



Australian Government

Department of Foreign Affairs and Trade



# Aid Program Performance Report 2013-14

South Asia Regional Program

September 2014



## Key Messages

This Aid Program Performance Report (APPR) assesses the progress in 2013-14 towards the two “pillars” of the South Asia Regional Development program strategy—sustainable development and regional connectivity.

The South Asia Regional program is transitioning from a disparate, multi-sectoral, multi-country program to a genuinely regional program that targets cross-border development challenges that cannot solely be addressed at the country level.

The South Asia Regional Development Program Strategy (2013-17, adopted in July 2013) marks a significant departure from previous priorities and a large proportion of the aid investments under the program are either being designed or are in early stages of implementation.

DFAT made strong progress in establishing the foundation for long-term engagement under the **sustainable development** pillar, which focuses on water, food and energy security. New partnerships were brokered, allowing implementation across each of the target sectors to commence.

Progress has also been made on the design of the trade facilitation component of the **regional connectivity** pillar, but this has been slower than expected. Finalising the design process and commencing implementation are priorities for 2014-15.

Balancing the management of existing “legacy” activities in health and other sectors to completion in parallel with design and implementation of new programs continues to be a major challenge for program resources. This will be closely monitored and managed in 2014-15 to ensure that the program maintains its strategic focus and that new investments are not delayed.

## Context

South Asia has shown strong GDP growth over the past decade, and this is picking up again after slowing to 5 per cent in 2010. Growth is predicted to reach 6.2 per cent in 2014, but this largely depends on an improved economic outlook in India—which is in turn dependent on creation of a more favourable environment for investment if growth is to be sustained<sup>1</sup>. Despite this period of growth and an overall decline in the proportion of the population living on less than \$US1.25 per day (from 61 per cent in 1981 to 36 per cent in 2008), South Asia remains home to the world’s largest number of people—over 500 million—living on less than US\$1.25 per day. Further, around 98 per cent of the population lives very close to poverty—on under \$US10 per day—highlighting the potential for substantial increases in transient poverty when people are hit by negative shocks<sup>2</sup>. Poor people, particularly women and those working in the informal sector—are the most vulnerable when these shocks occur.

South Asia is one of the least integrated regions in the world. Transboundary development challenges—i.e. those that cannot be solely addressed at country level—represent significant obstacles to human and economic development and are preventing sustained poverty reduction in the region. Regional cooperation and integration is vital for long-term inclusive growth, sustainability and stability but intra-regional trade in South Asia stands at 5 per cent of total trade compared with 50 per cent for East Asia and 30 per cent for Southeast Asia.<sup>3</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

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1 Asian Development Bank (2014): Asian development outlook 2014 - Fiscal policy for inclusive growth.

2 World Bank (2013): World Development Report 2014: Risk and Opportunity—Managing Risk for Development. Washington, DC: World Bank. doi: 10.1596/978-0-8213-9903-3. License: Creative Commons Attribution CC BY 3.0

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

Doing Business Index<sup>4</sup> and the World Bank's Logistics Performance Index<sup>5</sup>, reflecting the high cost of trading across borders.

Across the region, performance against the Millennium Development Goals is mixed, and gender inequality is widespread, holding back the region from achieving its full productive potential. Female labour participation rates are low. Only 20-30 per cent of women are employed in the non-agricultural sector<sup>6</sup>, reflecting unequal opportunities between women and men in accessing the formal labour market and unequal treatment of women in the labour market. Agricultural productivity is low and subject to periodic water scarcity, economic infrastructure is underdeveloped, and less than half the region's poor have access to modern energy services. 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. The cost to close the growing infrastructure gap by 2020 will be an estimated US\$1.7 to US\$2.5 trillion<sup>7</sup>. If investments are spread evenly over these years, the South Asia region needs to invest between 6.6 and 9.9 per cent of 2010 GDP per year—an increase of 6.9 per cent on 2009 investment levels.

Similarly, limited cooperation on shared resources (such as water) restricts the region's growth potential and exacerbates the risk of cross boundary tensions. 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 damage. In 2010, approximately 65 per cent of the global population exposed to flood—some 45 million people—lived in South Asia.<sup>8</sup> Development progress 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.

In 2013-14 there were positive developments in South Asia's political environment to improve sub-regional and regional cooperation. Election cycles were completed in several countries which should, subject to the new governments serving their full term, support a degree of political stability. The Indian election and Prime Minister Modi's outreach to South Asia Association for Regional Cooperation (SAARC) countries has created some impetus, and there are increasing examples of bureaucratic obstacles to cooperation being eroded (such as streamlining of border procedures and increased demand for energy trade). PM Modi's commitment to clean up the Ganges River, although India-focused, has a wider regional dimension and aligns strongly with the objectives of the sustainable development pillar of the South Asia Regional program.

