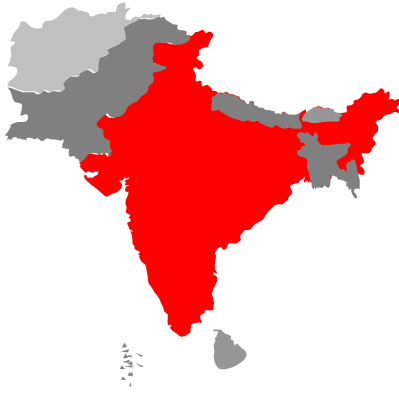


India

1,079 million • \$620 pc
% Pop Below Poverty Line: 29%



Pakistan

152 million • \$600 pc
% Pop Below Poverty Line: 33%



Bangladesh

140 million • \$430 pc
% Pop Below Poverty Line: 50%



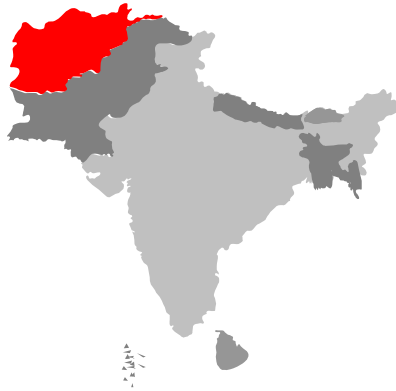
Nepal

25 million • \$260 pc
% Pop Below Poverty Line: 42%



Afghanistan

22 million • \$200 pc
% Pop Below Poverty Line: na



SAR

1,448 million • \$590 pc

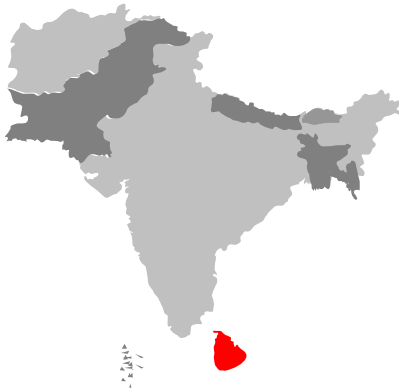
**A chance to eliminate
poverty in our lifetime:**

**Scaling up development
assistance in South Asia**

*South Asia Region, World Bank
March 2006*

Sri Lanka

19 million • \$1,010 pc
% Pop Below Poverty Line: 25%



Bhutan

0.9 million • \$670 pc
% Pop Below Poverty Line: na



Maldives

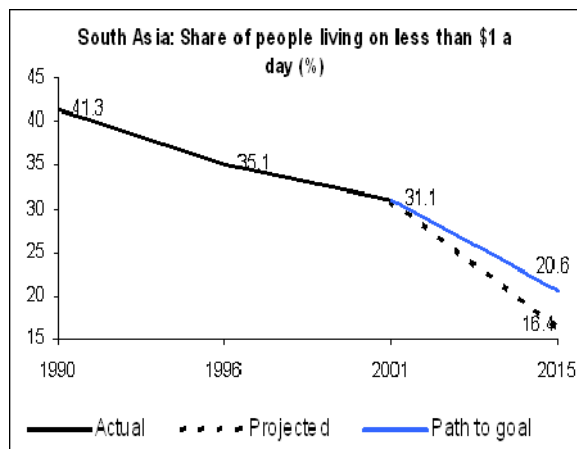
0.3 million • \$2,510 pc
% Pop Below Poverty Line: na



A chance to eliminate poverty: Scaling up development assistance in South Asia

South Asia's recent, rapid economic growth and poverty reduction has raised the possibility that the region with the world's largest concentration of poor people could eliminate poverty in a generation. During the past two decades, thanks to domestic reforms and external assistance, South Asia's GDP has grown at 5.5 percent a year. Growth in the two largest countries, India and Pakistan, has accelerated to 7 percent in the last two years. Economic growth has brought with it an impressive reduction in income poverty. In Bangladesh, India and Nepal, poverty fell by 9, 10 and 11 percentage points, respectively; in Sri Lanka, it fell by 6 percentage points. On present growth trends, South Asia will meet the Millennium Development Goal of halving poverty (figure 1). If the region's growth rate accelerates to 10 percent, we will by 2015 see a subcontinent substantially free of poverty.

