



South Asia and the World Bank

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Just five years ago, little global attention was paid to South Asia outside reports of intermittent natural disasters, ongoing conflicts and an alarming nuclear focus. South Asia was not a go-to region.

Now South Asia is on the map. Sadly it was largely conflict that alerted the world: the war in Afghanistan and a spike in tensions between India and Pakistan in 2002.

But something else, something important, was happening in at the same time. Domestic reforms and external assistance have been producing average growth rates of over 6 percent for the past decade. And now when we think of South Asia, more specifically of India, we see the stirrings of a world player. We see India and Pakistan reaching tentatively for a relationship beyond the political straitjacket of the past. We see mushrooming bilateral trade agreements and at least the architecture of a regional free trade area. For the first time we, at the World Bank, are challenged to think about the dynamic potential of South Asia as a **region**; we are challenged to identify intra-regional synergies where previously there was simply a list of very separate countries.

I recall my first visit to South Asia as World Bank vice president for the region about 18 months back. What struck me most was that Bangkok and Dubai were the necessary hubs for one to get around **inside** South Asia. That is changing now and the new challenge is creating the infrastructure to keep up and deepening the reforms that will ensure sound macroeconomic performance. Analysts place India's economy at number three in the world after China and the US in the next 30 years, influencing global growth, the flow of capital and the decisions global companies will make about where to be invested and involved.

It all sounds upbeat and exciting and indeed it is but let me take you too to a different South Asia which co-exists with the one I've just described. On one of my early visits to the region I spent a week in Gujarat with a family of salt workers. My host was Bhavnaben, and I introduce you to her as the representative face of the **other** India, indeed the **other** South Asia where at least two-thirds of the workforce is dependent on rural activities. The stalwart mother of a family of five, Bhavnaben toils day in day out at her salt pan, her concerns as simple as water and roti for the family meal. I returned to visit her earlier this year. She had expanded her work to two pans and doubled the volume of salt produced. Good news, one would think. But she was still reliant on a middleman to deliver water and this is the shocking arithmetic of her life. Because she now has **two** salt pans, the water vendor charges her double for the same amount of water he delivered before when she had one pan. Double for the same amount. The arithmetic of the poverty trap.

I simply cannot think of a sharper illustration of the development challenge we face in South Asia. A challenge comprising both the extraordinary energy of the people of South Asia to make a better life – and what they are up against. It is a challenge to us at the World Bank and to the international community in turn for as we marvel at the changing pace of Asia, millions toil with little opportunity for a way out.

At the Bank we have articulated our strategy for South Asia around two pillars: one is **growth** which of course addresses my opening comments, the growing, dynamic South Asia. The other pillar is **human development** which addresses the Bhavnaben challenge, if we may call it that. Naturally though these two strands are inextricably linked for if South Asia is to meet the promise of the scenario I began with,

the millions of citizens excluded today must find their stake in that future. And for poverty reduction of this scale to be realized, sustained growth of at least 8 percent is going to be what it takes.

Still today about 400 million South Asians live on less than a dollar a day. Human deprivation runs deep. Child mortality in India has shown no let up. Malnutrition is pervasive. The average teenage girl in Pakistan has had less than one year's schooling. And India alone will soon have more HIV/AIDS positive persons than any country in the world. In Afghanistan where 90 percent of the population lives in rural areas, half that number do not have adequate calories each day.

The positive side of the recent rapid growth, even if it is not yet enough, is its measure of the dynamism that is so evident in the region. Indeed, in between the stark poverty trap I described and the new kids on India's fast track are a horde of South Asians who have taken their industry abroad. I don't mean here the number of fantastically successful South Asian entrepreneurs in the diaspora of the developed world but the taxi drivers, domestic workers, hotel staff and laborers, the majority of whom are in the Gulf countries. Recent World Bank research has found that Bangladesh, India, Pakistan, and Sri Lanka are all among the world's top 20 receivers of remittances, with estimated receipts of US\$26 billion between them. Understanding these flows, supporting them with better banking systems and indeed better rights for workers in foreign countries, is a new challenge as they have become critical players in their nations' fight against poverty. Considering these numbers too against a measure like FDI to South Asia which is around \$5 billion versus China's \$59 billion is sobering.

