



Regional Cooperation Strategy

November 2011

South Asia
2011–2015

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 3 November 2011)

Bangladesh	Currency Unit	–	taka (Tk)
	Tk1.00	=	\$0.013
	\$1.00	=	Tk76.25
Bhutan	Currency Unit	–	ngultrum (Nu)
	Nu1.00	=	\$0.020
	\$1.00	=	Nu49.18
India	Currency Unit	–	Indian rupee/s (Re/Rs)
	Re1.00	=	\$0.020
	\$1.00	=	Rs49.18
Maldives	Currency Unit	–	rufiyaa (Rf)
	Rf1.00	=	\$0.065
	\$1.00	=	Rf15.41
Nepal	Currency Unit	–	Nepalese rupee/s (NRe/NRs)
	NRe1.00	=	\$0.013
	\$1.00	=	NRs78.71
Sri Lanka	Currency Unit	–	Sri Lanka rupee/s (SLRe/SLRs)
	SLRe1.00	=	\$0.009
	\$1.00	=	SLRs110.20

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
FDI	–	foreign direct investment
FTA	–	free trade agreement
HLF	–	high-level forum
RCI	–	regional cooperation and integration
RCS	–	regional cooperation strategy
SAARC	–	South Asian Association for Regional Cooperation

NOTE

In this report, “\$” refers to US dollars.

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REGION AT A GLANCE
Table 1: Macroeconomic Indicators

Item	2009								2010							
	AFG	BAN	BHU	IND	MLD	NEP	PAK	SRI	AFG	BAN	BHU	IND	MLD	NEP	PAK	SRI
A. Income and Growth																
GDP per capita (\$, current)	...	607.8	1,772.3	1,195.0	4,230.1	438.2	950.1	2,035.3	...	673.0	2,088.5	1,476.6	4,684.6	524.1	1,007.0	2,375.5
GDP growth (% , constant price)	20.9	5.7	5.7	8.0	(6.5)	3.8	1.7	3.5	8.2	6.1	8.7	8.5	9.9	4.0	3.8	8.0
Agriculture	53.1	4.1	1.7	0.4	(6.6)	3.0	4.0	3.2	6.5	5.2	1.5	6.6	(8.3)	1.3	0.6	7.0
Industry	5.3	6.5	4.8	8.0	(25.1)	(1.4)	(0.1)	4.2	5.0	6.5	10.9	7.9	8.4	3.3	8.3	8.4
Services	16.2	6.3	9.1	10.1	(2.3)	6.0	1.7	3.3	11.0	6.5	9.1	9.4	10.8	6.0	2.9	8.0
B. Savings and Investment (% of GDP)																
Gross domestic investment	27.2	24.4	...	36.5	...	31.7	18.2	24.4	25.1	24.4	...	37.0	...	35.1	13.8	27.8
Gross national saving	25.8	20.1	...	33.7	...	9.4	10.7	17.9	27.1	20.1	...	34.0	...	7.3	9.5	18.7
C. Money and inflation (% change)																
Consumer price index	(12.2)	6.7	7.1	3.8	4.0	12.6	20.8	3.4	7.7	7.3	4.7	9.6	4.7	9.6	11.7	5.9
Total liquidity (M2)	35.9	19.2	24.6	16.8	12.4	27.3	9.6	18.6	39.1	22.4	30.1	17.0	16.5	14.1	12.5	15.8
D. Governance and finance (% of GDP)																
Expenditure and net lending	22.2	14.3	38.6	29.0	49.1	20.0	19.9	24.9	21.9	14.6	45.4	25.3	39.7	20.4	20.3	22.9
Revenue and grants	20.6	10.4	40.4	19.5	25.7	16.7	14.5	15.0	22.1	10.9	47.1	17.2	27.0	18.5	14.0	14.9
Overall fiscal surplus (deficit)	(1.6)	(3.9)	1.9	(9.5)	(23.4)	(3.3)	(5.3)	(9.9)	0.2	(3.7)	1.7	(8.1)	(12.7)	(1.9)	(6.3)	(7.9)
E. Balance of Payments																
Current account balance	(2.6)	2.7	(1.6)	(2.8)	(24.0)	4.2	(5.7)	(0.5)	2.2	3.7	(13.5)	(2.6)	(24.2)	(2.8)	(2.2)	(2.9)
(% of GDP)																
Merchandise exports (\$)	15.7	10.1	(13.8)	(3.6)	(49.0)	(4.7)	(6.4)	(12.7)	19.5	4.2	5.4	37.4	6.5	(6.3)	2.9	17.3
(annual % change)																
Merchandise imports (\$)	(0.6)	4.2	(9.6)	(2.3)	(30.3)	8.3	(10.3)	(27.6)	3.6	5.4	39.0	26.7	14.9	37.0	(1.7)	32.4
(annual % change)																
F. External Payments Indicators																
Gross official reserves (\$ million)	4,209.0	7,471.0	728.0	278,193.0	261.0	2,872.0	9,118.0	5,097.0	5,321.0	10,750.0	868.0	301,838.0	350.2	2,759.0	12,958.0	6,610.0
Months of current imports	5.7	3.8	12.8	9.3	2.8	7.7	3.0	5.2	7.0	5.1	11.2	7.8	3.3	5.6	4.0	5.2
External debt service (% of exports of goods and services)	1.6	3.2	30.5	5.5	6.1	10.2	17.1	14.6	1.3	2.9	30.0	4.2	5.6	11.5	16.6	11.0
Total external debt (% of GDP)	9.2	23.3	65.5	18.9	53.6	27.0	32.3	36.5	8.2	20.3	55.9	17.7	49.4	22.0	31.8	36.1
Memorandum Items																
GDP (\$ billion, current)	14.3	89.4	1.3	1,380.6	1.3	12.9	162.0	42.1	17.6	100.1	1.5	1,729.0	1.5	15.7	174.8	49.6
Exchange rate (local currency/US\$)	49.3	68.8	47.8	48.0	12.8	76.6	78.5	114.9	45.8	69.2	46.7	46.0	12.8	74.2	83.8	113.1
Population (million)	33.4	147.0	0.7	1,155.3	0.3	29.4	170.5	20.7	34.4	148.7	0.7	1,170.9	0.3	30.0	173.6	20.9

() = negative, ... = not available, AFG = Afghanistan, BAN = Bangladesh, BHU = Bhutan, GDP = gross domestic product, IND = India, MLD = Maldives, M2 = broad money, NEP = Nepal, PAK = Pakistan, SRI = Sri Lanka
Sources: Asian Development Bank. 2011. *Asian Development Outlook 2011 Update*. Manila; World Bank. 2011. *World Development Indicators*. Washington.