Figure 1: South Asia: On track to meet poverty MDG



The scale of the challenge is enormous. Accelerating, or even sustaining growth will require addressing the region's vast urban and rural "infrastructure deficits," and improving the climate for investment. In addition, raising farmers' incomes, greater agricultural diversification and faster growth in rural non-farm activities will be critical to improving the lives of the 70 percent of South Asia's poor living in rural areas.

While there is progress in health and education, particularly in Bangladesh, human deprivation in South Asia remains deep, especially for disadvantaged populations and children. Malnutrition is pervasive. In recent years, maternal and child-mortality have hardly improved in India.

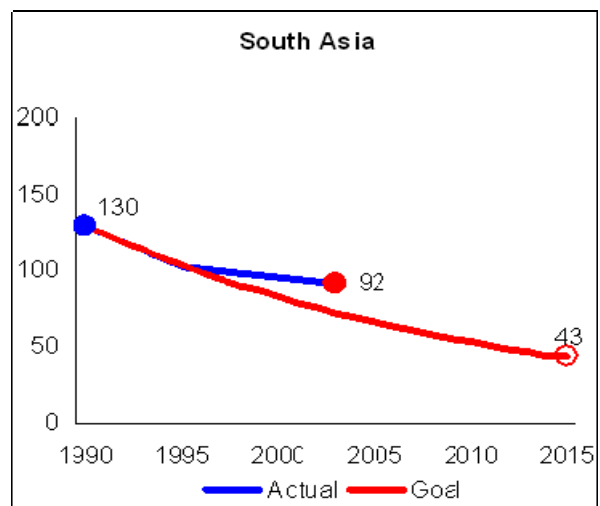
South Asia remains off track for achieving the child-mortality MDG (figure 2). And India has more HIV-infected people than any other country.

South Asia faces a range of problems that fall under the rubric of "governance." The region is home to the world's largest conflict-affected population—some 71 million people in Afghanistan, Nepal, and Sri Lanka.

South Asian countries are in increasing political flux. In the past two years, four of the eight countries held national elections, three changed governments, and the fourth (Afghanistan) acquired its first democratically-elected government. In Nepal, alongside a continuing Maoist insurgency, the constitutional monarch dismissed the government and took direct control of government. Contentious politics in Bangladesh has led to an increase in strikes and political assassinations. Corruption is widespread. On most worldwide indicators of corruption, South Asian countries rank in the bottom quartile.

The region remains vulnerable to natural disasters. In the past eighteen months, floods in Bangladesh affected 36 million people, a massive tsunami hit Sri Lanka, Maldives, and Tamil Nadu, and a major earthquake devastated northern Pakistan and parts of India.

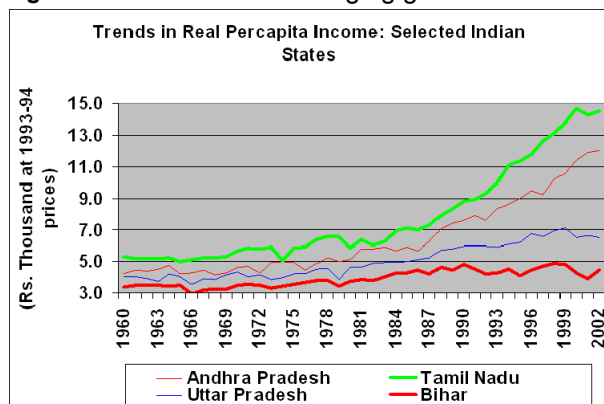
Figure 2: South Asia: Off track to meet child mortality MDG (under 5-mortality rate per 1000)



To significantly reduce the number of poor people and improve human development, not only does the region need to grow faster, but the growth needs to be more equitably shared. Inequality is rising in South Asia—between states and regions, between communities within regions, and between households. There is often talk of the “two Indias,” one inexorably falling behind the other (figure 3). In Sri Lanka in the 1990s urban poverty fell by half, rural poverty by only 5 percentage points, and estate poverty rose by 50 percent. Even within provinces such as Punjab, Pakistan, the better-off central and northern districts, with nearly double the school enrolment rates as the southern districts, are attracting most of the investment, and growing and reducing poverty faster.

The combination of promising economic performance and a colossal development challenge represents a unique opportunity for the World Bank. At no other time in the Bank’s engagement with South Asia has there been as clear a chance of eliminating poverty in our lifetime. South Asia’s strong economic growth shows that domestic reforms and external assistance can be effective. The World Bank is therefore scaling up its knowledge and financial assistance, and making both more effective, to help South Asians realize their dream of a subcontinent free of poverty.