The South Asia Regional Development Program Strategy 2013–2017 (completed in July 2013 and so in its first year of implementation) describes the program's aim to reduce poverty and promote sustainable and inclusive growth by improving regional cooperation and connectivity. The program is evolving from a disparate, multi-country program implemented in the absence of a strategy and from one covering all eight countries (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka) to a targeted program that focuses on two of the region's most important long-term, transboundary development issues in five countries (India, Bangladesh, Nepal, Bhutan and Pakistan):

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4 This index ranks economies from 1 to 185. A high ranking means that the regulatory environment is conducive to business operation.

5 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.

6 World Bank (2014) <http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS/countries>

7 Andres, Luis; Biller, Dan; Dappe, Matias Herrera. 2013. Reducing poverty by closing South Asia's infrastructure gap. Washington, DC; World Bank Group. <http://documents.worldbank.org/curated/en/2013/12/19330904/reducing-poverty-closing-south-asias-infrastructure-gap>

8 World Bank (2013). Potsdam Institute for Climate Impact Research and Climate Analytics, Turn Down the Heat—Climate Extremes, Regional Impacts, and the Case for Resilience

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

The focus on these issues strongly aligns with the Australian Government’s new development policy *Australian aid: promoting prosperity, reducing poverty, enhancing stability* to invest in priority areas that include agriculture and water, infrastructure, trade facilitation, gender equality and empowering women and girls.

The Sustainable Development Investment Portfolio pillar commenced implementation in 2013-14, and preparatory work on the trade facilitation component of the Regional Connectivity pillar was undertaken in 2013-14 despite budget uncertainty. This latter pillar will comprise an ‘aid for trade’ program that promotes Australia’s economic diplomacy, foreign relations and development effectiveness priorities by furthering increased cross-border trade in the region. Progress on consolidating the program to align with the program strategy continued, but was slower than expected due to no-cost extensions being granted to several non-aligned programs.

An ongoing challenge for the program is the absence of appropriate and effective regional inter-governmental organisations with which Australia can partner. This impacts Australia’s ability to engage with governance and policy-making across the region. As such, Australia’s programs are partner-led, and we work with multilateral and Australian government agencies and civil society organisations to deliver them. Australia will continue to engage with other donors that are also progressing regional programs. This includes the UK Department for International Development (DFID), which has provided GBP21.21 million in grant assistance from 2012-16 to multilateral agencies to increase regional trade and economic integration in South Asia (from Central Asia to Bangladesh). DFID is currently designing a larger “Economic Corridors” facility. DFAT also maintains contact with the German Federal Enterprise for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ), which is supporting activities aimed at promotion of intra-regional trade potentials in the SAARC region.

## Expenditure

Table 1 Expenditure in FY 2013-14

Objective	A\$ million	% of program
Objective 1 Sustainable development—water, food and energy security	15.39	68.5
Objective 2 Regional connectivity—infrastructure and trade	2.77	12.3
Other — health, crosscutting, legacy programs and management costs	4.33	19.2
<b>TOTAL</b>	<b>22.490</b>	<b>100.0</b>

Source: AidWorks

## Progress towards objectives

Table 2 lists the ratings of the program’s progress towards the 2013–14 expenditure objectives. In 2013-14, \$4.33 million was allocated to 10 diverse, multi-country “legacy activities including program funding and management costs (reflected under “Other” activities in Table 1 above). In line with the consolidation agenda, these activities are not reported on or given a rating in this document as they do not contribute to a coherent program objective.

Table 2 Rating of the Program’s progress towards Australia’s aid objectives

Objective	Previous Rating	Current Rating
Objective 1 Sustainable development—water, food and energy security	Green	Green
Objective 2 Regional connectivity—infrastructure and trade	Amber	Amber
Other—health, crosscutting, legacy programs and management costs.	Amber	n/a

Note:

■ Green. Progress is as expected for this point in time and it is likely that the objective will be achieved. Standard program management practices are sufficient.

■ Amber. Progress is somewhat less than expected for this point in time and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

■ Red. Progress is significantly less than expected for this point in time and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

### Objective 1: Sustainable development (water, food and energy security)

Progress against this objective is rated green, reflecting strong progress in forming partnerships with implementing organisations, establishing the overall architecture of the program, and commencing on-the-ground implementation of activities.

Australia is addressing sustainable development challenges in the region through the Sustainable Development Investment Portfolio (SDIP). The SDIP targets a sub-region of South Asia defined by three major Himalayan river basins – the Indus, Ganges and Brahmaputra – covering north-east Pakistan, northern India, Bangladesh, Nepal and Bhutan. Australia’s investment aims to increase water, food and energy security in the region to facilitate economic growth and improve livelihoods, targeting the poorest and most vulnerable, particularly women and girls. The SDIP operates through a portfolio approach where implementation partners are given ‘earmarked’ core funding to support their work in areas which contribute the overarching goal and objectives of the portfolio.

