

## **The 10<sup>th</sup> German World Bank Forum, November 20, 2008**

### **Speech of Farida Khambata, Vice President, Asia and Latin America, IFC, Washington D.C. on the panel “Fighting Poverty in Asia”**

- Incidence of Poverty
  - A major effort has been underway based on household surveys, to update and improve data on the world's poor, as a result, found that the main poverty line is \$1.25/day<sup>1</sup> at 2005 prices.
  - On a global basis between 1981-2005, the percentage below \$1.25/day was halved from 52% to 26%.
  - In the early 1980's East Asia as a Region had the highest incidence of poverty in the world. Since the 1980's the number of poor have fallen in Asia but risen elsewhere.
  - East Asia – incidence of poverty fell from 79% in 1981 to 18% in 2005 largely on account of China and Vietnam. In China there are 600 million fewer people living in poverty as per this standard.
  - South Asia – from 60% in 1981 to 40% in 2005.
- Finding a productive job which, in statistics, shows up as economic growth, was the single most important factor in explaining the transition out of poverty. The private sector is by far the largest source of employment and investment. Studies show private investment is more closely associated with growth than public investment.

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<sup>1</sup> Not an arbitrary number but is the average poverty line found in the poorest 10-20 countries. 2008 World Bank Policy Research Working Paper by Chen/Revallion found the main poverty line in the 10-20 poorest countries is \$1.25 a day at 2005 prices.

- To be truly productive firms need to operate in a competitive but well regulated environment where property rights and sanctity of contracts is respected.
- Promoting a conducive enabling environment has been strategic priority for IFC.
  - In Lao PDR IFC helped the government draft and implement the Enterprise Law, which reduced the time required to register a business from 198 to 103 days. In its third month of operation, the registration rate increased by 91% from an average of 178 per month before the reform to 342 per month after the reform.
  - In Vietnam IFC simplified the process for start-up registration establishing a single access point for this process. Registrations nearly doubled.
- Introduction of competition
  - Small remote countries such as the Pacific Islands rely heavily on telecommunication which were typically provided by state-owned monopolies. In Samoa fixed line penetration was less than 8% and mobile around 17% when telecom was the domain of the state-owned monopoly. By financing a private sector competitor, Digicel, penetration jumped to 47%.
  - IFC investee company in Sri Lanka, Dialog, has provided telephone connections to over 3 million subscribers.
- Expanding Financing to the Poor
  - IFC is the world's largest investor in microfinance with a portfolio of around \$942 million as of June 30, 2008.

- In Cambodia, IFC worked with Acleda to transform it from a local NGO to a commercial bank (now the 2<sup>nd</sup> largest bank) providing micro and small loans/deposits and FX to over 100,000 clients.
  - IFC helped the NGO Self-Employed Women's Association to establish a trade facilitation center to provide market access to rural home-based artisans.
  - Poverty reduction in South Asia where 70% of the population lives in rural areas requires increasing and improving agricultural productivity, improving the supply chain and generating employment.
  - IFC has also worked in Agriculture by financing groups such as poultry producer, Seguna, which interacts daily with over 1,000 farmers.
- Some Challenges Going Forward
    - A great many people remain poor and vulnerable in all regions. At current rate of progress, there will be 1 billion people living below \$1.25 per day in 2015. (Chen/Ravallion)
    - Trajectory of poverty reduction interrupted by financial crisis and inflation in food prices. During the 1998 Asia crisis, unemployment in Thailand and Korea doubled. In Indonesia real wages declined by 34 percent in the formal sector and by 40 percent in the agricultural sector. World Bank estimates that a one percentage point reduction in growth could trap 20 million more people into poverty.
    - The food and fuel crisis have, by Bank estimates, already pushed about 100 million people into poverty and will cause an extra 44 million to suffer from malnutrition in 2008.

- The negative poverty impact of rising food prices could undermine the poverty gains of the last 5 to 10 years. For Yemen, estimates show that the doubling of wheat prices over the last year could reverse all gains in poverty reduction achieved between 1998 and 2005.<sup>2</sup>
- To conclude – the problem is enormous and individual effort can seem like a drop in the ocean. At the World Bank Group and IFC in particular, we see our role as that of a catalyst, leading the way to new products focused on poverty alleviation that private sector players can then replicate and scale up.

In the words of Mahatma Ghandi ----- ***Whatever you do will be insignificant, but it is very important that you do it.***

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<sup>2</sup> 2008 World Bank paper “Rising Food Prices: Policy Options and World Bank Response.