Figure 3: “Two Indias”? Diverging growth in India



Main thrusts of the Bank’s strategy

The Bank’s strategy has two pillars, **accelerated growth** and **faster human development**. Both require new ideas and approaches as much as new money.

Accelerating growth will require addressing the region’s vast urban and rural infrastructure needs, needs that have been ignored for lack of resources and effective policy frameworks that could promote public-private partnerships. South Asia is the least

urbanized region in the world but already has five mega-cities with more than 10 million people; and it is the only region that has no city that can provide 24x7 piped water. In India, private investment in infrastructure has remained well under the projected 2 percent of GDP. Other deficiencies in the region’s investment climate also need addressing, including corruption and red tape (figure 4). In forging public-private partnerships to meet these needs, our strategy is not simply to help in building new infrastructure assets but, more important, in building institutions that can maintain them.

Faster human development has different meanings for different parts of South Asia. In Sri Lanka, Maldives, Bangladesh and parts of India such as Kerala, where basic goals such as universal primary enrolment have been achieved, the focus is on improving quality. In other parts of the region, such as Pakistan, there has to be a concerted effort to meet these basic goals, especially for women. In all cases, in supporting public expenditures for faster human development, our strategy emphasizes increasing the accountability of service providers and policymakers to poor people.

The growth and human-development pillars are supported by four cross-cutting themes that echo the challenges facing South Asia. The first is **equity and inclusion**, to enable those being left behind—be they women and children, ethnic and caste minorities, or residents of lagging regions—to participate in the growth process. A particular emphasis is on rural households. With 60 percent of South Asia’s labor force in agriculture, and agricultural growth slowing in the 1990s, productivity growth in agriculture will be critical to reducing poverty.

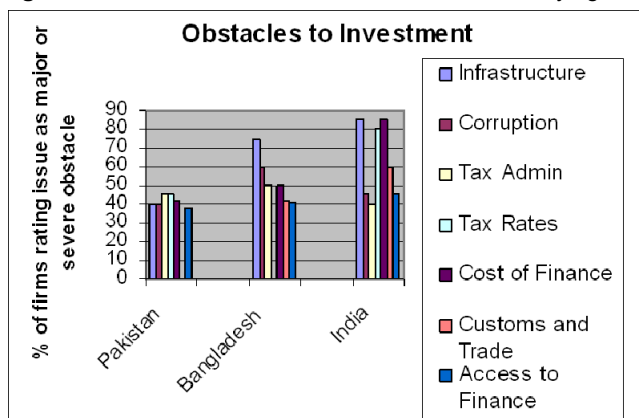
Second, many of South Asia’s governance problems—as reflected in corruption, weak public expenditure management, teacher- and health-worker absenteeism, or civil conflict—stem from weaknesses in **public accountability**. This cross-cutting theme stresses reforms that increase the demand for, and supply of, greater accountability of public servants. A particular emphasis is on strengthening public accountability in post-conflict situations, such as Afghanistan.

Third, the region’s prevalence rate of **HIV/AIDS** is about 1 percent, small enough that concerted action can still stem an epidemic. But there is no time to lose—South Africa, which also had a 1 percent rate in 1990, now has a 25 percent prevalence rate.

The nature of the disease is different in South Asia, however, implying a response that is tailored to country circumstances.

Finally, despite its common past, South Asia is the least economically integrated region in the world. The experience of ASEAN, NAFTA and the European Union, as well as the WTO, shows that the gains from greater trade integration can be substantial. These gains are amplified by cross-border cooperation in water, energy and infrastructure. We are helping our clients reap the gains from greater **regional cooperation**, in trade, water, energy, infrastructure, both within South Asia, and with neighboring regions.

Figure 4: The investment climate: What are firms saying?



