

# South Asia: Ending poverty in a region of growing contrasts and increasing risks

Informal Board presentation  
September 25, 2008

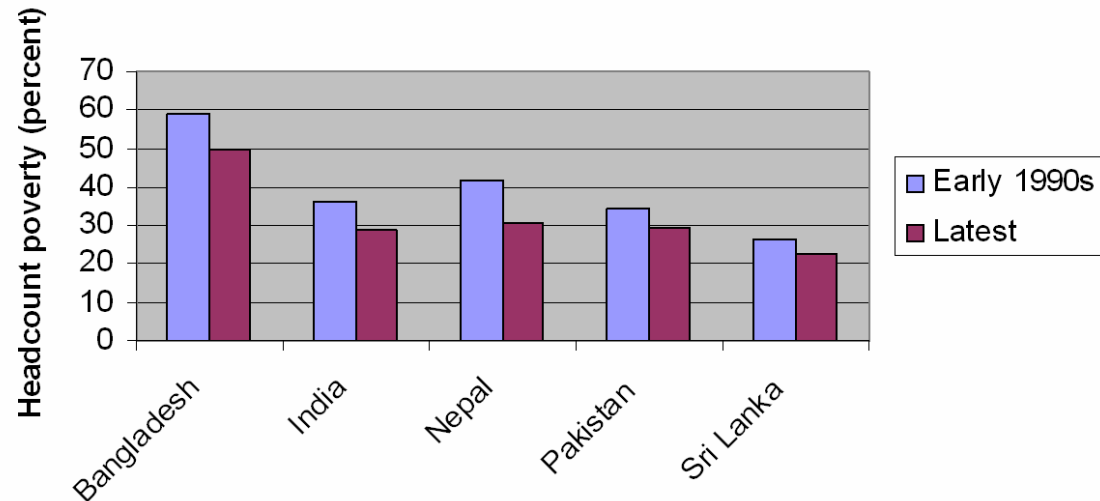
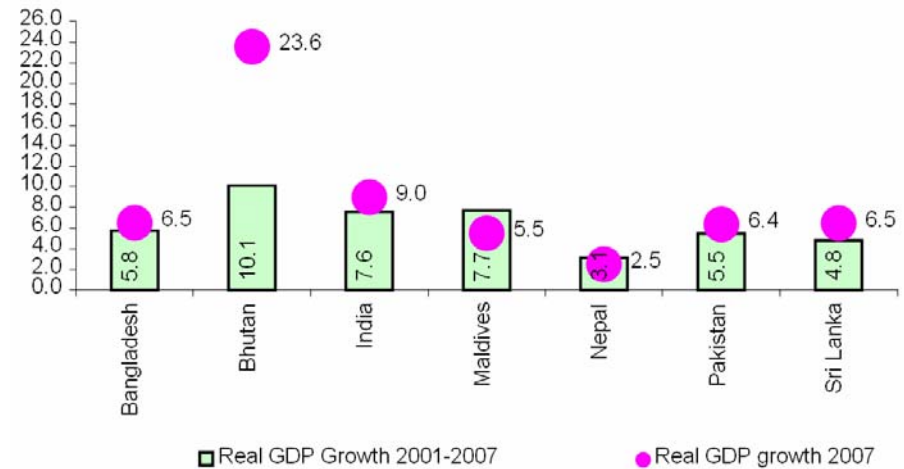


# Key Messages

- Continued opportunity in South Asia to reduce poverty in a generation
- Scaled up- lending and AAA- now consolidation
- Regional strategy still broadly relevant - with some new opportunities
- Emerging risks and shocks--adaptation

# Opportunity to reduce poverty

- Continued strong growth
- Good progress in reducing poverty
- Good progress on many MDGs
- But growing inequality





Accelerating  
& sustaining  
growth



Making  
development  
inclusive



Strengthening  
human  
development

Strengthening  
governance & public  
accountability

# Refining the SAR strategy

- Strategy of scaling up financial & knowledge support is still relevant
- Experience of suggests need for:
  - Adapt to *growing differentiation*: middle-income, low-income, & conflict settings
  - greater focus on *implementation*
  - big push on *regional cooperation*
  - stronger foundation of *governance*

# A region of growing contrasts

- South Asia no longer uniform low-income region
  - Parts of India & Sri Lanka and Bhutan & Maldives moving to *middle-income*
  - Bangladesh, Nepal, most of Pakistan, and lagging regions remain *low-income*
  - Afghanistan, Pakistan, Sri Lanka and parts of India point to widening *conflict*
- Differentiate strategic approach, content, and instruments