I. BACKGROUND

1. **The Asian Development Bank's strategic framework.** The long-term strategic framework¹ of the Asian Development Bank (ADB) envisages that ADB plans to increase its public and private sector operations progressively at the regional and subregional levels to at least 30% of total activities by 2020. Further, greater regional economic integration will contribute to regional stability and enable a wider range of intra- and interregional engagement, both private and public.

2. **ADB's support for regional cooperation in South Asia.** ADB and the South Asian Association for Regional Cooperation (SAARC) signed a memorandum of understanding in April 2004 to strengthen cooperation between the two institutions. In 1996, four of the seven SAARC member countries—Bangladesh, Bhutan, India, and Nepal—formed the South Asian Growth Quadrangle, with the primary objective of accelerating sustainable economic development among the four countries. The subregional initiative was endorsed at the SAARC Summit held in Malé in 1997. Subsequently, the four countries requested ADB assistance in advancing their economic cooperation initiative. The request led to the implementation of the South Asia Subregional Economic Cooperation program, beginning in 2000, to boost subregional economic cooperation among the four countries.

3. **Regional cooperation and South Asia.** Regional cooperation and integration (RCI) can play an important role in achieving the long-term development objectives of South Asian countries. By deepening regional cooperation, the region can exploit the economies of scale and cost advantages resulting from the large regional market, thereby sustaining high economic growth rates and continued reduction in poverty.² Given the large national, subregional, and regional infrastructure deficits of South Asia, RCI can help remove some of the barriers to development progress by promoting cross-border infrastructure. Connectivity infrastructure not only helps integrate the region but has even wider implications—e.g., South Asia can play a crucial role as a bridge between Central and West Asia and East Asia. In addition, regional cooperation can respond to the shared social and environmental concerns by improving the provision of different regional public goods.³

II. DEVELOPMENT TRENDS AND ISSUES

A. Regional Background

4. **Development indicators.** Despite its robust economic growth, South Asia is home to a quarter of the world's population but accounts for only 3% of world gross domestic product. Some 40% of its population lives on less than \$1.25 per day. Its performance in terms of socioeconomic indicators is low (Annex 1, Tables 1 & 2), rendering it a region with low quality of life in general. Child mortality in South Asia is 78 per 1,000 compared with 27 per 1,000 for East Asia and the Pacific. Life expectancy at birth is 64 years compared with 72 in East Asia and the Pacific. However, the level of indicators varies greatly among South Asian countries. While in Sri Lanka, 98% of the births are attended by skilled staff, it is less than 20% in the case of Nepal and Bangladesh.⁴

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank*. Manila.

² ADB. 2009. *Study on Intraregional Trade and Investment in South Asia*. Manila.

³ ADB. 2010. *The Provision of Regional Public Goods in South Asia*. Manila (accessible from the list of linked documents in Appendix 2).

⁴ World Bank. 2010. World Development Indicators.

5. **Status of physical infrastructure.** The quantity and quality of infrastructure facilities in the South Asia region are low in comparison to most other regions (Annex 1, Table 3A). The overall infrastructure quality index taking into account road, rail, ports, airports, and electricity is 51 compared with 100 for the G-7 countries and 74 for Southeast Asia.⁵ Poor quality of roads leads to higher transport costs with adverse implications for domestic and international trade, as a large portion of merchandise traded within South Asia is transported overland. India is the largest exporter, contributing more than 70% of intraregional exports, and more than 60% of India's exports to South Asia are transported by road and 13% by rail, as it shares common boundaries with most nations in the region. High transport costs act as a nontariff barrier, and transport costs as a percentage of import value are often much higher than applied tariff rates.⁶ Indicators on access to electricity, telephone density, and internet connectivity are considerably lower in South Asia than in East Asia. On average, about 50% of roads in South Asia are paved, resulting in higher vehicle operating costs and requiring more travel time from origin to destination (Annex 1, Table 3B).

6. **State of regional integration.** The region continues to be regarded as the least integrated region of the world, accounting for 2% of world exports and 1.7% of global foreign direct investment (FDI) as of 2008. Just 5.4% of its trade is intraregional, compared with 26.4% in Southeast Asia and 51% in East Asia. Intraregional trade accounts for an average of just 2% of gross domestic product, compared with 20% in East Asia. Border crossings are among the most congested in the world, leading to long customs and port clearing times. It takes 32.4 days to export from South Asia, compared with 23.1 from East Asia and the Pacific.⁷

7. The countries in the region have restrictive policies toward each other that amount to nontariff barriers to trade. These take the form of inefficient customs clearing procedures and delays, transit restrictions, or disallowing each other's vehicles from traveling within their borders. In addition, services and a large number of agriculture products are excluded from the trade agreements. There is potential for trade in power, as Bhutan and Nepal have hydropower resources far in excess of their requirements while other countries in the region suffer power shortages. However, the region is unable to realize its full potential for trade due to inadequate infrastructure for power generation and cross-border transmission, which calls for substantial financial investment and greater regional cooperation. Sensitive geopolitical and security issues are among the factors responsible for the slow cooperation process in the region. However, recent positive developments in bilateral relations between some South Asian countries, as well as the signs of improvement in internal security and stability in Nepal and Sri Lanka, portend a brighter future for RCI in South Asia.

B. Regional Economic Assessment and Outlook

8. **Strong economic growth.** The performance of South Asian countries regarding economic growth has been impressive in recent years, reaching close to 9% in 2007 before being hurt by the global financial crisis. Given the region's limited exposure to the subprime markets and global banking systems, its recovery from the crisis was quick and its growth rate was 7.8% for the year 2010. Country-specific growth rates, however, varied greatly—India growing at 8.6% and Nepal at 4.0% (Table 1). The growth process in the region has been led by

⁵ ADB's Infrastructure Operations. Infrastructure in Asia and the Pacific.