Implementing the strategy

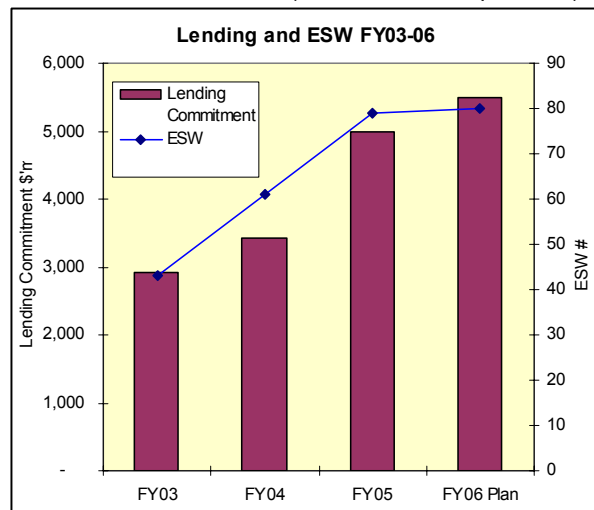
The World Bank is implementing its strategy along two broad fronts: first, **scaling up lending** for infrastructure, growth-enhancing policies, and human development; and second, **scaling up its knowledge assistance**.

The Region’s annual lending has risen from \$3 billion in FY03 to \$5 billion in FY05 (figure 5) and is expected to maintain this level through FY07. IBRD lending accounts for just under half the FY05 total. Almost \$2 billion of that year’s lending was in infrastructure, and \$1 billion for human development. There is a similar increase in our economic and sector work.

In addition to new lending, the Region is concentrating on stronger implementation of its existing portfolio, which amounts to about \$18.6 billion. The results are encouraging. According to the Bank’s Independent Evaluation Group, over 80 percent of our projects were rated “satisfactory” or better in terms of fulfilling the project’s objectives.

The Region’s knowledge strategy stresses analytical and advisory services that are politically realistic, just-in-time, collaborative, and on-demand. The political realism in our AAA will increasingly come from a concern with “how to do it”, rather than the much easier “what to do”. For instance, we provided analytical support to President Musharraf of Pakistan on power sector reform by bringing in the former Chilean minister of energy, who counseled the Pakistan government on practical ways of implementing reforms and on managing public-private partnerships. We helped Sri Lanka develop its poverty strategy, including monitoring the extent of poverty in the country, by building the capacity of the Department of Census and Statistics. And we are supporting the Government of Tamil Nadu with a knowledge partnership that involves joint preparation of policy notes that are debated by academics, the private sector and civil society in the state.

Figure 5: South Asia: Scaling up lending (\$ million) and economic and sector work (ESW, number of products)

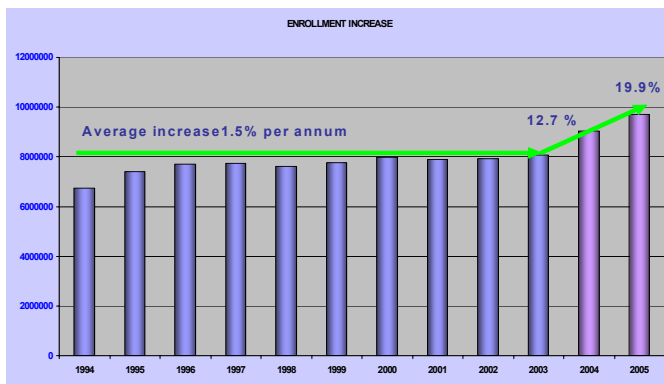


The **growth** strategy builds on diagnostic assessments such as Investment Climate and “Doing Business” surveys to support policy and institutional reforms aimed at improving the climate for investment in South Asia, at national and subnational levels. Though donor funding is miniscule relative to the urban infrastructure needs of the region, our strategy is to increase lending to the urban sector, particularly in India, to support local governments that can provide good models of how to handle the pressures of urbanization in South Asia. We are assisting in revitalizing the agricultural sector and strengthening rural development through support for: (i) accelerating

policy reforms that encourage greater private sector investments in rural areas, (ii) investing in public goods and fostering effective institutions for sustainable water, irrigation, and natural resource management, (iii) developing and disseminating technology, (iv) enhancing security of property rights through better land administration, and (v) improving access to livelihood opportunities and rural finance through farmers organizations and user groups.

There is now a strong programmatic orientation in our lending to support **human development**. Sector-wide approaches, not to mention policy-based program loans, are becoming the norm for health and education operations in Pakistan, India, Nepal and Bangladesh. In Pakistan's Punjab province, a series of policy-based loans support the education sector program and provide free textbooks, scholarships for girls, and school reconstruction. Primary enrolment, which was inching up at 1.5 percent annually, increased by 12.7 percent in the first year of the program (figure 6). A similar program for secondary education in Bangladesh has shown a 10 percentage point increase in the 10th and 12th grade exam passing rate. A clearer focus on outcomes rather than on inputs in measuring development effectiveness is part of this programmatic approach. We want to know what's happening to student completion rates in primary or secondary schools, not just to the number of schools built or teachers trained.

