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**OPINION IN LEAD**

### Opening up to new digital payments era

The November 2020 announcement by Nepal's central bank that it might facilitate international payment from Nepal soon was welcomed by people here. People in Nepal had long been demanding easy payment solutions to purchase digital products and services available on the Internet. Nepal Rastra Bank (NRB) had first announced the policy regarding International Payment System in the first quarter review of the monetary policy. This was followed by a consultation document, which details the issuance of prepaid dollar-denominated cards that will facilitate the payment for international services.

According to the proposed provision, an individual will be allowed to maintain one prepaid dollar-denominated card from which the individual can make payments for up to US$500 a year for such digital services. However, if they can show evidence that they have earned at least double the amount spent from the prepaid card in the international currency then the banks can increase the limit in the card.

Despite the massive boom in the digital economy worldwide, people from Nepal were not able to avail the benefits from the digital market due to very restrictive international payments facilities. This issue is more prominent now as people are working from home due to pandemic and need to access different productivity tools that allow remote working and learning easier. Digital services require payment to be done with internationally valid payment service.

Not that people from Nepal are completely cut off from making digital payments now. However, the existing process is lengthy and requires multiple trips to banks. At present, an individual has to request a bank to make foreign payments on their behalf. While there is a provision for an individual to open a dollar account from which a transaction up to US$2000 can be done in a year. This service has stringent conditions such as the individual should have had travelled abroad or had evidence of foreign exchange income. As a result, only a handful of people can access the service. The new system should curtail such restrictions and make it accessible for a larger number of people to make an international payment.

Moreover, the absence of convenient means of payment means people were seeking informal channels to make such payments. Even NRB admits that. For example, some agents operate such payments services, making payments for the services on a user's behalf. Such traders charge a certain fee in Nepali currency and then make payment for the service through their international payments cards. Furthermore, people have been using PayPal and other services by using accounts for their friends and relatives abroad. Such transactions are identified as “Digital Hundi” by the NRB. “Hundi” itself is an illegal channel of money transfer that has been taking place for a long time in Nepal. These informal channels are not accounted for in the financial system as transactions take place outside financial regulatory bodies’ purview. If Nepal sets up the facilities for international online payments, such transactions are more likely to be done through legitimate financial intermediaries. This will not only improve the accounting and monitoring of foreign currency flow of the country but also prevents the instances of consumers falling prey to frauds.

To restrict such informal payments, NRB had even issued a circular directed at advertising agencies to make payments for advertisements of Nepali businesses in social media platforms through legal banking channels. The move was aimed at curbing the practice of using ‘digital hundis’ for the advertisement payments. Although there is no formal estimate of the social media advertising market in Nepal, representatives from advertising agencies say that the market could be as big as NPR 2 billion annually. The current provision to make international payments easier will allow even small payers in the advertising market to participate.

For the government, it makes sense to restrict international payments as it prevents the flight of foreign reserve. Preserving foreign reserve is of utmost importance as the country needs to pay for the imports and other purchases from abroad. Moreover, keeping strong tabs on international payments also helps prevent money laundering instances and helps inhibit capital flights. However, curbing international payments did not stop the flight instead promoted shady payments businesses to grow, putting the consumers at risk. Considering the sufficient foreign reserve at present and the need to connect digital entrepreneurs to the digital service at the global scale, it had become essential to allow small-scale international payments.

Getting integrated with global digital eco-system has become a need of the hour, the pandemic has further emphasized this. Not only has the domestic digital marketplace grown in the last year, but the smooth supply-chain functions have also demonstrated the need for digital cross-border trade. Allowing easy international payment for the consumers is only the first step towards integrating the new digital era.

*This piece is written by Mr. Alabhya Dahal, Research Assistant, SAWTEE.*

**REPORT**

## Economic inclusion via social protection

Leveraging social protection systems and the cross-sectoral collaboration to install economic inclusion programmes can help encountering “poverty traps” that people who are poor and vulnerable face, according to the State of Economic Inclusion Report 2021.