# Refining the strategy: Accelerating & sustaining growth

- In middle-income (MIC) settings
  - Improve regulation and management to crowd-in private investments and PPPs
- In low-income (LIC) settings
  - Emphasis on building infrastructure alongside improving management
- In conflict (CIC) settings
  - Take advantage of opportunities to get infrastructure services to poor people

# Refining the strategy: Leveraging the partnership with IFC

- IFC and Bank's Strategy closely aligned
  - business environment;
  - infrastructure gaps
  - efficiency in key infrastructure service
  - rural development
- Joint Investment Lending activities:
  - India Infrastructure Finance Company Ltd (IIFCL)
  - India Rural Electrification project and the PowerGrid in India.
- Joint Advisory activities
  - 18 ongoing joint advisory projects

# Refining the strategy: Making development inclusive

- Rising inequality. Growth not enough to end poverty; social cohesion
- Help remove obstacles to growth in lagging regions, lagging sectors such as agriculture, lagging communities, and vulnerable households

# Refining the strategy: Working with lagging regions

- Strategic shift to poorer regions
- Policy lending to improve investment climate, governance, fiscal/financial management
- Bank-IFC collaboration to promote lagging regions as investment destinations
- Implies higher risk profile: on development impact and fiduciary

# Refining the strategy: Boosting agriculture

- Agricultural productivity is not rising
- Poorly targeted subsidies
- Our strategy:
  - Allow new opportunities through better policies, market access, and technology
  - Support livelihood programs that link with local government
  - Promote public goods over poorly targeted subsidies, such as free power to farmers

# Refining the strategy: Smarter social protection

- Most redistribution programs are ad hoc, populist, and poorly targeted
- Improve targeting, governance and fiscal sustainability
  - In MICs, move to social insurance
  - In LICs, expand social assistance to urban and rural poor using (conditional) cash transfers
  - In CICs, promote social care services and income support to conflict areas, as well as demobilization assistance

# Refining the strategy:

## Strengthening human development

- Programmatic approach to deal with politics & long-term nature of service delivery reforms
- LICs: infant mortality, early childhood development, nutrition, and school retention have multiple determinants, so interventions must go beyond health or education
- CICs: support what is working, as with health services in Afghanistan
- MICs: non-communicable disease and public health system, prevention, health insurance systems, skills, school-to-work

# Refining the strategy:

## Governance in different settings

- MICs: support institutions of accountability that benchmark performance, regulate, and promote M&E. Complement country systems
- LICs: support reforms that improve policy framework and enhance demand for public accountability
- CICs: progressing on GAC issues while promoting peace-building by keeping program flexible to redeploy as needed in response to conflict, and the work of development partners

# Responding to new and increasing risks and shocks

- Conflict and violence
- Political Transitions
- Climate Change
- Food, Fuel and Financial Sector

# Sharply increasing conflict trend across SAR

- Dramatic rise in attacks in Afghanistan and Pakistan
- UN now an identified target
- Civil war intensified in Sri Lanka
- Increase in terrorist attacks in India
- Potential of civil unrest in response to oil and food prices

# Conflict and Violence

## Bank response

### Country programs:

- Conflict sensitive CAS in Sri Lanka
- Targeted food support
- Macro alert in Pakistan
- Emphasis on getting services to the affected

### Internal: Extra Precautions

- Security upgrades for staff safety
- Security advisor positions in five countries
- Armored vehicles in Kabul
- Updated protocols and preparedness
- Increased budget pressure

# Political Transitions

Nepal: new Maoist-led government moving slowly but progressively

Pakistan: defining democratic space after nearly 10-year military rule

Bangladesh: parliamentary elections in December after nearly two years of caretaker government