Figure 6: Punjab, Pakistan: Growth in primary school enrolments



The cross-cutting theme of **equity and inclusion** is being implemented by focusing on lagging regions, households and communities. The India program is now supporting reform-oriented, lagging states such as Orissa with lending, and states with more limited reform capacity such as Bihar with knowledge

assistance. Both reflect a change from the previous strategy of working only with rapidly-reforming states. It also means supporting efforts, such as the one in Karnataka, to decentralize resources and decision-making to lower tiers of government so that communities can hold local politicians more accountable. We support rural livelihood and empowerment programs in most South Asian countries that provide microfinance, access to markets, and self-employment opportunities to millions of poor women. Our knowledge assistance has shown, *inter alia*, that poor performance by low-caste students in Uttar Pradesh is due to their self-image, rather than intrinsic aptitude; and that the biggest constraint to women's advancement in Pakistan is their lack of mobility. We have an important program on youth that concentrates on the school-to-work transition, and a major study on disability in India.

We are strengthening **public accountability** by focusing on better governance in all our interventions. Much of the institutional reform agenda we support—either economywide, such as regulatory reform or decentralization, or in sectors ranging from banking to irrigation—is anti-corruption in nature because it seeks to increase the accountability to citizens. For example, a series of programmatic credits for secondary education reform in Bangladesh supported the privatization of textbook procurement, which resulted in less leakage of funds, and more timely delivery of textbooks. We have also introduced diagnostic tools, such as the Orissa Public Expenditure Tracking Study, or the Karnataka State Financial Accountability Assessment, which underpin the reform program. We are supporting Parliamentary Accounts Committees and Auditor Generals and Accountant Generals through a series of IDG grants. And we are supporting procurement reform in Bangladesh, India, and Nepal.

Our **HIV/AIDS** strategy is aimed at ensuring that, when it comes to introducing an HIV/AIDS dimension to all our activities, no opportunity is missed. HIV/AIDS in South Asia is not only different from Africa, but different across the region. It is characterized by concentrated epidemics among high-risk groups, such as intravenous drug users, and female and male sex workers. The region is tailoring its response to individual country circumstances by focusing on treating the vulnerable groups in the country, ensuring that the epidemic does not spread to the larger population. In all countries, we are helping to build political

support for a national effort against HIV/AIDS. Recognizing that private sector engagement in addressing the HIV/AIDS epidemic in the region remains piecemeal, the IFC Against-AIDS program has launched a project in India that aims at help address HIV/AIDS in the workplace, companies' clinical facilities, and the community, with a particular focus on truckers, a high risk group.

Finally, we are fostering **regional cooperation** by providing analytical support to South-Asian efforts at regional integration. For instance, we were a knowledge partner to the SAARC Chamber of Commerce at their recent conclave on "Growth and Regional Integration in South Asia" in Delhi. We are supporting a similar effort between the private sectors of India and Bangladesh. We are undertaking a major study of improving trade facilitation in South Asia, and another one on energy cooperation with Central Asia. We are working towards stronger ties between South and East Asia, particularly between India and China.

Learning and partnerships

In implementing the twin-pillar strategy of growth and human development, the South Asia Region is drawing on its own and other countries' experience. Likewise, South Asia's development policy experience has much to offer other low- and middle-income countries. Learning and partnerships, central to our strategy, are taking several directions.

First, Bangladesh, Sri Lanka, and some states in India, notably Kerala, provide striking examples of favorable human development at low incomes. Sri Lanka's and Kerala's performance bear the signs of the priority successive governments have given to effective public expenditures on social services. Bangladesh has similarly shown remarkable progress in NGO provision of education and health services. NGO service provision has encouraged community involvement, local innovation, and experimentation, all of which facilitate scaling up. These successes hold important lessons for others in South Asia and for other low-income countries, including in sub-Saharan Africa. Highlighted at the 2004 Shanghai conference on scaling up poverty reduction, they have been documented in a forthcoming volume, *Ending poverty in South Asia: Ideas that work*.

Second, over 5 million South Asians are living with HIV/AIDS. India alone has more HIV-positive people than any other country except South Africa. Stigma, ignorance and poor health practices such

as the use of dirty needles place large segments of the population at risk. The Region is actively drawing lessons from countries such as Brazil, Thailand and South Africa on what to do, and what not to do, in controlling the AIDS epidemic.

