity, including the development of an investment strategy for each
- effective phase-out of legacy sectors, including health and service delivery
- regular consultations with key partners
- improvements in policy engagement capacity
- Australian leadership on aid effectiveness.

The Regional program will contribute to these quantitative headline results of the *Comprehensive Aid Policy Framework* in 2013–17:

- number of poor women and men who gain access to agriculture technologies
- value of additional agricultural production
- number of countries assisted with adaptation programs to reduce vulnerability to climate change
- number of countries assisted to minimise carbon emissions as their economies grow, through technological and regulatory support.

## 5.2 Performance assessment framework

A performance assessment framework for the *South Asia Regional Development Program Strategy 2013–2017* will be developed by the end of 2013. It will focus on four areas:

1. development impact
2. contribution of Australian aid
3. key headline results
4. key strategic and management milestones related to program strategy implementation.

## 5.3 Risk management

A number of risks might prevent or inhibit program strategy delivery. The major risks for each focus area ('pillar') and the measures for managing them are described in this table.

|                                       | <b>Major risks—sustainable development</b>   | <b>Major risks—regional connectivity</b>  | <b>Risk management approach</b>   |
|---------------------------------------|--|---|---|
| <b>Operating environment</b>          | <p>Intra-state and regional political instability undermines cooperation.</p> <p>Weak institutions and poor governance undermine capacity to prepare for climate change.</p> <p>Multiple disasters seriously constrain capacity to focus on long-term, proactive measures.</p>   | <p>Political instability or natural disasters weakens governance and institutions, limiting capacity to implement reforms.</p> <p>Lack of political willingness to cooperate and/or resistance by certain vested interest groups.</p> | <p>Capitalise on existing momentum and respond to increasing demand by partner governments.</p> <p>Maintain realistic expectations and long-term commitment.</p> <p>Select strong partners who are familiar with the operating environment, can maintain momentum, are willing and able to adjust in the face of uncertain conditions, and are willing to capitalise on opportunities.</p> <p>Support partners working behind-the-scenes with technical institutions in case political-level cooperation fails.</p>   |
| <b>Failure to demonstrate results</b> | <p>Policy reforms not adopted because of other competing factors (for example, political willingness, economic incentives, availability of clean technologies, and opposition to hydropower).</p> <p>Improved agricultural practices not adopted due to ineffective institutions, a lack of capacity in agri-business and other factors.</p> | <p>Partners fail to target poverty and inclusiveness on supporting trade reforms.</p> <p>AusAID lacks sufficient human resources to engage with partners.</p>   | <p>Select strong partners with the maximum influence for affecting change.</p> <p>Support reforms that have the most potential for uptake and sustainability.</p> <p>Retain partnerships able to sustain the agenda over the long term, support incremental changes and take advantage of opportunities.</p> <p>Set realistic expectations and capitalise on opportunities as they arise.</p> <p>Develop an effective performance assessment framework, and undertake regular monitoring and evaluation.</p> <p>Retain a good mix of AusAID human resources, with the skills to influence and sectoral expertise, to engage at technical level.</p> |
| <b>Safeguards</b>                     | <p>Poor application of safeguards in hydropower development results in unintended displacement of people and negative environmental impacts.</p>   | <p>Poor application of safeguards on infrastructure investments and trade reforms results in severe negative social or environmental impacts.</p>   | <p>Provide funding to strengthen the application of safeguards.</p> <p>Make safeguards a priority for discussion with development partners and partner governments.</p> <p>Closely monitor the application of safeguard policies by development partners and partner governments.</p>   |



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