<http://www.adb.org/Documents/Books/Infrastructure-Operations/chap02.pdf>

⁶ P. De. 2009. Trade Transportation Costs in South Asia: An Empirical Investigation. In D. Brooks and D. Hummels, eds. *Infrastructure's Role in Lowering Asia's Trade Costs*. United Kingdom: Edward Elgar Publishing.

⁷ World Bank. 2010. *Doing Business*. <http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/>

high levels of private investment and double-digit rates of export growth. Despite a volatile and challenging global setting, regional economic activity benefited from relatively resilient capital inflows. Foreign exchange earnings increased for the majority of South Asian economies as exports started expanding from late 2009. Tourist arrivals also picked up—India, the Maldives, Nepal, and Sri Lanka saw double-digit growth in arrivals in the first half of 2010 relative to the same period in 2009. The region is projected to achieve growth rates of 7.5% for 2011 and 8.1% for 2012.

9. **Poverty remains high.** Notwithstanding the high rates of economic growth and the steady progress in poverty reduction, close to 50% of the world's poor live in this region. The percentage of the population living on less than \$1.25 per day is estimated at 40.3%, and 74% live on less than \$2.0 per day.⁸ While the region's infrastructure deficits pose a serious hurdle to higher incomes, productivity, and competitiveness, the contribution of infrastructure investments to poverty reduction is increasingly being recognized and emphasized.⁹

10. **Millennium Development Goal progress is uneven.** Performance among South Asian countries has been mixed when it comes to achieving Millennium Development Goals. Bhutan, Sri Lanka, and the Maldives have registered considerable progress in human development. India, Bangladesh, and Nepal are on track to reduce child mortality by half in 2015. However, the region is not on track to meet the goals regarding income poverty, hunger, and maternal health.¹⁰

C. Highlights of the Previous Regional Strategy

11. **Objectives.** The overall aim of the 2006–2008 regional cooperation strategy (RCS) for South Asia was to help it realize its full potential in economic and social development, and enable it to integrate effectively with the wider Asian region. The six main operational thrusts of the RCS were to (i) improve connectivity, (ii) facilitate trade and investment, (iii) develop regional tourism, (iv) facilitate cooperation in energy, (v) promote private sector cooperation, and (vi) promote environmental cooperation. These areas were determined through extensive consultation with respective governments and other stakeholders, and reflected the critical impediments to growth in the region.

12. **Approach and implementation framework.** A two-pronged operational approach comprising support for projects and capacity development was employed. Institutionally, cooperation was supported in four different ways: (i) subregionally through the South Asia Subregional Economic Cooperation program, (ii) regionally through SAARC, (iii) interregionally through the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, and (iv) through collaboration with networks of regional policy research institutes.

⁸ The World Bank. 2009. Global Economic Prospects (Global and Regional Poverty Trends). http://siteresources.worldbank.org/INTGEP2009/Resources/10363_WebPDF-01Chapter1-w47.pdf

⁹ S. Fan, P. Hazell, and S. Thorat. 1999. Linkages between Government Spending, Growth and Poverty in Rural India. *IFPRI Research Report*. No. 110. Washington, DC: IFPRI; I. Ali and E. Pernia. 2003. Infrastructure and Poverty Reduction. What is the Connection? *ERD Policy Brief Series*. No. 13. Manila: ADB. http://www.adb.org/Documents/EDRC/Policy_Briefs/PB013.pdf; J. Gilbert and N. Banik. 2010. Socioeconomic Impacts of Cross-Border Transport Infrastructure Development in South Asia. *ADB Working Paper Series*. No. 211. <http://www.adbi.org/files/2010.04.14.wp211.socioeconomic.transport.infrastructure.pdf>.

¹⁰ World Health Organization (2010). *Trends in maternal mortality: 1990 to 2008*, http://whqlibdoc.who.int/publications/2010/9789241500265_eng.pdf. The two targets for assessing progress in improving maternal health (Millennium Development Goal 5) are reducing the maternal mortality ratio by three-quarters between 1990 and 2015, and achieving universal access to reproductive health by 2015.

13. **Assistance magnitude.** Planned ADB assistance for 2006–2008 included nine regional and national projects with regional implications cumulatively amounting to \$1.6 billion. Two projects were approved by the end of 2009: (i) the Information Highway Project approved in November 2007 for a total grant and lending value of \$16.8 million; and (ii) the South Asia Tourism Infrastructure Development Project approved in November 2009 for a total grant and lending volume of \$57.5 million.

D. Evaluation of the Regional Cooperation Strategy, 2006–2008

1. Completion Report

14. A detailed RCS completion report was prepared that gave an overall rating of partly successful.¹¹ Among others, the completion report recommended (i) continuing ADB's flexible and pragmatic multitrack, multispeed approach to expedite the development and implementation of regional investment projects; (ii) supporting national projects with subregional dimensions; (iii) accelerating ADB's facilitator role in fostering RCI, including support for high-level regional forums on a regular basis; (iv) strengthening support and country ownership through greater integration of RCS and country partnership strategies (CPSs); (v) introducing results-based frameworks in RCI activities; and (vi) increasing resources for regional cooperation.

2. Independent Validation Report

15. ADB's Independent Evaluation Department prepared a validation report of the RCS and concurred with the completion report's overall rating of partly successful.¹² The main recommendations of the validation report were: (i) initial focus on cross-border projects; (ii) overall focus on quick-yielding projects for tangible benefits, as multicountry projects have a longer gestation period; (iii) use of regional technical assistance for producing and disseminating information on regional public goods; (iv) centrality of ADB's role as honest broker for reaching agreements in focus sectors; (v) greater integration between RCS and CPSs; and (vi) more attention to results monitoring and evaluation.

3. Response

16. While the new RCS is informed by the completion report and the validation report, it is appropriate to highlight the contextual reasons for the lower-than-planned approval of RCI projects during the previous RCS. As implementation and project preparation began, it became evident that time and resources would need to be expended to develop the road maps in the transport and energy sectors, toward which countries would gravitate. The RCS thus took the time to develop the analytical underpinning needed for investment programs. In particular, it supported flagship studies—the SAARC Regional Multimodal Transport Study,¹³ the Bay of Bengal Initiative's Transport Infrastructure and Logistics Study, and the SAARC Regional Energy Trade Study.¹⁴ These studies specified the strategic interventions that lay the ground for potential investment opportunities over the medium term. Other reasons that contributed to slow implementation were political sensitivities, long and complex decision-making processes, low

¹¹ ADB. 2010. *South Asia Regional Cooperation Strategy and Program (2006-2008) Completion Report*. Manila (accessible from the list of linked documents in Appendix 2).