Third, as the Bank intensifies its knowledge and financial assistance to difficult, low-governance settings, it will have to look to countries in East Asia that have achieved rapid growth and human development in similar settings. There is a vigorous exchange between the Indonesia and Bangladesh country teams on program to reduce corruption and build capacity. Focusing on outcomes, imbuing our work with political realism, encouraging the use of relevant information for public monitoring and supervision, and promoting public-partnerships that enhance accountability are all ways forward.

Fourth, there is now greater alignment in the Region with the Bank's global strategies on infrastructure, investment climate, HIV/AIDS, Education for All, service delivery, and trade policy. The Region's alignment with the Bank's Infrastructure Action Plan, with its emphasis on strengthening the policy and institutional framework for public-private partnerships—first in Pakistan and more recently in India—has provided lessons and a much-needed boost to a sector neglected by the Bank and the Region. Similarly, the Region is applying the 2004 World Development Report, *Making Services Work for Poor People*, through its support of community-managed schools in Nepal, girls' scholarships in Punjab, Pakistan, teacher incentives in Andhra Pradesh, and contracting for health services in Bangladesh. In all of these, we are undertaking impact evaluations to learn what works and why—another strong lesson from the 2004 WDR.

Fifth, the cornerstone of implementing the Region's strategy is the role of partnerships. In addition to hosting or participating in development forums involving donors and governments, as well as bilateral consultations with donors such as the Nordic countries, European Union and the Aga Khan Foundation, the Region is undertaking special collaborative activities with the Asian Development Bank, Japan, and DFID. As part of our commitment to helping Bangladesh address its governance challenges, the CAS for Bangladesh is being prepared jointly with these development partners. Along with the Asian Development Bank, the World Bank is co-sponsoring with DFID the Asia2015 conference, "Ending poverty, sustaining growth."

A hallmark of the post-tsunami relief, rehabilitation, and reconstruction efforts in Sri Lanka, India and the Maldives, as well as the earthquake recovery in Pakistan has been the pro-active partnerships with the United Nations, the Asian Development Bank, and other donors. These partnerships include joint needs assessments, coordinated funding mechanisms, and harmonization of procedures. The partnerships are also leading to joint knowledge assistance for disaster-mitigation efforts.

Sixth, as South Asia's fortunes become increasingly linked with East Asia's, partly reflected in the emergence of India and China as global market players, the Region is supporting opportunities for greater cooperation between the subcontinents of Asia. We are undertaking a series of workshops and conferences that will culminate in a major event at the 2006 Annual Meetings in Singapore that will provide opportunities to compare and contrast China's and India's impact on the global economy, as well as to demonstrate the benefits from greater cooperation between South and East Asia.

Monitoring and measuring impact

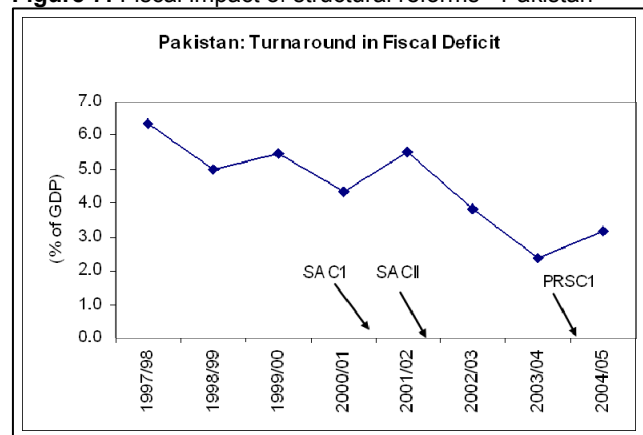
Consistent with the strategy of scaling up for growth and poverty reduction, the Region measures its impact in terms of economy-wide outcomes, such as a reduction in the proportion of people living on a dollar a day, or the percentage of school-age children finishing primary school. Of course, these outcome measures do not change rapidly from year to year, so our monitoring strategy also involves looking closely at intermediate outcomes and outputs, including policy and institutional changes.