“The State of Economic Inclusion Report 2021: The Potential to Scale” by the World Bank gives voice to one of the most stubborn challenges in development—transforming the economic lives of the extreme poor and vulnerable. The report shows that there are over 75 countries that demonstrate signs of success of economic inclusion programmes.

An unprecedented surge in economic inclusion programming is occurring worldwide. Survey data show inclusion programs are under way in at least 75 countries, reaching approximately 20 million households and benefiting more than 90 million individuals. They are heavily concentrated in Sub-Saharan Africa and South Asia. More than half of the programs are in Sub-Saharan Africa, which hosts 30 percent of individuals served, through a proliferation of smaller programs. South Asia is home to 66 percent of people served. The large number of beneficiaries in South Asia is notable given that it is host to only 15 percent of economic inclusion programs, reflecting the scale these programs have achieved, particularly in India and Bangladesh.

In South Asia, a high percentage of programs also focus on social inclusion (44 percent) to reduce the social marginalization of indigenous populations and other vulnerable groups. These social protection programmes focus on the climate change as fifty-seven percent of programmes include interventions designed to mitigate climate change, for example, through sustainable natural resource management or climate change adaptation. Of these programs, 38 percent have resilience as a main objective. Across regions, climate change mitigation efforts are more prevalent in South Asia (75 percent) and Sub-Saharan Africa (66 percent) than elsewhere. Seventy-one percent of surveyed programs facilitate access to financial services, including 88 percent of those in South Asia and 72 percent of those in Sub-Saharan Africa.

Economic inclusion is a key driver of the social safety nets–plus agenda, demonstrating particular promise to strengthen program impacts, but also bringing with it the reality of increased costs and complexity. For this reason, the report moves forward key debates on program impact and costs, which are central to the sustainability of economic inclusion programs at scale.

The report identifies a promising and potentially sustained set of impacts across a wide range of outcomes. A multicounty costing analysis helps to clarify the major cost drivers and cost ranges in different programs. Notably, the discussion brings into focus the need to rebalance debates on impacts and costs to reflect a shift from stand-alone nonprofit-led projects to government-led programs. This will have important operational implications for identifying cost-effective interventions and for cost optimization.

The report provides a systematic review of both government and nongovernment efforts. Defined here as a bundle of coordinated multidimensional interventions that support individuals, households, and communities in increasing incomes and assets, economic inclusion programs show flexibility in a variety of settings. One area with transformative potential is women’s economic empowerment. A surge in global operations is driven by the scale-up of government-led programs that build on social protection, livelihoods and jobs, and financial inclusion investments. Continued momentum draws on a wealth of innovation and learning, spanning

several technical experiences and domains, including graduation, social safety nets “plus,” and community-driven programs as well as local economic development initiatives.
The scale of economic inclusion interventions is modest in part because they began recently and in part because they are most relevant for the poorest subset of the population. South Asia and Sub-Saharan Africa have a large number of people living in poverty, which offers great potential to scale up, the report points out.
The challenge to transforming the lives of the most vulnerable is being magnified by the fallout of the COVID-19 pandemic. The pandemic affects the poor and vulnerable most strongly, with early evidence suggesting disproportionate gender impacts. Economic inclusion programs face the dual challenge of adapting delivery norms during a pandemic and ensuring readiness to respond as part of the medium- and long-term recovery efforts.
*This report has been excerpted from [The State of Economic Inclusion Report 2021: The Potential to Scale.]*