¹² ADB. 2010. *Validation Report – South Asia Regional Cooperation Partnership Strategy (2006–2008) Completion Report*. Manila (accessible from the list of linked documents in Appendix 2).

¹³ SAARC Secretariat. 2007. *Regional Multimodal Transport Study*. Kathmandu.

¹⁴ ADB. 2006. *Technical Assistance for Preparing the Energy Sector Dialogue*. (TA 6368-REG). Manila.

country ownership, and weak capacity and consensus-based decision-making frameworks of regional cooperation institutions.¹⁵

III. THE NEW REGIONAL STRATEGY

A. Strategic Rationale for Regional Cooperation

17. **The region at crossroads.** In recent years, the South Asian economies have had robust growth rates. Nonetheless, given their existing trade patterns, they remain vulnerable to events outside the region that can have strong contagion effects. On the other hand, South Asian countries more than ever appreciate the benefits from stronger regional commerce by developing transport corridors, energy trade, and cross-border trade facilitation. This is evident from bilateral free trade agreements (FTAs) that led to higher trade volumes,¹⁶ and one of the most recent examples is the 2010 Bangladesh–India memorandum of understanding, which not only envisages greater trade between these two countries, but also provides a framework for the landlocked nations of Bhutan and Nepal to benefit from regional cooperation.

18. **Benefits for the region.** Cross-border road infrastructure development can reduce transport costs and make remote areas accessible through transit routes in neighboring countries. For small landlocked countries, regional integration is the only way to attract greater foreign direct investment (FDI) and more trade. Transport corridors have the potential to reduce poverty because they open up development opportunities along the corridor, especially when feeder roads are developed. Transport facilities increase the incomes of the poor by improving market access for agricultural produce, reducing losses due to spoilage, improving agricultural extension services, and raising awareness of productivity-increasing cropping practices and technologies. In general, reliable and affordable transport and communication services improve access to health, water, and sanitation services, thereby reducing maternal and child mortality rates, and make it possible for poor children, especially girls, to attend school. Cross-border internet connectivity, by reducing internet costs, can help build village networks that provide wireless connectivity to rural communities, enabling them to better access services such as distance learning, and e-government services through community e-centers.

19. Development of infrastructure for regional energy trade will help the region gain from its large untapped energy resources. While small economies such as Nepal and Bhutan have energy resources far in excess of their demand, demand in other economies of the region far outstrips domestic supplies. While sector-specific comparative advantages are similar across the region, there is potential for vertical intra-industry trade based on comparative advantages at different stages of production.¹⁷ There is evidence to show that within the region, intra-industry trade has increased in sectors such as textiles, automobiles, and food processing, indicating that countries are beginning to specialize in products at different stages of production.¹⁸ Easing cross-border restrictions can yield significant benefits for the poor, especially those residing in border towns of landlocked countries. Regional food insecurity can be alleviated by integrating regional food markets and markets for higher value added products, given the large potential of

¹⁵ ADB. 2010. *The Institutions of Regionalism in South Asia – Do Institutions Matter?* Manila (accessible from the list of linked documents in Appendix 2).

¹⁶ For example, under the India–Sri Lanka Free Trade Agreement, exports of Sri Lanka more than doubled from \$71 million in 2001 to \$168 million in 2002, while India's exports to Sri Lanka increased from \$604 million in 2001 to \$831 million in 2002. At the same time, Sri Lanka's trade deficit narrowed from 8.6:1 to 4.9:1.

¹⁷ ADB. 2010. *South Asia– Intra Regional Cooperation: The Way Forward*. Manila (accessible from the list of linked documents in Appendix 2).

¹⁸ ADB. 2009. *Study on Intraregional Trade and Investment in South Asia* (RETA 6337). Manila.

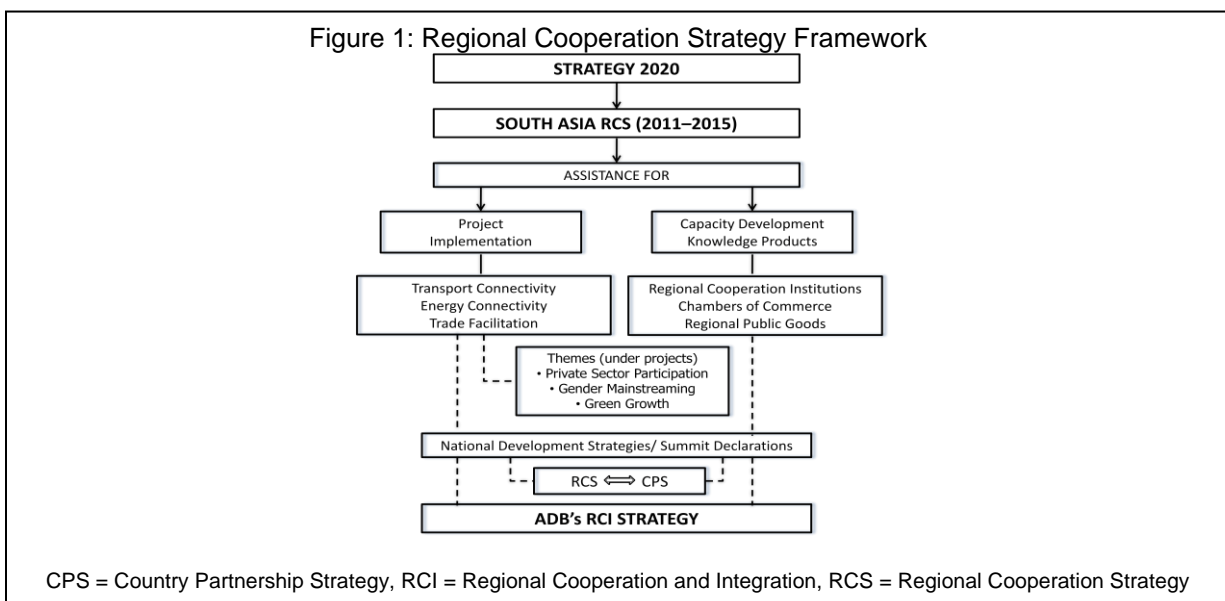
agriculture and agribusiness in the region. By reducing transportation and trade costs, cross-border infrastructure increases trade and FDI flows in the region, leading to efficiency in production and growth.¹⁹

B. National Strategies and Regional Cooperation Declarations

20. All countries in the region place great emphasis on infrastructure development, both physical and social, and recognize the role of regional cooperation in boosting competitiveness and accelerating economic growth. In the last decade, SAARC summit declarations have reaffirmed commitment to stepping up regional cooperation in South Asia and the realization of the vision of a South Asian economic union in a phased manner. RCI is increasingly viewed as an integral part of national and regional development leading to an increase in growth, efficiency, productivity, and welfare. Regionally, governments have developed a policy framework and committed to priority regional transport networks as well as regional energy trade cooperation by their active participation in and endorsement of the SAARC Regional Multimodal Transport Study and the SAARC Regional Energy Trade Study.²⁰

C. ADB Regional Strategy

Figure 1 summarizes the overall framework for the new RCS.