The operating environment for the SDIP has undergone considerable change over the last year, largely as a result of revisions to Australia’s aid budget in January 2014 and adapting to the new strategic directions of the Australian aid program. Major changes since the initial design include the number of portfolio partners (revised from 10 to 7), the number of target areas (refined from 4 to 3, with climate change transferred from being an explicit focus area to a key cross cutting issue), and a delay in commencing the energy component to 2014-15. The green rating considers performance against the modified design for the program.

The SDIP has a 12 year time horizon, with funding secured for the first four years, recognising the long timeframes needed to achieve many of the fundamental reforms required for improving food, energy and water security across the region. As 2014-15 will be the first full year of implementation, efforts at the portfolio-level in 2013-14 were focused on establishing partnerships with implementing organisations and putting in place robust systems for measuring and reporting the outcomes of the investment. These planned outcomes were achieved or are on-track to be completed early in 2014-15. At the partner-level strong progress was made in establishing relationships and commencing the on-the-ground activities that will contribute to achieving the long-term overarching objectives of the SDIP.

Six out of the seven planned partnerships with implementing organisations were established in the reporting period. This involved a comprehensive assessment of each partner that identified their institutional capacity, mandate, purpose and history of performance to ensure that they are positioned to deliver the goal and objectives of the SDIP. The six current portfolio partners are: Australian Centre for International Agricultural Research (ACIAR), Commonwealth Scientific and Industrial Research

Organisation (CSIRO), International Centre for Integrated Mountain Development (ICIMOD), Consumer Unity Trust Society International (CUTS), International Centre of Excellence for Water Resource Management (ICE WaRM), and World Bank – South Asia Water Initiative Phase II (SAWI). A partnership with the seventh implementing organisation, which will focus on the energy sector, is on track to be established early in 2014-15.

Strong foundations were also laid for the portfolio investment approach. Partners participated in an inception workshop in February 2014. A portfolio-level monitoring and evaluation strategy was developed to enable an assessment of the pace and extent of change in the region and the contribution of Australia's investment. An initial 'snapshot' of the status, trends and dynamic of change for transboundary cooperation in water, agriculture and energy was also undertaken to provide a baseline so that shifts and "trends" can be monitored and the extent of change assessed on an annual basis.

Most partners have used this early period of implementation to strengthen relationships with key institutions and governments in the region. For example, partners have delivered workshops for key government water agencies in Pakistan and been invited to participate in and speak at a major government water summit in Pakistan. Other partners are working to build cooperation between countries, such as between Nepal and India on water availability in the Indian state of Bihar and information sharing between Nepal and China on landslide hazards/regional floods. Connections are developing with the private sector, for example in the agricultural sector where there has been engagement related to research and scaling out of agricultural technologies in the Eastern Gangetic Plain. The portfolio is already opening up new opportunities for collaboration between SDIP partners, which is expected to lead to improvements in the effectiveness and efficiency of investments. For example, CSIRO and ACIAR are seeking to collaborate in the Brahmaputra basin to bring together expertise in water and agriculture.

Partners have commenced activities across all three target river basins and are working to deliver change at different levels and through different approaches. Examples of achievements<sup>9</sup> in the reporting period, which illustrate the depth and breadth of engagement, include:

- **Enabling policy and regulatory environment:** Partners provided support to national and state agencies in the development of National Water Plans in Pakistan and Bangladesh. A number of basin-level assessments were carried out including a Ganges Strategy Basin Assessment, a spatial erosion assessment in the Koshi Basin, and a comprehensive study on landscape, hydrology, precipitation, geology and local economy in Zhangmou, the border trade post connecting China and Nepal.
- **Developing management tools and technology:** Partners have been developing new tools and technologies and supporting government and communities to put them into practice. For example, a water allocation model and drought information system has been established in the Koshi Basin. Partners have worked with communities in the middle hills of Nepal to identify 15 groundwater recharge sites and support the construction or rehabilitation of ponds to improve the reliability of water supply to villages; and with communities in West Bengal and Bangladesh to complete 154 on-farm agricultural participatory research trials. Preliminary results indicated up to 17 per cent better productivity for wheat and up to 11 per cent improved yields for maize.
- **Building institutional capacity and partnerships:** Partners worked in close collaboration with local authorities to prepare a Flood Outlook System for the Koshi Basin, which is now being trialled in Bihar, India. Partners also brought together a number of national institutions in

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<sup>9</sup> Partners are required to report annually on how they have contributed to the overarching goals and objectives of the SDIP. Examples are drawn from reports submitted to DFAT in July 2014.

Pakistan, leading to their commitment to undertake joint water modelling activities and build a community of practice.

- **Knowledge management:** All portfolio partners have completed studies that build an understanding of the relationship between water, food and energy security and how to deliver equitable change within the contexts of climate change, disasters and regional politics. Basin-wide knowledge hubs and web-based information platforms have also been maintained and improved, including the Indus knowledge hub developed by ICIMOD.
- **Civil society voice:** Media engagement and grassroots perceptions around transboundary cooperation on water, energy and agriculture have been mapped across the basins.

