

Domestic reforms and external assistance in South Asia have helped fuel rapid economic growth, which has averaged 5.5 percent a year for the past two decades. Gross domestic product is estimated to have grown by 6.9 percent in 2005. This strong performance has put South Asia on track to achieve the Millennium Development Goal of halving poverty by 2015. Long-term growth in South Asia is forecast to remain around 5.5 percent through 2015, reflecting a rising contribution to growth from the private sector. Trade reforms, privatization, infrastructure development, and liberalization and deregulation of the banking sector are all expected to improve the investment climate, productivity growth, and ultimately, incomes.

But South Asia faces enormous human development challenges. Four hundred million South Asians live on less than \$1 a day. Human deprivation remains extreme, especially for disadvantaged populations and children. Malnutrition is pervasive. South Asia is not on track to achieve the child mortality Millennium Development Goal, and India's population of HIV-infected people numbers among the highest in the world. The region also contains the world's

largest conflict-affected population—some 71 million people in Afghanistan, Nepal, and Sri Lanka.

The vulnerability of the region to frequent and severe natural disasters—including annual flooding in Bangladesh; the 2004 tsunami affecting Maldives, Sri Lanka, and southern India; and the October 2005 earthquake in northern Pakistan—has led the Bank to focus on emergency preparedness. Following the massive earthquake in Pakistan that left 73,000 people dead, more than 70,000 severely injured or disabled, and more than 2.8 million without shelter, the World Bank and the Asian Development Bank undertook a joint Damage and Needs Assessment that estimated the cost of the disaster at \$5.2 billion. Two weeks after the earthquake, the Bank provided \$470 million to help with reconstruction and to safeguard ongoing reform and poverty reduction programs. In December, an additional \$400 million was approved to reduce immediate suffering and restore livelihoods, reconstruct housing, and finance needed imports. These commitments, mostly IDA credits, were part of the institution's overall pledge of \$1 billion for earthquake recovery (see box 1.1).

## SOUTH ASIA FAST FACTS

Total population:	1.5 billion
Population growth:	1.6%
Life expectancy at birth:	63 years
Infant mortality per 1,000 births:	66
Female youth literacy:	65%
2005 GNI per capita:	\$680
Number of people living with HIV/AIDS:	6.2 million

## TOTAL FISCAL 2006

### New Commitments

IBRD	\$1,231 million
IDA	\$2,566.2 million

## TOTAL FISCAL 2006

### Disbursements

IBRD	\$1,034 million
IDA	\$3,218 million

Portfolio of projects under implementation as of June 30, 2006: \$17.4 billion

**Note:** Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2004; HIV/AIDS data are from the UNAIDS 2006 Report on the Global AIDS Epidemic; other indicators are for 2005 from the World Development Indicators Database.

## COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
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### WORLD BANK ASSISTANCE

The Bank approved nearly \$3.8 billion for South Asia in fiscal 2006, \$1.2 billion in loans from IBRD and \$2.6 billion in IDA commitments, of which \$275 million were grants. This assistance seeks to address the region's vast urban and rural infrastructure deficit and weaknesses in its investment climate, including corruption and red tape. Bank support is designed to help accelerate human development in the region by focusing on four cross-cutting issues: equity and inclusion, HIV/AIDS, regional integration, and public accountability. The Bank is focusing on improved governance, for example, by supporting government procurement reforms in Bangladesh, India, and Nepal.

The Bank continued its support for rural development, education, and health. In Sri Lanka, approximately 550,000 mostly poor children who are at risk of not completing basic education will benefit from a \$60 million grant that improves access to education. In Afghanistan, which has one of the worst health systems in the world, the Bank approved a \$30 million supplemental grant to expand basic health service delivery. The Indian state of Tamil Nadu received a \$120 million credit to build social capital in poor communities by involving them in the design and implementation of changes that will affect them.

Since 1982, the Bank has committed some \$380 million in South Asia to support HIV/AIDS projects in Bangladesh, Bhutan, Pakistan, and Sri Lanka, and to assess HIV/AIDS work in Afghanistan and Maldives. The region's prevalence rate of HIV/AIDS is about 1 percent, small enough that concerted action could stem an epidemic, but with pockets of higher prevalence that need urgent attention. The Bank also began preparing the Third National AIDS Control Program for India and initiated a study on the economic impact of the disease there.