21. **Approach and sector selectivity.** The RCS would follow a two-pronged approach: assistance for project implementation and for capacity development. Effective gender mainstreaming, greater private sector participation, and promotion of green technologies will be the main cross-cutting themes and implemented by embedding them in project designs and tracking their progress through design and monitoring frameworks and results matrixes. As opposed to the six sectors of the previous RCS, the new RCS would focus on the three priority areas of transport, energy, and trade facilitation. South Asia is a region that has its own

¹⁹ ADB. 2010. *Regional Cooperation and Integration (RCI) through Cross-Border Infrastructure Development in South Asia: Impact on Poverty*. Manila (accessible from the list of linked documents in Appendix 2).

²⁰ Endorsed by the SAARC energy ministers at their fourth meeting at Dhaka on 15 September 2011.

geographic peculiarities and it is therefore a challenge to be able to include all its countries in every project. Recognizing this, the RCS proposes to use a flexible multitrack, multispeed, building-block approach whereby countries could process projects at the speed they are comfortable with and build on the success of each step. Depending on country readiness within the larger grouping of South Asia, countries that are ready to move faster would be assisted in achieving their objectives. ADB would continue to (i) play the role of honest broker; (ii) facilitate dialogue between policymakers and key stakeholders by supporting regular high-level policy forums; and (iii) help translate RCI ideas into viable regional projects through project investments, technical assistance for capacity development, and support for knowledge products. ADB will continue to facilitate SAARC finance ministers' meetings on the sidelines of ADB's annual meetings.

22. Strong country ownership. The three-sector focus is based on ADB's extensive consultations with South Asian countries, regional cooperation institutes, think tanks, chambers of commerce, and development partners, collectively and bilaterally, to define priority sectors for regional cooperation in South Asia. The first High Level Forum (HLF) on "Emerging Vision for Shared Prosperity: South Asia and Beyond" in April 2009 provided a venue for the countries to broadly determine what could be potential priority areas for cooperation in South Asia. After the first HLF, several bilateral consultations with South Asian countries and the SAARC Secretariat were held to refine details on priority sectors for cooperation. From the bilateral consultations, convergence was reached on the priority areas transport, energy, and trade facilitation. The second HLF, in August 2010, endorsed these priority areas and urged ADB to assist countries' move forward with the implementation of projects in the priority sectors.²¹

23. Stronger private sector participation. In the implementation of the new RCS, ADB would deepen its engagement with private sector bodies such as the region's chambers of commerce, with the overall objective of boosting private sector involvement in regional cooperation projects and programs, and developing greater awareness of private sector opportunities and participation in projects with subregional and regional dimensions. ADB's private sector department will also review proposed RCI projects and, as feasible, consider leveraging such investments in collaboration with national private sector entrepreneurs.

24. Capacity development. Assistance for capacity development would be used, among others, to (i) mainstream knowledge-generation products for regional cooperation, including issues such as regional public goods; (ii) strengthen institutions' focus on regional cooperation issues; and (iii) provide rapid technical response to emerging regional issues.

25. Focus on project implementation. Building on the lessons learned from the previous RCS, the new RCS would take on the challenge of accelerating RCI in South Asia by speeding up the implementation of concrete regional projects that can showcase tangible benefits. Since quick-yielding projects can build confidence and mutual trust among cooperating nations, ADB would use a flexible and pragmatic approach by supporting initially smaller and less sensitive initiatives that would serve as building blocks for larger initiatives in the future. It would support capacity development of national and regional institutions in defining regional cooperation projects, mobilizing funds, and mobilizing stronger coordination across central and line ministries.

²¹ Senior government officials participated in the Transport Working Group meeting held at Dhaka on 1-2 December 2010, and on 20/21 October 2011, at the Transport/Trade Facilitation and Energy Working Groups meeting at Bangkok.

26. **Streamlined organizational framework.** As agreed and endorsed at the second HLF, a two-tier organizational framework would be adopted for speedy implementation of the RCS: (i) a national steering committee, preferably within the national finance ministry, with focal points from counterpart ministries for overall national coordination; and (ii) three sector-specific regional working groups—one each for transport, energy, and trade facilitation. The national steering committee would be responsible for in-country coordination and liaison with ADB, while the working groups would review the implementation of ongoing projects and determine new initiatives. The HLFs, assisted by ADB, would review the overall program and serve as an authoritative policy and implementation platform for ADB-supported regional and subregional cooperation initiatives. The RCS implementation framework can thus be summarized as shown at Box 1.

Box 1. Regional Cooperation Strategy Implementation Framework

- Strong Government ownership
- Multi-speed, bottom-up, phased approach for accelerating RCI

National → Subregional → Regional

Building-block framework

2 countries → 2+1 countries → 2++ countries

D. Focus Sectors: Constraints, Benefits, and Planned ADB Response

27. The sector-specific objectives of the RCS include (i) improving regional connectivity, (ii) boosting cross-border trade, and (iii) strengthening regional energy cooperation. The detailed discussion of each of the main thrusts is provided in the sector roadmaps of transport, trade facilitation, and energy (accessible from the list of linked documents in Appendix 2).

1. Improving Regional Connectivity

28. Development of transport networks in South Asia, including road, rail, sea, and air, are constrained by limited physical infrastructure, which is compounded by limited interlinking of transport infrastructure with other countries of the region.²² Strong and well-connected transport infrastructure is crucial for unlocking economies of scale and increasing competitiveness, especially for the landlocked countries of the region. With the advent of global supply chains, a premium is being placed to move goods rapidly, reliably, and cheaply. Improving logistics performance has therefore become an important development policy issue, as it encompasses an array of actions including performance of customs, trade-related infrastructure, inland transit, and logistics services.