Gender equality is a key focus of the SDIP, and good progress was made in 2013-14 in promoting gender equality in portfolio activities. For example, ACIAR prepared a draft gender and agriculture working paper and program elements were developed to specifically target women farmers. ICIMOD has prepared a brief containing ten priority areas for gender equality considerations in water management and development in the Koshi River Basin. Partners have also focused on incorporating gender equality considerations in the planning, delivery and reporting of activities and have designed their monitoring and evaluation frameworks to either collect gender-disaggregated data or monitor the extent to which gender equality issues are incorporated into policy and planning frameworks.

SDIP partners also appear to be strongly engaging with DFAT's 'portfolio investment' approach being adopted as part of the program. Two partners, CUTS International and ICIMOD, are actively incorporating elements of the approach in their own institutional structures.

## **Objective 2: Regional connectivity (trade facilitation and infrastructure connectivity)**

Currently, two main programs—the World Bank-implemented Infrastructure for Growth (IFG) program and the Australia–Asian Development Bank South Asia Development Partnership Facility (the Facility)—contribute to this objective. A third component – the South Asia Regional Trade Facilitation Program (SARTFP) is under design.

Progress toward this objective is rated “amber”. The design of SARTFP was delayed in part due to budget uncertainty which required a recalibration of options for engaging a partner and meant that funds could not be expensed as planned. The ADB Facility was granted a 12 month no-cost extension to enable regional connectivity activities to be completed. New projects were funded under the IFG program but the World Bank has indicated that an extension to the end date (December 2016) may be required to fully disburse funds and complete all activities.

Progress was made however - a scoping mission travelled to the region in March and April 2014 and identified several different programming options for SARTFP.

### **Infrastructure for Growth – World Bank (2012-2016)**

The main objective of this program is to meet infrastructure gaps in the region by addressing the major challenge of connectivity and integration, both within countries and within the region. It focuses on two themes: (i) Regional Economic Integration (integrating lagging regions; regional economic development; rural-urban connectivity) and (ii) Climate Change (clean energy and renewables; energy efficiency; cities and climate change). DFAT contributes grant funding for technical assistance activities to enable policy and institutional reforms in infrastructure. This includes feasibility studies, project preparation support, analytical work, policy dialogue, and knowledge generation / dissemination. Grant financing can be the catalyst for shaping and directing the policies and programs of much larger infrastructure investments undertaken by national governments themselves, or in collaboration with the Multilateral Development Banks. For example, DFAT grant funding is supporting preparation of a potential investment loan to

develop two inland waterways in India, which has potential for regional integration through waterways to Bangladesh and also to link economically weaker regions to more prosperous ones. This has leveraged \$0.5 million from the Government of India, and potentially a much larger loan from the World Bank.

At May 2014, 22 activities totalling approximately \$6.9 million were at least at inception stage, and around \$1.1 million was committed during the reporting period. This period saw completion of phase 1 and phase 2 of the Options Paper for Developments along the Eastern Dedicated Freight Corridor which is a 1,839 km dedicated freight-only railway line in India. This is part of a larger Government of India initiative to establish dedicated freight corridors along the four routes that form the “Golden Quadrilateral” connecting Delhi, Mumbai, Chennai and Kolkata.

In the period January-July 2014, ten new activities (four regional and six bilateral) totalling \$2.6 million were funded, including a South Asia Regional Facility for Women’s Economic Empowerment and Integration.

### **Australia–Asian Development Bank South Asia Development Partnership Facility (2006-2014)**

The objective of this facility is to support technical assistance operations, components of investment projects, stand-alone grant-financed activities and other activities in 6 key areas of cooperation. In 2012, the focus of new activities was narrowed to regional cooperation and integration (RCI) and climate change and green growth to align with the two pillars of the South Asia Regional Program. These areas are also aligned with the ADB’s Strategy 2020 which supports inclusive economic growth, environmentally sustainable growth and regional cooperation and integration. ADB serves as the Secretariat for the South Asia Subregional Economic Cooperation Program (SASEC), which helps countries (Bhutan, Bangladesh, India, Maldives, Nepal and Sri Lanka) strengthen road, rail, and air links, and create the conditions necessary to provide reliable energy and boost intra-regional trade in South Asia and open up trade opportunities with East and Southeast Asia.