A strong component of the Bank's strategy is its analytic and advisory work. A recent report on public finance management in Afghanistan recommended an agenda for establishing a fiscal framework that facilitates growth, service delivery, and poverty reduction. The Bank undertook a gender equality study in Pakistan, a regional HIV/AIDS study, a report on the role of civil society organizations in Bangladesh, a social exclusion study in Nepal, and a development policy review for India that focuses on equity and service delivery.

The Bank's Board discussed new country assistance strategies for Bangladesh, Bhutan, and Pakistan. The theme

of the Bangladesh strategy is governance (see box 2.2); the Bhutan strategy focuses on connecting communities to markets and promoting private sector development; and the Pakistan strategy sets forth a broad-based plan for addressing poverty in various dimensions, including human development, infrastructure, governance, and vulnerability.

### BUILDING THE CLIMATE FOR INVESTMENT

The Bank completed two investment climate assessments in South Asia: one for Afghanistan, the first in a postconflict country; and one in Maldives. The Bank also started work on new investment climate assessments for Bangladesh, India, and Pakistan.

The Bank is addressing deficiencies in the region's investment climate—weak infrastructure, red tape, and corruption. In Afghanistan, the challenge is to extend reforms beyond Kabul and implement reforms that will generate broad-based growth. An \$80 million second institution-building project seeks to expand and sustain reforms in the country's public administration and fiscal management. Bangladesh received a \$200 million development support credit to reduce the scope for corruption and, in turn, build more effective government institutions and improve public service delivery. India, which continues to face severe power shortages, received a \$400 million loan to increase reliable power exchanges between the country's regions and



FIGURE 2.5

**SOUTH ASIA**

IBRD AND IDA LENDING BY THEME | FISCAL 2006

SHARE OF TOTAL OF \$3.8 BILLION

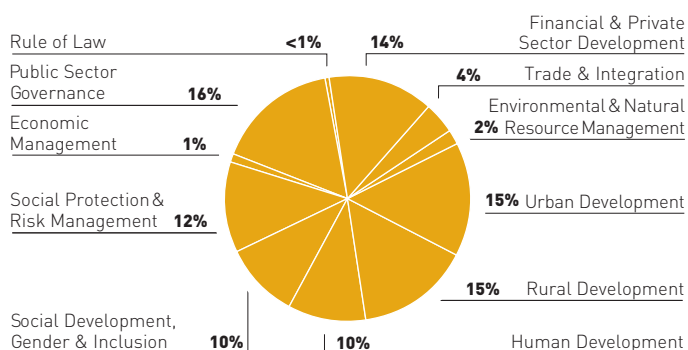
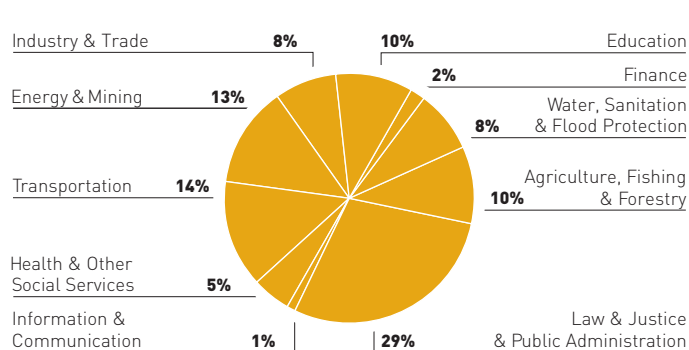


FIGURE 2.6

**SOUTH ASIA**

IBRD AND IDA LENDING BY SECTOR | FISCAL 2006

SHARE OF TOTAL OF \$3.8 BILLION



states. Urban development was supported in the Indian states of Tamil Nadu, with a \$300 million loan, and Karnataka, with a \$216 million loan. In Sri Lanka, years of poor maintenance have resulted in a degraded road network. A \$100 million credit will help improve 620 kilometers of national roads and reduce the proportion of national highways in poor condition from 52 percent in 2005 to 35 percent in 2010.

**FOSTERING PARTICIPATION IN DEVELOPMENT**

The Bank's approach to participation empowers community groups in South Asia to make development decisions, direct resources, and have a role in projects. The emphasis is on equity and the inclusion of poorer regions, communities, and households in development projects. For instance, in India and Pakistan, the Bank supports livelihood programs that provide microfinance and self-employment opportunities to millions of poor women. In Afghanistan, the Bank approved a \$40 million additional financing grant for the National

Solidarity Program, a community-led reconstruction and rural infrastructure initiative that has reached about 8.5 million people since its start in 2002. The Bank's own program for youth focuses on the school-to-work transition. (See [www.worldbank.org/sar](http://www.worldbank.org/sar).)