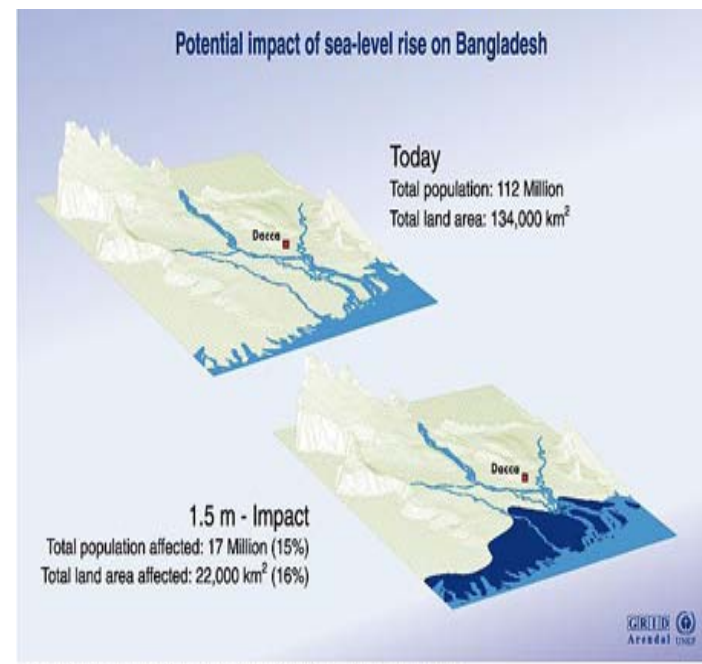
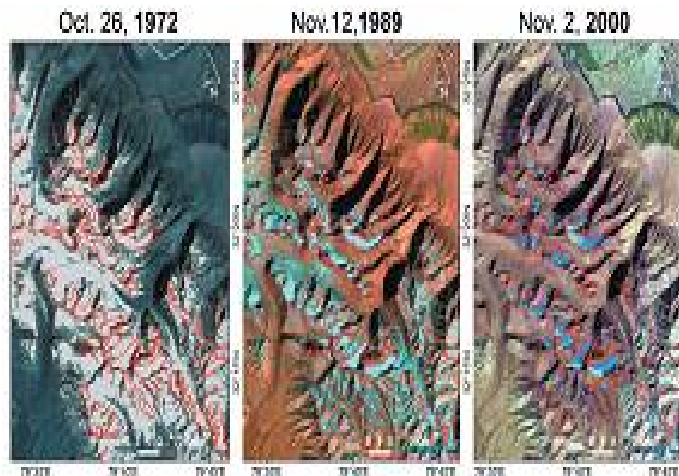
Nepal: engagement supportive of demand for new development ideas

Pakistan: multi donor dialogue on macro vulnerabilities

Bangladesh: challenge to protect development space post elections

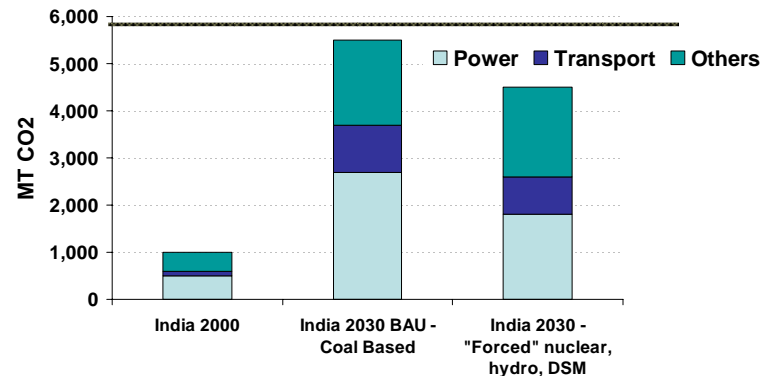
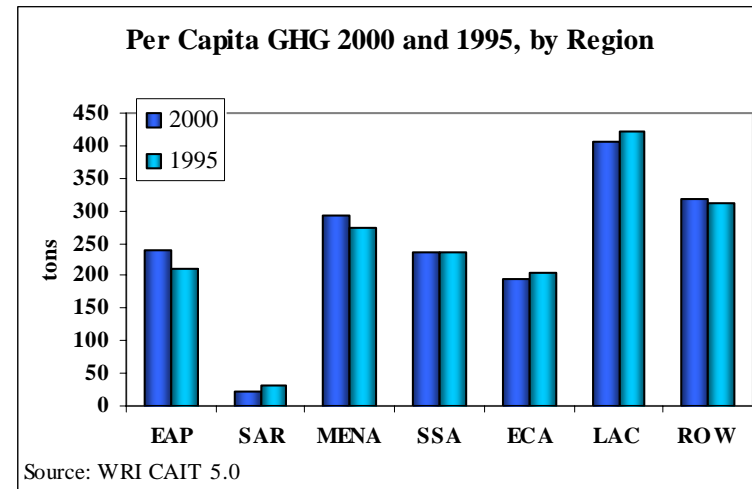
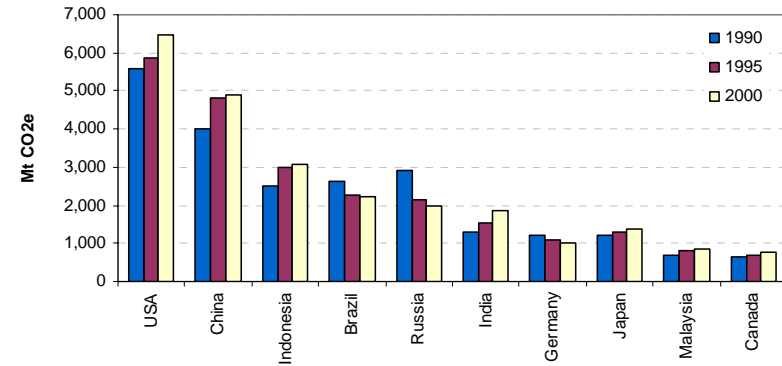
# Climate Change: SAR very vulnerable