The 2013-14 reporting year saw the conclusion of three sub-projects totalling approximately \$1.98 million that were designed to carry out RCI activities in line with the operational objectives of the ADB’s South Asia Regional Cooperation Strategy for 2011-2015. The strategy focuses on (i) assisting in project implementation and (ii) capacity development. Solid progress was made in strengthening RCI through consultations and policy dialogues, institutional strengthening (e.g., structure and processes) of SASEC, partnership with development agencies, institution and capacity building, and awareness-raising on RCI benefits. Specific results include:

- Ensuring proper planning, implementation and monitoring of SASEC projects, through support for SASEC working group meetings and follow up consultations. These meetings helped prepare, update and enhance country ownership of sector road maps, including in energy efficiency.
- Strengthening SASEC countries’ capacities for trade facilitation through regional workshops on customs and logistics issues and trade processes/ reforms.
- Improving understanding of the needed transport and trade facilitation strategy for SASEC through consultation, knowledge sharing and capacity building activities and equipment support.

An evaluation of the Facility is currently underway and outcomes and lessons learned will inform the design of the regional connectivity program.

### **South Asia Regional Trade Facilitation Program (SATRFP)**

In 2013-14 we had expected the design of SATRFP component to have been completed and implementation (and funding) to commence. However, this was delayed due to budget uncertainties. Some preparatory work was undertaken - a scoping mission travelled to the region in March and April 2014 and identified several programming options for SARTFP. These are currently being tested

with close examination of resourcing requirements in Canberra and in the region, and in line with the Australian Government's new aid policy. When the primary partner is chosen (in 2014-15) the design process will seek to incorporate ongoing IFG activities to ensure activities within this portfolio are aligned and integrated, and to ensure coherent reporting. The ADB Facility activities will not become part of the regional connectivity program, but lessons learned through an evaluation of this program (currently underway) will inform the design.

## Mutual Obligations

The transboundary (as opposed to multi-country) nature of the regional program does not lend itself to direct partnerships with individual governments and there is not an appropriate regional organisation that can be engaged with the support of all countries. However, partnering arrangements under the SDIP set out mutually-agreed joint objectives and expectations between each partner and DFAT. These have only just been put in place, and progress towards joint objectives will be reviewed annually as part of partnership health checks commencing in 2014-15.

## Program Quality and Management

In 2013-14, the regional program continued a concerted effort to consolidate from a large number of multi-country activities across a number of sectors to focus tightly on two pillars—sustainable development and regional connectivity. Funding allocated to investments that fall outside these two pillars (legacy activities) decreased from 40 per cent in 2012-13 to 19.2 per cent in 2013-14. However, despite these efforts we continued to fund smaller activities which do not align with core objectives—for example small grants were provided to Australian agencies in areas of priority for the Indian Ocean Rim Association (IORA). This means efficiency gains from program consolidation were not realised to the extent hoped for in 2013-14. In 2014-15 it will be critical to ensure that the Regional program remains tightly focused to maximise aid effectiveness, avoid delays to new programs, deliver value for money, and ensure that staff resources are deployed efficiently. To minimise proliferation of activities that do not align with the two pillars we will incorporate program consolidation as a performance benchmark for the program.

Development of a Performance Assessment Framework for the South Asia Regional program is still underway. We expect that it will be finalised by June 2015 in conjunction with the development of the Aid Investment Plan. Each of the two “pillars” of the program will have their own monitoring and evaluation frameworks, and these will feed in to a single Performance Assessment Framework.

Two major evaluations were planned for the reporting period and have been listed in the forward pipeline due to delays with commencement.

The final independent review of the [Australia ADB South Asia Development Partnership Facility](#) commenced in April 2014, and will be completed by November 2014. The review is assessing the performance and drawing lessons from program implementation at the Facility level and will also review the subprojects in terms of relevance, effectiveness, efficiency, and sustainability. The review will examine the quality and overall progress of the Facility in relation to the components of the design and monitoring framework – noting that the Facility as originally designed did not include benchmark data and intermediate results targets against which to assess Facility performance. A workshop following the review includes a session on gender, and the findings will help inform the design of future Regional Connectivity (“aid for trade”) activity including partnership arrangements, incorporating gender equality concerns, and the financing mechanism.

A mid-term review of the [Australia-World Bank Partnership for South Asia](#) was intended to commence in 2013 but was delayed until July 2014 because of difficulty in securing an evaluation specialist. A specialist has since been engaged and completion of the review is expected by December 2014.

On balance, the performance of “legacy” and new non-aligned activities is satisfactory (see Annex B). Non-aligned activities include:

- South Asia Public Sector Linkages Program (total \$14 million; 2013–14 \$1.5 million. The program will be completed by September 2015);
- Core funding to the International Planned Parenthood Federation (total \$13 million; in 2013-14 \$2 million in co-funding was provided by DFAT’s International Health Program Fund and a no cost extension to December 2014 was granted);
- South Asia Food and Nutrition Security Initiative (total \$5.77 million; no funding was allocated in 2013-14 but a no cost extension to September 2015 was granted);
- Indian Ocean Rim Association Confidence Building Measures (total \$1.2 million; \$0.67 million in 2013-14 and the activities will be completed in 2014-15);
- Support for Chair of Ecology and Environment Studies at Nalanda University in India (\$1 million in 2013-14; the activity will cease in 2016-17)
- World Bank Water and Sanitation Initiative - India (total \$4.5 million; no funding in 2013-14; to be completed by December 2016).