29. ADB's support for regional development of the transport sector will therefore help meet emerging needs and expectations of South Asian countries. ADB will continue pursuing both regional and national projects of subregional importance, including construction and improvement of transport corridors, improvement of port facilities, civil aviation infrastructure, and logistics systems. ADB has ongoing and planned assistance programs for railway

²² ADB. 2010. *Binding Constraints to Regional Cooperation and Integration in South Asia*. Manila (accessible from the list of linked documents in Appendix 2).

improvements in Bangladesh and India, and is assisting the expansion of Colombo Port. Development of land corridors, prioritized by countries, will also receive ADB assistance. In close consultation with the concerned countries, ADB will continue support for project preparation, studies, transport, trade and customs agreements, institutional reforms and capacity building, including measures to increase private sector participation in the provision, maintenance, and operation of transport infrastructure. Over the years, ADB has supported several national projects with subregional dimensions.²³

2. Strengthening Regional Energy Cooperation

30. Lack of adequate and reliable energy is proving to be a major constraint to regional growth in production and productivity and securing sustainable energy supplies to meet energy needs has become a major energy policy imperative for each country in the region. Key challenges that need to be dealt with are policy, technical, institutional, commercial, and financial barriers and the need to explore renewable energy options. The benefits of an integrated energy market in South Asia can be enormous. A recent study estimates that potential total revenue from energy trading in South Asia could amount to \$12 billion–15 billion annually.²⁴

31. ADB would focus its regional cooperation initiatives on (i) improving cross-border electricity transmission connectivity, (ii) boosting power trade, (iii) increasing cooperation in energy efficiency and clean power development, and (iv) developing capacity. In 2010, ADB processed in a record time of 6 months the Bangladesh-India Electrical Grid Interconnection Project, thus helping Bangladesh import up to 500 megawatts of power from India on project completion.

3. Facilitating Cross-border Trade

32. Despite the implementation of tariff liberalization programs, South Asian countries are reported to have the highest weighted average tariff rates in Asia.²⁵ Empirical studies show that an FTA like the South Asian Free Trade Area would lead to an increase in trade of 8.9 times in Bangladesh, 12.8 in India, 17.2 in Nepal, and 10.3 in Sri Lanka.²⁶ In addition to tariffs, inefficient customs and land border procedures, inefficiencies in ports operation and logistics performance, and an inefficient customs and regulatory environment act as constraints.²⁷ Compared with East Asia, South Asia has significant scope to improve its performance in all three trading-across-border indicators: (i) most number of documents needed to export goods, (ii) longest time to export, and (iii) cost of exporting goods.

33. Based on the outcome of country consultations and recommendations of the second HLF, ADB would focus on four cross-border trade facilitation areas during the RCS period: (i)

²³ These include Bangladesh: Chittagong Trade Facilitation Project (2004); Nepal: Subregional Transport Facilitation Project (2004); Bhutan: Road Network Project II (2009); Bhutan Green Power Development Project (2009); India: Export Import Bank of India / SME Trade Finance Facility (2009); Nepal: Air Transport Capacity Enhancement Project (2009); Nepal: Energy Access and Efficiency Improvement Project (2009); Nepal: Subregional Transport Enhancement Project (2010); Sri Lanka: Colombo Port Expansion Project (2007); and Bangladesh: Padma Multipurpose Bridge Project (2010).

²⁴ D. Dasgupta. 2010. *South Asia Economic Update: Moving Up, Looking East*. World Bank.

²⁵ World Economic Forum. *Global Competitiveness Report, 2007–2009*.

²⁶ Kumar, Rajiv and Singh, Mangeeta. 2009. *India's Role in South Asia Trade and Investment Integration*. ADB. *Working Paper Series on Regional Economic Integration* No. 32; Srinivasan. 1994. *Regional Trading Arrangements and Beyond: Exploring Some Options for South Asia*—Theory, Empirics and Policy Report No. IDB-42. World Bank.

²⁷ According to the World Development Report of 2009, a 10% increase in trade costs reduces trade volume by 20%.

customs modernization and harmonization, (ii) strengthening of logistics services and facilities, (iii) integrated cross-border management, and (iv) promotion of transit agreements. Developing capacity and involving the private sector would remain the cross-cutting themes of ADB's assistance.

IV. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

34. The indicative lending and grant program and the nonlending program, as reflected in the Regional Cooperation Operations Business Plan, 2012–2014 (Appendix 2), amounts to \$1.6 billion and \$10.6 million, respectively.

B. Program Overview

35. Given the resource constraints for regional cooperation, the implementation of the RCS will also require the use of country-specific funding from ADB—especially for national projects with regional implications—to promote greater synergies between regional and national priorities. While a stand-alone trade facilitation project is proposed for 2012, some trade facilitation components are incorporated in transport projects to ensure that activities in these two sectors complement each other. RCS and CPSs are being formulated within an integrated framework to ensure consistency and convergence of regional and national priorities. In addition, ADB will seek greater involvement of the private sector as well as cofinancing from other development partners.

V. RESULTS MANAGEMENT

A. Monitoring

36. A results-based monitoring framework that includes a set of indicators to monitor the progress of the RCS has been developed. It is informed by the three sector result monitoring frameworks, each with a specific set of indicators. The results framework is not a one-off development; it will be used to monitor the RCS progress and will be updated annually through the regional cooperation operations business plan.

B. Risks

37. An overall risk pertains to political commitment and how it filters down to working levels of the governments. To a very large extent, this risk is mitigated by the commitment to Asian regionalism by the South Asian governments—they have seen the benefits that other regions and subregions have derived from integration and how that effort has contributed to national development. The subregional cooperation approach also serves as a mitigating factor: if achieving consensus within a relatively large group poses uncertainties, the subregional track will ensure that regional cooperation continues to move forward.

38. Another risk pertains to occurrence of regional or subregional conflict. While such an eventuality is beyond the remit of ADB, the risk will be substantially mitigated if the benefits of greater cooperation are evident. The compulsion of economic interests against disruption of normal trade and commerce, and equitable distribution of benefits from trade, will serve as powerful mitigation and confidence-building measures.

