Ten years ago, Northern Bangladesh was hit by severe and relentless monsoon rains. The rivers burst their banks, hundreds of villages went under water, entire crops were lost, half a million people were made homeless, and millions more were affected. Households in the affected regions faced rising food insecurity. The rural poor migrated but this helped them recover only 22 percent of their lost household consumption.

Such disasters have been increasingly frequent and more intense in South Asia due to climate change. On average, 60 million people per year have been affected by natural disasters since 2010. Disasters like these can wash away a country’s ability to unlock its potential in a matter of weeks.

Weak job creation and fragile fiscal positions constrain South Asian countries’ ability to prevent and recover from such shocks. Weak labor markets prevent households from shifting out of agriculture as climate shocks take their toll. Fiscal constraints make it difficult to finance necessary public sector investments in climate adaptation. And although growth in the region is likely to remain strong in the short run, growth has been below pre-pandemic averages except in India.

How can South Asia build greater resilience and sustained growth? This report will focus on the three keys to unlock a brighter future: robust private investment, vigorous job creation, and an environment that facilitates climate adaptation by households, farmers, and firms.

More than elsewhere, growth momentum in South Asia has been driven by the public sector while private investment growth has been weak. Without a thriving private sector, job creation is likely to continue on a weaker path than in other emerging market and developing economies, especially in the non-agricultural sector. Employment growth has not kept pace with working-age population growth. The region employs only 59 percent of its working-age population compared with 70 percent in other emerging market and developing economies. It is the only region in which men’s employment-to-working-age population ratio has fallen since 2000, and all but two South Asian countries rank in the bottom quartile by women’s employment-to-working-age population ratios.

Demographic trends have created a youthful workforce in the region. If South Asia could employ as large a share of them as other emerging market and developing economies, without losing productivity momentum, its output might be 16 percent higher.

The key to unlocking inclusive, resilient, and strong growth lies in the potential of the private sector. Ultimately, private investment and robust firm growth are needed to create the jobs required to absorb a growing working-age population. They are also needed to spur the adoption of new technologies for climate change adaptation.

This report offers a policy agenda for shaping prosperous and resilient economies in the decades to come.

- **Improve fiscal positions.** Current growth may become less sustainable in the long run given growing debt burdens and high interest rates. Low revenues severely constrain government spending on critical priorities, including climate change adaptation. Increasing tax revenues and pivoting towards less distortionary taxation is essential to freeing up fiscal space to meet upcoming challenges.

- **Spark private investment accelerations.** Private investment growth still has not reached its pre-pandemic averages across South Asia. A sustained private investment acceleration is needed to meet development and climate objectives. Increased openness to trade and capital flows and improved institutional quality can make such an acceleration more likely.

- **Spur firm growth.** Demographic trends offer the possibility of a “demographic dividend”—provided the growing working-age population can be productively employed. More dynamic non-agricultural
sectors are needed to reallocate labor into more productive activities. Weak employment trends, in part reflect long-standing obstacles to firm growth: a challenging business environment, inefficient land markets, labor market and product market restrictions, and gender inequality.

- **Invest in adaptation.** Governments must adopt adaptation strategies today to improve resilience to future climate disasters. These include investments as well as supportive policy environments. One of the most effective adaptation strategies is the provision of broad public goods: connective infrastructure, robust social protection, and effective public services in critical sectors like water and health. Roads and bridges, local clinics, piped water—these and other investments generate double dividends, improving productivity in good times while building resilience in bad times.

The quest for broad-based prosperity and resilience will take time and effort. But the right investments and policies will pay out over decades.

*Martin Raiser*

*Vice President, South Asia Region*