### **Analysis of Quality at Implementation Reports**

Overall the QAI performance rating of investments in the regional program was mixed with marginal or no improvement from the previous year’s rating (Annex B). Seven investments were reviewed. Five were rated as satisfactory (with scores of 4 or more) or higher in every criterion except for the M&E rating for the ADB Facility, where the rating dropped from 5 to 2 in 2013 due to a poor understanding of the systems in place for data collection in 2012 reporting. One initiative (the Regional Connectivity Investment Strategy – specifically the World Bank Infrastructure for Growth component) received unsatisfactory ratings for efficiency, monitoring and evaluation, and gender equality. This is a result of inadequate data and unclear expectations of reporting requirements. This will be addressed during the evaluation of the Australia-World Bank Partnership for South Asia trust fund in December 2014, and as an ongoing issue under this partnership.

Two investments, the South Asia Food and Nutrition Security Initiative (SAFANSI) and the Water and Sanitation Initiative (WSI) India were identified as Initiatives Requiring Improvement (IRI). These investments will not receive further funding, and will be concluded by September 2015, and December 2016 respectively. Prior to their conclusion, program staff will ensure reporting requirements are met and lessons learnt are incorporated to the ongoing implementation of relevant program “pillars”.

### **Performance of key delivery partners**

Australia’s assistance in 2013-14 was predominantly partner led, and funding arrangements with multilateral organisations, civil society organisations and Australian institutions were flexible.

DFAT’s SDIP partners commenced implementation of activities in 2013-14. A comprehensive assessment of their performance will be undertaken through annual health checks commencing in 2014-15. Early indications are that partners are performing well, having made strong progress in establishing relationships and commencing program activities in 2013-14. A baseline against which to measure progress has been established through the SDIP ‘snapshot’, which will support the assessment of partner performance in future years.

A key premise of the portfolio approach is that by providing ‘earmarked’ core funding, partners will have the opportunity to strengthen institutional capacity and performance, leading to a higher development return over time. There is already evidence that this institutional strengthening is occurring; for example, one partner has strengthened gender equality within their own organisation by employing more

women in senior roles, while another has improved their organisation's monitoring and evaluation procedures and guidance.

DFAT's other main partners are:

The Asian Development Bank Development (ADB), through the Australia-ADB Development Partnership Facility for South Asia. DFAT has limited engagement in the approval process for individual activities and relies on the veracity of ADB's own systems to ensure quality. The partnership is efficient insofar as DFAT resourcing is concerned. DFAT engages with ADB mostly at administrative and management level and ADB staff are constant, accessible, and respond in a timely fashion. However, monitoring and evaluation and gender sensitive reporting have not always met DFAT's needs. As the Facility has been operational since 2006 and will close in December 2014 changes are not anticipated at this stage but DFAT will need to engage more strongly in any future programs to avoid similar issues.

The World Bank, through the "Umbrella" Partnership for South Asia Trust Fund. DFAT has a long-standing partnership with the World Bank in South Asia. A commitment in 2012 to formalise and expand the partnership through regular high level meetings has not fully transpired, in part due to the planned scale up of Australia's aid program being deferred as well as substantial organisational restructuring on both sides. DFAT and the World Bank have continued to work closely at officer level between Canberra and Washington DC. The Bank has responded positively to calls from DFAT to deepen the relationship between program staff in New Delhi and World Bank Task Team Leaders, and several meetings have been held. Efforts will be made in 2014-15 to further strengthen these relationships, to reinstate high level strategic discussions (a videoconference was held in September 2014), to agree revisions to the Trust Fund agreement structure, ensure timely reporting of activities, and increase technical collaboration to ensure that on gender equality concerns are integrated and to more closely monitor progress on gender equality-related outcomes. Annual reports for activities under the "Umbrella" Fund, including the Infrastructure for Growth activity, were delayed by several months in 2013-14.