Intermediate outputs help in calibrating our strategy. In India, the Bank is funding a SWAp to support a scaled-up national universal primary education program emphasizing school completion, gender parity, and expenditure effectiveness. The goal is to cover a third of all out-of-school children, with more scaling up after that. Preliminary evidence suggests a sharp drop in out-of-school children since the program started. The evidence also points to the next big challenge facing education in India: quality. In Afghanistan, the Bank's effort to increase school enrolments has seen a quadrupling of attendance since the fall of the Taliban. A significant part of these education services are delivered by NGOs from neighboring countries. As mentioned earlier, the Punjab education program in Pakistan has shown a sharp increase in primary enrolments in the first two years of the program.

Though still less than two years old, the regional strategy is beginning to yield desirable policy and

institutional changes. From a position of extreme macroeconomic vulnerability, Pakistan has turned the corner. Growth has accelerated, the debt burden is falling, and there is greater fiscal space for health, education, and infrastructure expenditures (figure 7). In Nepal, petroleum prices have remained a political hot potato. As part of the institutional reforms backed by the World Bank and IMF, Nepal moved last year to an automatic pricing mechanism that reduces political opportunism in setting energy prices and sets their course to international price levels. Our knowledge assistance has transferred the success of NGO-organized, community-based sanitation in Bangladesh to the official rural sanitation program in Maharashtra with spectacular success, seen most clearly in the nationwide adoption of this approach now in India.

Figure 7: Fiscal impact of structural reforms - Pakistan



Risks and challenges

The events of the past two years in South Asia show that, despite strong growth and poverty reduction, the region is susceptible to man-made and natural shocks—whether it is a change of government in India and Nepal, high world oil prices, increasing violence in Bangladesh, or natural disasters in Sri Lanka and Pakistan. Simmering (and sometimes worsening) conflict can unfortunately be expected to be the norm in many areas in the region. Such events show the critical role that the Bank's financial and knowledge assistance can play. They also test the limits of the Bank's instruments and ingenuity to provide such assistance.

The response to government changes in Afghanistan, India and Sri Lanka speak to the robustness of the Bank's program. We have refined our strategy and made changes, but the main elements of the program and relationship have been preserved.

The frequency and impact of natural disasters—floods in Bangladesh, a tsunami in Maldives, Sri Lanka and South India, and an earthquake in Pakistan in fifteen months—have led the region to focus on more systematic disaster preparedness going forward.

The increased focus of the strategy on equity and inclusion will mean support for fostering the development of lagging regions—often with weak political, administrative, and social accountability mechanisms. This may lead to more risky loans and credits in our portfolio. It also means that as a Region our sub-national financial assistance may shift away from higher-performing states and provinces. Given that we have scaled up our overall lending, and the Region as a whole is performing well, these risks are worth taking.

In low-governance settings, we will need to engage in ways that increase the likelihood of improvement in the situation. Traditional approaches of “buying reform” may not be the most effective, since money may not be the binding constraint. Our strategy will increasingly call for more concerted knowledge assistance to help build the climate for reform, accompanied by appropriate and predictable resource transfers to ensure engagement and learning. This would include, for example, program funding that seeks to build ownership and public accountability from within government, or direct support to community organizations that seek to build public accountability from outside government.

Motivated by the prospect of improved service delivery and accountability to local citizens, each of our countries is experimenting with decentralization. The movement away from centralized, vertical programs to service delivery by local governments often poses a dilemma for Bank assistance. The challenge will be to strike a balance between seeking quick results on the ground from ring-fenced, investment projects and supporting longer-term local institutional capacity-building to improve service delivery along with devolution. For instance, in Bangladesh we are developing a program that supports local governments by supplementing the transfers they receive and building a monitoring and evaluation framework with which citizens can hold these local governments accountable.

Conclusion

The South Asia Region’s strategy of scaling up our lending and knowledge assistance for growth and poverty reduction remains on course. Much remains to be done, but there are also promising early

results. There is today much greater awareness in each country of how critical the investment climate is for growth—and how consistent, predictable domestic policies and efficient infrastructure services can shape that climate. Having tasted the fruits of faster growth, South Asians are lobbying for a strong but deft policy hand that can accelerate growth, human development and poverty reduction, and do it in partnership with the private sector and NGOs. And there is growing recognition of the challenge of equity and inclusion, be it for women and girls, marginalized minorities, lagging regions or political factions in deep conflict.

As the Region and the World Bank increasingly turn to these problems, especially in poor regions and states hobbled by conflict or corruption, we are humbled by the challenge. But we remain confident that our aid and knowledge assistance are needed and productive in South Asia—and our strategy of scaling up on both is the right one.