REGIONAL COOPERATION STRATEGY RESULTS FRAMEWORK, 2011–2015

Regional Development Goals			
Foster greater regional integration by supporting investments in transport corridors, energy trade, and border trade facilitation			
Regional Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities
1. Transport (2020 Core Area 1: Infrastructure; 3 : Regional Cooperation and Integration)			
Improve cross-border connectivity	<p>Outcome: Increased movement of goods and services between Bangladesh, Bhutan, India, Maldives, Nepal, Sri Lanka, and their neighbors</p> <p>Indicators with Targets and Baselines Increased container-handling capacity of Colombo Port</p> <ul style="list-style-type: none"> • <i>Baseline: 4 million TEU (2010)</i> • <i>Target: 8 million (2015)</i> <p>Average cross-border transit time of trucks from Kolkata to Dhaka</p> <ul style="list-style-type: none"> • <i>Baseline: 20 days (2010)</i> • <i>Target: 11 days (2015)</i> <p>Subregional cross-border freight traffic</p> <ul style="list-style-type: none"> • <i>Baseline: \$5 billion (2010)</i> • <i>Target: \$6 billion (2015)</i> <p>(For output details, please see the Transport Sector Roadmap)</p>	Development of railway, road, port, and airport	<p>\$1,353 million from 2011 to 2014</p> <p>GRO – 75% RCI – 75% CAD – 62% PSD – 46% ENV – 13%</p>
2. Energy (2020 Core Area 1: Infrastructure; 3: Regional Cooperation and Integration)			
Facilitate energy cooperation	<p>Outcome. Increased energy supply in Bangladesh, Bhutan, India, Nepal, and Sri Lanka through development of cross-border cooperation, including development of power generation and transmission infrastructure</p> <p>Indicators with Targets and Baselines Cross-border power transfer capacity</p> <ul style="list-style-type: none"> • <i>Baseline: 1,200 MW (2010)</i> • <i>Target: 3,500 MW (2015)</i> 	Cross-border Transmission; and power generation for export	<p>\$405 million from 2011 to 2014</p> <p>GRO – 23% RCI – 23% PSD – 16% GOV – 14% ENV – 8%</p>

Regional Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities
	<p>Power generation capacity</p> <ul style="list-style-type: none"> • <i>Baseline: 120 MW (2010)</i> • <i>Target: 850 MW (2015)</i> <p>Indicators with Incremental Targets (Baselines Zero)</p> <ul style="list-style-type: none"> • Regulatory frameworks for regional energy trade • Annual CO₂ emissions reduced by 2 million tons <p>(For output details, please see the Energy Sector Roadmap)</p>		
3. Trade facilitation (2020 Core Area 1: Infrastructure; 3: Regional Cooperation and Integration)			
Improve intraregional trade	<p>Outcome. Increased intraregional trade through lower transaction and trade costs at selected border checkpoints</p> <p>Indicators with Targets and Baselines Intraregional trade's share of world trade</p> <ul style="list-style-type: none"> • <i>Baseline: 3.9% (2009)</i> • <i>Target: 5%–6% (2015)</i> <p>Average time to export and import</p> <ul style="list-style-type: none"> • <i>Baseline: 27 days (2010)</i> • <i>Target: 20 days (2015)</i> <p>Number of documents for export and import</p> <ul style="list-style-type: none"> • <i>Baseline: 8–9 (2010)</i> • <i>Target: 5 (2015)</i> <p>Indicators with Incremental Targets (Baselines Zero) Computerized and automated customs systems set up</p> <ul style="list-style-type: none"> • <i>Target: 2 countries by 2015</i> <p>(For output details, please see the Trade Facilitation Sector Roadmap)</p>	Customs automation and harmonization Transit reforms, agreements, and regulatory frameworks	<p>\$40 million from 2011 to 2014</p> <p>GRO – 2% RCI – 2% GOV – 2% PSD – 2%</p>

ADB = Asian Development Bank, CAD = capacity development, CO₂ = carbon dioxide, ENV = environmental sustainability, GEN = gender equity, km = kilometer, GOV = governance, GRO = economic growth, MW = megawatt, PSD = private sector development, RCI = regional cooperation and integration, TEU = twenty-foot equivalent unit.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RCS/?id=SARD-2011>

1. The Institutions of Regionalism in South Asia – Do Institutions Matter?
2. South Asia–Intra Regional Cooperation: The Way Forward.
3. Binding Constraints to Regional Cooperation and Integration in South Asia.
4. The Provision of Regional Public Goods in South Asia.
5. Regional Cooperation and Integration (RCI) through Cross-Border Infrastructure Development in South Asia: Impact on Poverty.
6. Sector Roadmaps with respective result frameworks (Transport, Energy, Trade Facilitation)
7. Regional Cooperation Operations Business Plan (2012-2014)
8. South Asia: Regional Cooperation Strategy and Program (2006-2008) Completion Report
9. Validation Report – South Asia Regional Cooperation Partnership Strategy (2006-2008) Completion Report

Table 1: Regional Social and Poverty Indicators

Item	Latest Year (2010)							
	AFG	BAN	BHU	IND	MLD	NEP	PAK	SRI
A. Population Indicators								
Total population (millions)	34.4	148.7	0.7	1,170.9	0.3	30.0	173.6	20.9
Annual population growth	2.8	1.1	1.7	1.3	1.3	1.8	1.8	0.9
B. Social Indicators								
Total fertility rate (birth per woman)	6.4	2.3	2.5	2.7	1.8	2.8	3.5	2.3
Maternal mortality rate (per 100,000 live births)	1,400.0	340.0	200.0	230.0	37.0	380.0	260.0	39.0
Infant mortality rate (per 1,000 live births)	103.0	38.0	43.7	48.2	13.6	41.4	69.7	14.2
Life expectancy at birth (years)	47.9	68.3	66.5	64.8	76.2	68.0	65.0	74.6
Female	48.1	68.9	68.5	66.3	77.3	68.5	65.9	77.7
Male	47.8	67.8	64.7	63.3	75.2	67.3	64.1	71.6
Adult literacy (%)	...	55.9	...	62.8	98.4	57.1	55.5	90.6
Female	...	51.0	...	50.8	98.4	46.9	40.1	89.1
Male	...	60.7	...	75.2	98.4	72.1	68.9	92.2
Primary school gross enrollment rate (%)	103.9	95.1	109.2	116.9	111.0	...	85.1	96.9
Secondary school gross enrollment rate (%)	43.8	42.3	61.7	60.0	83.7	43.5	33.1	...
Public education expenditure (% of GDP)	...	2.4	4.8	3.1	10.3	4.7	2.7	...
Child Malnutrition (% of below age 5) ^a	...	43.2	37.5	47.9	...	49.3	...	19.2
C. Poverty Indicators								
Population with access to improved water source (%)	48.0	80.0	92.0	88.0	91.0	88.0	90.0	90.0
Population with access to improved sanitation facilities (%)	37.0	53.0	65.0	31.0	98.0	31.0	45.0	91.0
Slum population (% of urban population)	...	70.8	...	32.1	...	60.7	47.5	...
Human development index	0.4	0.5	0.5	0.5	0.7	0.5	0.5	0.7
Rank	172.0	146.0	141.0	134.0	109.0	157.0	145.0	97.0
Poverty gap at \$1.25 a day, PPP (%) ^b	...	13.1	7.0	10.5	0.1	19.7	4.1	1.0