## Risks

Table 3 Management of key risks to achieving objectives

Key risks	What actions were taken to manage the risks over the past year?	What further actions will be taken to manage the risks in the coming year?
Lack of DFAT staff resources to design and manage the regional portfolio. This could lead to further delays in the design of the 'aid for trade' component and inability to effectively manage partnerships.	We reduced the number of partners under the sustainable development pillar and simplified the design of the regional connectivity pillar.  Program staff undertook partnership brokering and management training to build management and negotiating capacity.	Prioritise the design of the 'aid for trade' component, including ensuring a design consultant is engaged by November 2014. Ensure that investment in the design is sufficient to ensure robust reporting and governance arrangements to meet DFAT's needs over the life of the program.
Continued program fragmentation due to investment in areas that do not align with the two program "pillars".	Reduction in non-aligned investments from 40 per cent in 2012-13 to 19 per cent in 2013-14.	Continue to prosecute the consolidation agenda, and ensure that non-aligned activities are not funded.  Incorporate a consolidation benchmark into the Aid Investment Plan, and do not grant further extensions to existing "legacy" programs.
Poor reporting from partners could affect our ability to measure and report on progress of the overall investment.	Agreements with partners specify reporting requirements.	Partners will be made aware of performance requirements under the new aid policy.  Strengthen relationships with multilateral counterparts to mutually improve understanding of reporting and implementation requirements.  Additional guidance on reporting requirements will be provided to SDIP partners.
Risk of poor partner performance due to the provision of 'earmarked core funding' rather than agreements that specify activities and outcomes to be achieved,	Rigorous institutional assessments of each partner were undertaken to ensure they have the capacity, mandate, purpose and history of strong performance necessary to progress the goal and objectives of the SDIP.	Performance will be monitored through annual reporting, the annual partners meeting and the partnership health checks.

## Management Responses

In 2014-15 the South Asia Regional program will:

1. **Continue to consolidate the regional program** by ensuring that all new activities align with the two strategic objectives and managing legacy activities through to conclusion. We will develop an Aid Investment Plan that sets out a pipeline for consolidation of the regional program around the two pillars of sustainable development and regional connectivity.
2. **Improve performance management and reporting** by developing a Performance Assessment Framework for the program, derived from monitoring and evaluation frameworks for each of the two program pillars.
3. **Enhance engagement with multilateral partners to ensure that program outcomes can be monitored in accordance with the aid policy and performance benchmarking requirements.** We will continue to implement the Australia-World Bank Partnership for South Asia and schedule two high level strategic / management discussions per year and quarterly officer-level discussions to support program management and technical collaboration.
4. **Finalise design of the Regional Connectivity pillar** and commence implementation by June 2015. We will develop a detailed timeline for finalising scoping work, choosing a partner, undertaking any due diligence, agreeing objectives and reporting requirements, developing and approving a design, negotiating a partnering agreement, and commencing activity. This timeline and milestones will be approved by the First Assistant Secretary, South and West Asia Division, DFAT.
5. **Increase focus and engagement in the energy sector under the SDIP,** by establishing a partnership with an implementing organisation in this sector and commencing on-ground activities to improve access to and cooperation on energy.

## Annex A

### Progress in addressing 2012-13 management responses

Management consequences identified in 2012-13 APPR	Rating	Progress made in 2013-14
Engage with partners to implement the South Asia Regional Program Strategy, and strengthen donor coordination and Australian visibility in South Asia.	Amber	DFAT made strong progress under the Sustainable Development portfolio, engaging six new partners. Progress was made on mobilising the trade facilitation component of the Regional Connectivity pillar, but no partner was engaged.
Continue to consolidate the regional program by implementing the Sustainable Development Investment Strategy and securing approval for a phased design and implementation approach of the Regional Connectivity Investment Strategy.	Green	Implementation commenced on the Sustainable Development Pillar and progress towards objectives in water and agriculture is underway. Approval for a phased implementation approach to the Regional Connectivity pillar was secured, and a design team mobilised.
Improve performance management and reporting by developing a performance assessment framework for the regional program and undertaking baseline studies for its two pillars.	Amber	A performance assessment framework has been developed for the Sustainable Development pillar on the basis of a monitoring and evaluation framework. A snapshot of current trends in poverty, water, energy and food security and the dynamics of change have been completed. The Regional Connectivity pillar is still under design.
Build DFAT's capacity to engage in policy discussion by forming partnerships with key stakeholders as well as training and mentoring new staff, including mobilising the Counsellor Regional Cooperation and Operations (Dhaka) and the First Secretary Development (New Delhi).	Amber	The Counsellor, Regional Development and Operations position was not put in place due to changes in organisational requirements, which impacted DFAT's ability to increase engagement in policy discussion in the region. The new First Secretary (Development) has been placed in New Delhi Post. The Regional program has not been resourced to engage in policy discussion, either in Canberra or New Delhi.
Strengthen the links between regional, country and global programs by increasing collaboration, focusing discussion and reporting on whole-of-department investments to ensure we get maximum results in the region.	Amber	In the absence of the Counsellor, Regional Development and Operations we have had to recalibrate our intended approach to collaboration with bilateral and global programs. Engagement between the bilateral program and regional programs in Pakistan has increased with HOM Pakistan facilitating senior government engagement in the water sector.
Undertake a cluster evaluation of current programs with the World Bank to inform the design of a new investment in line with the Regional program's two new objectives.	Green	The terms of reference for the evaluation have been agreed and an evaluation consultant has been mobilised.