Let me talk a little bit about the two pillars of our approach and how we understand them to be underpinned by cross-cutting themes which command attention.

To increase **economic growth**, we focus on the binding constraints to private-sector-led growth in the region. Foremost among these is infrastructure. Critical too is private sector development and the question "What does it take to do business in South Asia?" We have done **investment climate surveys** across the region. Taking into consideration all the things that stand in the way of business, we have calculated that India would **add 2 percent** to its growth rate by turning around the investment climates both nationally and sub-nationally. The fast-lane India I described in my opening comments is the India from where local talent has become global presence. Think only Reliance and Tata, think software giants like Infosys and WIPRO. Think Ranbaxy, now the ninth-largest generic pharmaceuticals company in the world. But organized manufacturing provides just 7 percent of jobs in India, under 2 percent of total employment. Between fast-lane India and the over 250 million citizens who live below the official poverty line, there are wide disparities in incomes and opportunities, disparities between rural and urban areas, disparities within cities, disparities across regions.

In Sri Lanka, our investment climate study paid special attention to the rural areas where some 85 percent of the population lives. While Sri Lanka stands out among neighboring countries for having cut red tape, we found that both rural and urban enterprises alike suffer poor quality infrastructure and limited access to finance. About 75 percent of urban manufacturers own a generator. To give you a sense of scale, in China it is 27 percent. For enterprises in the Sri Lankan countryside, the constraint is transport as 90 percent of the road network is poorly maintained and 40 percent of agricultural produce spoils before reaching the market. In Bangladesh, similar studies determined that growth could have been 7 to 10 percent had better economic policies been in place and the country ranks right at the bottom when measured for openness to foreign investment.

The other main strategic pillar of our approach is to **strengthen human development**. Here we focus broadly on outcomes such as child mortality and girls' education. Many of you will be somewhat familiar with what we call the MDGs, the Millennium Development Goals. Their usefulness lies in helping both the development community and developing countries focus on the **outcomes** of their efforts and their policy choices. In Bangladesh, the goal for gender equality in schools has already been reached and the country is on track to meet the reduction of the child mortality target. In Pakistan, where gender parity in schools is as dismal as in many Sub Saharan African countries, the Bank's education development policy loan to Punjab province in Pakistan is already showing results: last year, primary enrolment increased by 11 percent, previously it was 1.5 percent a year.

But these gains have to be seen in the wider context. South Asia's human development indicators simply do not reflect its rapid GDP growth. Thirty five million children never enter primary school; another 12 million enter but fail to make 5th grade. Over 15 million children, half the worldwide total, die before their 5th birthday. And 200,000 women die of preventable pregnancy related causes. Despite reducing poverty by 7 to 10 percent during the nineties, over a quarter of India's population still lives in poverty and the incidence of child malnutrition is double the average for sub-Saharan Africa.

The numbers can be grinding so let me pause for a moment and bring the human dimension back to this. Remember Bhavnaben, her feet burned by the salt. All she really wants is reliable water. And a school for her girls so that they will not follow her path.

Earlier I said we understood the growth and human development pillars of our strategy for development in South Asia to be underpinned by four cross-cutting themes. Let me list them and I think you will see what I mean. The themes we have named are

- equity and inclusion
- regional integration
- improving public accountability (shorthand for governance or corruption if you like) and
- HIV/AIDS

I am particularly concerned about the first of these, **equity and inclusion**, as many segments of South Asian society are being left out of the growth process. Above I touched on the "two Indias", the India fast track on which the young middle class graduate is connected to global opportunity while on the other, a young girl among 250 million people misses school because it takes so long to fetch water every day. This same stark contrast is emerging in Pakistan. Inequality in Sri Lanka has increased sharply in the past decade during which you have the level of poverty in urban areas in the west of the country falling sharply and essentially no change in the situation of the rural poor over the last 12 years, no change in a country where the average GNP per capita is over \$1,000. And many groups, be they women, children, minorities or particular ethnic groups have traditionally been excluded from social progress in South Asia.