**BOX 2.2**

**THE BANGLADESH CONUNDRUM**

Bangladesh is 1 of only 18 developing countries with an annual growth rate that has never fallen below 2 percent. Since the 1990s, economic growth has been steady at 4 to 5 percent annually, with relatively low inflation and stable domestic debt, interest, and exchange rates. Its gross domestic product growth rate has accelerated by 1 percentage point every decade, despite floods and other weather-related catastrophes. This growth, coupled with an impressive decline in population growth rates, has led to a doubling of annual per capita growth from 1.6 percent in the 1980s to 3.3 percent from 1990 to 2004. The country has achieved universal primary education and has an equal number of girls and boys in secondary school, and it is on track to reach the Millennium Development Goal in child mortality.

These growth and development gains have taken place despite widely held perceptions of weak governance, a

phenomenon referred to as the Bangladesh conundrum. If not addressed, poor governance will be a growth constraint, particularly in critical areas such as power and transport. The Bangladesh Poverty Reduction Strategy Paper strongly recognizes the need to improve governance and the investment climate. The Bangladesh country assistance strategy is aligned with the strategy paper and mainstreams governance so that all Bank Group interventions are as much about governance as they are about improving sector performance.

The Bank's program will support Bangladesh by improving weak regulatory frameworks, increasing transparency, enhancing capacity for public financial management and procurement, and strengthening institutions of accountability. The country assistance strategy covers the period from 2006 to 2009; lending is estimated to be \$3 billion.

TABLE 2.3

**WORLD BANK LENDING TO BORROWERS IN SOUTH ASIA** BY THEME AND SECTOR | FISCAL 2001–2006  
 MILLIONS OF DOLLARS

THEME	2001	2002	2003	2004	2005	2006
Economic Management	47.4	232.5	123.5	7.7	87.5	56.6
Environmental and Natural Resource Management	587.8	295.2	94.2	94.8	433.9	93.0
Financial and Private Sector Development	865.9	381.6	689.1	689.9	923.0	550.4
Human Development	124.8	30.2	546.9	760.6	1,041.6	391.7
Public Sector Governance	261.0	678.0	467.3	669.8	639.5	597.9
Rule of Law	36.1	59.3	12.5	2.9	10.5	7.2
Rural Development	379.5	417.2	403.7	314.1	1,132.5	568.6
Social Development, Gender, and Inclusion	240.5	414.2	197.3	642.8	265.3	366.9
Social Protection and Risk Management	118.4	164.0	184.4	98.6	337.0	472.3
Trade and Integration	398.3	70.0	197.3	52.7	63.7	138.8
Urban Development	186.8	766.2	2.6	87.8	59.0	553.7
<b>Theme Total</b>	<b>3,246.6</b>	<b>3,508.4</b>	<b>2,918.7</b>	<b>3,421.6</b>	<b>4,993.3</b>	<b>3,797.2</b>
<b>SECTOR</b>						
Agriculture, Fishing, and Forestry	116.1	328.1	212.6	251.9	940.8	368.9
Education	206.4	95.9	364.6	665.8	286.4	377.2
Energy and Mining	746.2	504.8	150.6	130.8	83.6	483.0
Finance	209.7	310.0	185.8	331.4	461.8	73.0
Health and Other Social Services	188.1	278.7	369.0	334.6	493.2	195.9
Industry and Trade	34.0	443.1	144.9	46.1	485.2	306.5
Information and Communication	17.7	12.4	11.5	16.9	91.9	50.0
Law and Justice and Public Administration	377.4	632.5	372.3	925.5	885.7	1,101.4
Transportation	1,294.3	758.1	1,067.6	444.8	1,181.0	520.1
Water, Sanitation, and Flood Protection	56.8	144.9	40.0	273.7	83.7	321.3
<b>Sector Total</b>	<b>3,246.6</b>	<b>3,508.4</b>	<b>2,918.7</b>	<b>3,421.6</b>	<b>4,993.3</b>	<b>3,797.2</b>
Of which IBRD	2,035.0	893.0	836.0	439.5	2,095.9	1,231.0
Of which IDA	1,211.6	2,615.4	2,082.7	2,982.1	2,897.4	2,566.2

**Note:** Includes all adjustment, development policy, and investment loans. Effective fiscal 2005, lending includes guarantees and guarantee facilities. Numbers may not add to totals due to rounding.