Note:

- Achieved. Significant progress has been made in addressing the issue
- Partly achieved. Some progress has been made in addressing the issue, but the issue has not been resolved
- Not achieved. Progress in addressing the issue has been significantly below expectations

## Annex B

### Quality at Implementation ratings

Investment name	Approved budget and duration	Qal year	Relevance	Effectiveness	Efficiency	Monitoring and Evaluation	Sustainability	Gender equality
Water and Sanitation - India	\$5.75 million (2009/10- 2016/17)	2013	3	3	3	3	3	4
		2012	5	3	2	2	3	5
Preventing HIV transmission in drug users: H13	\$9.7 million (2006/07 – 2013/14))	2013	4	5	4	4	4	5
		2012	5	4	4	5	4	5
Australia-Asian Development Bank South Asia Development Partnership Facility	\$14 million (2005/06-2013/14)	2013	5	4	4	2	4	4
		2012	5	4	4	5	5	4
Energy Security and Climate Change	\$4 million (2009/10- 2013/14)	2013	4	4	4	4	4	3
		2012	5	4	4	4	4	4
South Asia Public Sector Linkages Program	\$15 million (2009/10-2014/15)	2013	QAI exemption					
		2012	4	3	4	3	4	3
IPPF South Asia Strategic Plan 2010-2015	\$13 million (2010/11-2014/15))	2013	QAI exemption					
		2012	6	5	5	5	5	6
South Asia Food and Nutrition Security Initiative	\$5.7 million (2010/11-2014/15)	2013	3	3	3	3	4	3
		2012	6	5	4	4	5	6
Sustainable Development Investment Strategy	\$49.4 million (2012/13-2015/16)	2013	5	5	5	5	5	5
Regional Connectivity	\$22.5 million (2012/13-2016/17)	2013	5	4	3	3	4	3

Definitions of rating scale:

Satisfactory (4, 5 and 6) ■ = 6 = Very high quality ■ = 5 = Good quality ■ = 4 = Adequate quality, needs some work

Less than satisfactory (1, 2 and 3) ■ = 3 = Less than adequate quality; needs significant work ■ = 2 = Poor quality; needs major work to improve ■ = 1 = Very poor quality; needs major overhaul

## Annex C

### Evaluation and Review Pipeline Planning

List of evaluations completed in the reporting period

Name of initiative n/a	AidWorks number	Type of evaluation	Date evaluation report received	Date evaluation report uploaded into AidWorks	Date management response uploaded into AidWorks	Published on website
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List of evaluations planned in the next 12 months

Name of initiative	AidWorks number	Type of evaluation	Purpose of evaluation	Expected completion date
Australia – ADB Development Partnership Facility	ING236/06A327	Completion report	Final independent evaluation of the program, drawing out lessons and opportunities for future engagement with ADB	November 2014
Australia-World Bank Partnership for South Asia World Bank “Umbrella” Trust Fund	INJ955 / INJ037/09B407 / INK431/12A149	Mid-term	Examine current implementation, rates of disbursement, management for results and alignment with the program priorities	December 2014

## Annex D

### Performance Benchmarks 2014-15

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Aid objective	2014-15 benchmark	Rationale for selecting this performance benchmark
Increased water, food and energy security in South Asia to facilitate economic growth and improve livelihoods, targeting the poorest and most vulnerable, particularly women and girls.	Hold two workshops to transfer science and experience from Australia to improve water security and agricultural productivity in the Ganges basin.  Engage a partner to implement the energy security component of the program and commence implementation and funding.	Water and agriculture are investment priorities for Australia under the new Aid Policy. Australia has strong technical experience and expertise in these sectors that can be used to build capacity of institutions in the Ganges basin and promote improvements in water management and agricultural productivity.  The current six partners to the SDIP primarily focus on water and agriculture (although some are also engaged in the energy sector to a limited extent). Securing a partner with expertise and experience in the energy sector will promote progress towards the third high-level objective of the SDIP - increased access to and cooperation on energy.
Increasing regional connectivity through trade facilitation and infrastructure connectivity.	“Aid for trade” (trade facilitation component of the Regional Connectivity pillar) program design approved, and implementation commenced including mobilising funding.	South Asia is the least integrated region in the world in terms of trade and connectivity, with the second highest intra-regional trade costs. This has limited the region’s growth potential, which is significant as the region has over 500 million people living on less than \$1.25 per day. Increased intra-regional trade and connectivity could achieve accelerated and sustainable economic growth to reduce poverty and address the increasing gap between growing and lagging regions. This benchmark supports the Australian Government’s key target for increasing Australia’s aid for trade investments to 20 per cent of the aid budget by 2020.
Consolidation of program to two “pillars” that strengthen transboundary cooperation to promote more inclusive and resilient economic growth.	Close three “legacy” activities that are not aligned with the two objectives of the Regional program.  Put in place a mechanism for financing non-aligned activities.	Regional programs are often used as a repository for activities that do not fully align with bilateral programs, leading to reduced effectiveness due to program fragmentation and increased (often unresourced) management burden.

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