- Population density and poverty
- Prone to natural disasters extreme events
- Reliance on monsoons
- Sea level rise
- Himalayas



# Climate Change: SAR's Footprint

- India is world's 6<sup>th</sup> largest emitter
- But per capita GHG very low
- Emissions rising rapidly with growth
- Some scope for mitigation



# Climate Change: SAR response

## Adaptation

- Bank's portfolio well focused on addressing climate vulnerabilities
- Climate change requires considerable scaling up and new instruments
- New threats (Sea Level Rise, glacial melt) need new response
  - Priority to enhance knowledge
  - Multi country response

## Mitigation

- Analytical Work: Low Carbon Growth, Renewable Energy
- Projects: Hydropower, Transmission loss, Rehab of coal fired power stations, energy efficiency
- Climate Investment Funds, improving access to carbon market

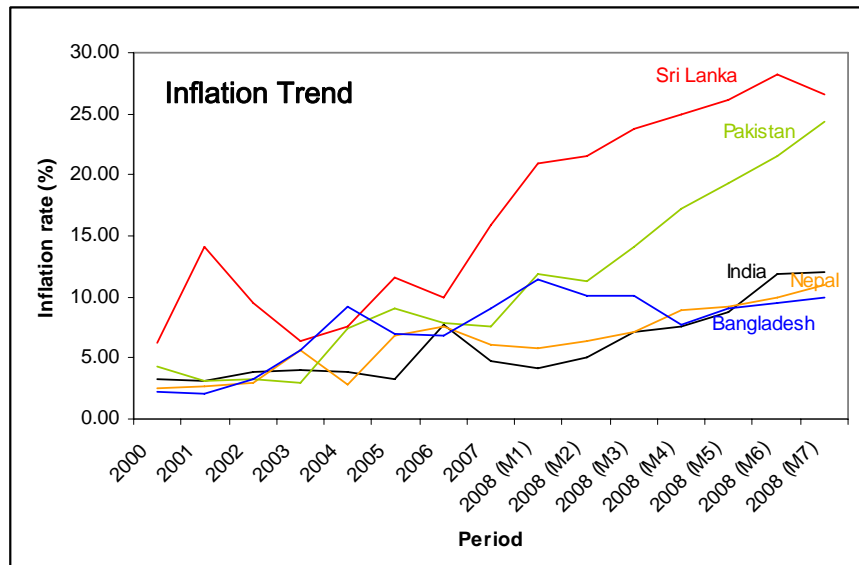
# Global Food, Fuel and Financial Crisis: Effect on South Asia

Terms of Trade Impact, Jan 2003 to May 2008

	All commodities	Food	Energy
Bangladesh	-7.7	-3.1	-2.6
India	-9.5	0.5	-9.5
Sri Lanka	-10.2	-2.4	-7.7
Maldives	-34.1	-3.9	-19.6
Nepal	-21.2	-3.4	-11.0
Pakistan	-11.3	1.6	-11.8

Source: World Bank staff estimates  
Notes: 1. As a share of 2002 GDP

- Huge terms of trade shocks
- Current account deficit, fiscal deficit, inflation all increased sharply
- Growth & poverty reduction slowdown
- The global financial crisis would intensify SAR's vulnerability (lower earnings from exports, out-sourcing, remittances)



# Global Food, Fuel and Financial Crisis: South Asia Response

- Countries have adjusted in varying degrees (price adjustments, taxes and subsidies, social safety nets)
- Much more needs to be done
- Afghanistan, Pakistan and Sri Lanka particularly vulnerable on macro
- Bank is working closely with governments on reforms and financial support (Afghanistan, Nepal, Bangladesh GFPR)

# Implementing the strategy

## How we do things ...

- Continue to deepen important strategic development partnerships:
  - DFID, Japan, ADB, EU, IMF, IFC/MIGA
- Strong focus on supervision (inc post-DIR action plan)
- Budgetary resources sufficient to date, but now facing increasing pressure from:
  - Security, local staff cost, enhanced fiduciary
- Good staff skills base - but will need to “retool” in coming years
  - Specialist sector skills, “how to”, fragile states
- Refine Decentralization
  - Access to international sector skills, decision authority

# Guidance from Executive Directors

- Are the three pillars and the cross-cutting theme of governance still the right ones?
- Do Directors support the new emphasis of differentiating our strategy to fit the growing contrasts in the region?
- Are Directors comfortable with our approach in an increasingly risky environment? Do they have any guidance in this regard?