... = not available, AFG= Afghanistan, BAN= Bangladesh, BHU= Bhutan, GDP= gross domestic product, IND= India, MLD= Maldives, NEP= Nepal, PAK= Pakistan, PPP= purchasing power parity, SRI= Sri Lanka

^a Latest data available is 2009.

^b Latest data available is 2007.

Sources: World Bank. 2011. *World Development Indicators*. Washington. United Nations Development Programme. 2011. Human Development Report. New York. United Nations Development Programme. 2011. Millennium Development Goal Report. New York.

Table 2: Regional Environment Indicators

Item	Latest Year (2010)							
	AFG	BAN	BHU	IND	MLD	NEP	PAK	SRI
A. Energy Efficiency of Emissions								
1. GDP per unit of energy use (PPP\$/kgoe) ^a	...	7.7	12.6	5.5	5.3	3.3	5.1	10.3
2. Traditional fuel use (% of total energy use) ^a	...	68.4	...	71.1	...	10.9	61.8	43.4
3. Carbon dioxide emissions (tons) ^b	0.7	43.7	0.6	1,611.0	0.9	3.4	156.3	12.3
4. Carbon dioxide emissions (per capita tons) ^b	0.0	0.3	0.8	1.4	3.0	0.1	1.0	0.6
B. Land use and Deforestation								
1. Forest area (% of land area) ^a	2.1	11.1	84.6	23.0	3.3	25.4	2.2	29.7
2. Average annual deforestation (%)	...	...	...	...	...	...	...	...
3. Rural population density (persons per square kilometer of arable land)	4.2	18.4	5.5	7.2	76.9	12.3	8.2	16.4
4. Arable land (% of total land) ^a	12.0	60.7	3.3	53.2	13.3	16.4	26.4	19.9
5. Permanent cropland (% of total land) ^a	0.2	6.2	0.7	3.8	13.3	0.8	1.1	15.2
C. Biodiversity and Protected Areas								
1. Mammals (threatened species)	11.0	34.0	27.0	94.0	2.0	31.0	23.0	30.0
2. Birds (threatened species)	13.0	29.0	17.0	78.0	0.0	33.0	26.0	14.0
3. Higher plants (threatened species)	2.0	16.0	8.0	255.0	0.0	7.0	2.0	283.0
4. Marine Protected areas (% of total surface area)	...	0.8	...	1.7	...	...	1.8	1.1
5. Terrestrial Protected areas (% of total surface area)	0.4	1.6	28.4	5.3	...	17.0	10.3	20.8
D. Urban Development								
1. Urban population (millions)	8.5	41.8	0.3	352.5	0.1	5.5	64.2	3.1
% of total population	24.8	28.1	36.8	30.1	40.5	18.2	37.0	15.1
2. Road sector energy consumption (% of total energy consumption) ^a	...	6.4	...	6.6	...	3.1	12.7	19.4

... = not available, AFG= Afghanistan, BAN= Bangladesh, BHU= Bhutan, IND= India, MLD= Maldives, NEP= Nepal, PAK= Pakistan, SRI= Sri Lanka

^a Latest data available is 2008.

^b Latest data available is 2007.

Source: World Bank. 2011. *World Development Indicators*. Washington.

**Table 3A: Summary of Comparative Indicators of Infrastructure
Across Developing Regions**

Region	AFR	EAP	ECA	LCR	MNA	SAR
Electricity (% of population access to network)	24	88	99	89	92	43
Roads (% of rural population living within 2 km of an all-season road)	34	95	77	54	51	65
Teledensity (fixed line and mobile subscribers per 1,000 people)	62	357	438	416	237	61

Source: S. Jones. 2006. Infrastructure Challenges in East and South Asia. Promoting Growth, Ending Poverty Asia 2015 conference. Institute of Development Studies, Sussex, England.

Note: AFR=Sub-Saharan Africa; EAP=East Asia and Pacific; ECA=Eastern Europe and Central Asia; LCR=Latin America and Caribbean; MNA= Middle East and North Africa; SAR= South Asia

Table 3B: Paved Roads (% of total road length)

East Asia and the Pacific (developing)	65 (2006)
South East Asia	58 (2005)
South Asia	51 (2006)

Source: WDI Online <http://databank.worldbank.org/ddp/home.do?Step=2&id=4>

Comment: There is no question that infrastructure deficit (energy and physical connectivity) is impeding South Asia's growth. More than a third of Indian firms surveyed in the 2004 Investment Climate Assessment cite infrastructure as a "major" or "severe" obstacle to business expansion; in Bangladesh, the figure is 78%. Power is the most critical bottleneck, with transportation a close second. In Bangladesh, firms experience power shortages 250 days a year; in Nepal, there is a power shortage almost every day. As a result, about 40% of firms in India, Bangladesh, Sri Lanka, and Maldives have their own generators. Businesses in India estimate they lose 5–8% in annual sales due to power-related problems. Studies note that rolling resistance and road roughness are the factors most likely to influence operating costs, due to their adverse effects on vehicle speeds, fuel consumption and service/repair costs.

World Bank: Doing Business 2010. Washington DC

<http://www.adb.org/Documents/Reports/PRC-REG-Road-Sector/phase1/app9.pdf>