In India some of these discrepancies are at their sharpest between states and our recent strategy for engagement with India has specifically focused on lagging states like Orissa where we made our first development policy loan last September. Of course this strategy is not without risk as is our engagement with a country like Nepal. In this troubled kingdom we have remained engaged cautiously following the royal coup in February. Some donors are actively promoting the idea of holding back aid until a multiparty democracy is restored. And of course the intensified Maoist violence is making development activities more difficult. At the same time our recent Poverty Assessment and a progress report on the country's poverty strategy show significant progress in poverty reduction and encouraging improvements in education, health, and other areas, even in the last two years. The country has also put in place a Poverty Monitoring and Analysis System so it can report on progress. We do take that as a sign of serious commitment, although of course our persistence has been unpopular with some development partners.

A significant part of the recent progress in Nepal is likely to be the result of bold decentralization measures taken by the government in education, health, and rural infrastructure. Basically, the system puts the communities in charge and turns them into their own development agents. Colleagues have described to me schools in the poor foothills of the Himalayas where parents are now an inextricable part of the administration, bringing both community equity and good governance to the process. Teachers are at school and teaching. My guess is that they dare not do otherwise. As we try to bring development back to the center of policy discourse in Nepal, we do so believing rather strongly that continued development success, based on greater community empowerment, is likely to strengthen the foundation for peace and democracy.

The theme of **regional integration** I mentioned at the start and I acknowledge that this is early days in the Bank's involvement. We must also follow South Asia's lead on this as the turf is political by definition of the region's history. But we have facilitated a number of excellent dialogues on trade where parties

from across borders have been able to speak their minds – and where the knowledge we can bring to the table also helps them to focus their minds on what they might be missing.

The theme of **public accountability and governance** is of course a natural one for us as far as we can bring better institutions and systems to bear in financial management. A Public Expenditure Review can be a sharp instrument for transparency and public accountability. But the reach of poor governance goes well beyond into areas of the political domain where we face some constraints. In Bangladesh, for example, we are preparing our country strategy jointly with DFID, the Asian Development Bank and the Japan Bank for International Cooperation. It seems to us logical to work closely with some bilateral partners who can address issues of political stability, violence and human rights abuses rather more sharply than we are able as a multilateral institution.

Bangladesh is a startling example of a case where governance is the real showstopper in development. Many of us speak with fascination about the Bangladesh paradox, a country where the incidence of poverty is second only to Afghanistan in the region but where human development indicators have shown dramatic improvements. Of course some of the world's most dynamic NGOs have grown up in Bangladesh and provided the all important health and education services that make the difference in the quality of life for the poor. In fact the largest NGO in Bangladesh, BRAC, is working in Afghanistan now bringing its smart micro-credit programs to rural communities.

I should add that, as in Nepal, our continued engagement in Bangladesh with its poor governance environment presents us with a risk. These are indeed extremely difficult working environments, as are some states in India, but we have determined that we will not walk away at the first sign of trouble.

Our fourth cross-cutting theme is of course **HIV/AIDS** and a conviction that South Asia – and the small role we have in this – must do everything it can before the epidemic advances to African proportions. In India the number of HIV-infected people already vies with South Africa for the number one spot. Of course many partners are engaged in the battle and we are challenged to bring our own competence to the table. In our dialogue with governments we put at center place the longer-term effects which of course include the disastrous economic impacts. It is difficult work in a culturally challenging environment but we have projects in all countries now with the exception of Afghanistan and indeed in India our relationship on the HIV/AIDS front goes back to the early nineties when we help launch the national AIDS control organization.

I have used our strategic formulation to shape a brief narrative of where we see South Asia and the role of the World Bank, however small but definitely committed, in this great part of the world. The challenges are tremendous. The tsunami that struck Sri Lanka, Maldives and India in the region recently commanded international attention in a dramatic way. But South Asia is no stranger to disaster, both natural and man made. This region is where the fight against poverty will be won or lost and we do believe we can win it. There are 1.4 billion people whose lives depend on that hope and who in turn bring their combined resource to the effort. When you think about it through that lens, there's no giving up.