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**NEWS**

### Nepal’s top court tells govt not to allow FDI in agro sector

The Supreme Court of Nepal has issued an interim order directing the government not to implement the decision to allow foreign investment in the country’s agricultural sector.
The interim order was issued by a single bench of Justice Manoj Kumar Sharma.
The government had published a notice in the Nepal Gazette on 4 January, paving the way for foreign investors to invest in large agricultural industries with a mandatory provision of exporting at least 75 percent of the production.
The government’s decision had opened foreign investment in livestock farming, fish farming, bee-keeping, fruits, vegetables, oilseeds and pulses farming as well as in dairy and other agriculture-related businesses.
It was stated in the writ petition that Nepali agricultural industries would collapse as Nepali farmers would not be able to compete if foreign investment is allowed in the sector.
The petitioners had also said that allowing FDI in the agricultural sector would adversely affect the Nepali economy as the foreign investors would operate their own industries in the country and repatriate the dividends to their home country.
Issuing the interim order, the Supreme Court has also directed the concerned government bodies to submit the reasons for allowing foreign investment in the agricultural sector.
*Source: https://thehimalayantimes.com/, 21.01.2021.*

### India launches single window clearance system web portal for coal mining

The Union Home Minister Amit Shah on 11 January inaugurated the single window clearance system web portal in the coal mining sector.
Mr. Shah also handed over the charter of letters to successful bidders of the country's first commercial coal mining auction. He said that the coal sector would play a very important role in achieving the target of a five trillion dollar economy by 2022.
Shah said that for a long time the need was felt to remove uncertainty in the coal sector and bring in transparency, which has been fulfilled by the Modi government. Commercial coal mining auctions will now facilitate small and medium industries to receive coal supplies easily.
Around 560 MT of coal was produced in 2014 while in 2020 it has reached 729 MT. Emphasizing on accelerating the pace of coal mining, Shah said that the greater the pace of this

sector, the faster the nation's economy will grow, and it will help achieve the target of a five trillion dollar economy.
*Source: https://government.economictimes.indiatimes.com/, 12.01.2021.*

### Dhaka drops plan to negotiate FTA with US

Bangladesh's government has backtracked from a plan to propose the US for signing a free trade area (FTA) deal considering its lack of preparedness, an official says.
The Bangladesh Trade and Tariff Commission had studied the feasibility of signing a free trade pact with the US and found that the country could reap financial benefits only if the deal is signed on trade issues.
Bangladesh's commerce ministry had earlier discussed on proposing the US in the next meeting of the Trade and Investment Cooperation Forum Agreement (TICFA) for the agreement that will see tariff eliminate on both sides.
But now the ministry officials think that such a proposal would not draw any positive signal from the US side. Even if the US agrees, Bangladesh would not be able to meet the rigorous conditions to be imposed by the world's biggest economy.
Bangladesh lost the GSP facility in the US market after the Rana Plaza collapse back in 2013, and since then it has implemented various labour rights conditions set by the US and the European Union.
However, the US did not restore the GSP facility and is still putting pressure to further improve workplace safety and labour rights.
Due to the GSP facility cancellation, apparels, Bangladesh's main exportable item, enter the US market by paying as much as 15 percent duty, making exporters less-competitive.
*Source: https://thefinancialexpress.com.bd/, 11.01.2021.*

### China to counter 'unjustified' foreign trade and business laws

China's Ministry of Commerce on 10 January published new rules for countering "unjustified" laws and restrictions imposed by foreign countries on Chinese companies and citizens, as economic relations between Beijing and Washington deteriorate.
The rules on "unjustified extra-territorial application of foreign legislation" were posted on department's website and established a "working mechanism" to assess the legal implications of such incidents.
According to the notice, a Chinese person or organization that is restricted by foreign legislation from "engaging in normal economic, trade and related activity with a third State or its citizens," may report it to the commerce department within 30 days.
The commerce department will then assess a case for its potential violation of international law, impact on China's sovereignty and national security, and impact on Chinese citizens.
When a citizen or other organization "suffers significant losses" from non-compliance with foreign legislation, "relevant government departments may provide necessary support", the notice says.
The Chinese government might also enact "necessary counter-measures" in response.
The new rules come amid an ongoing backlash against various Chinese companies from foreign governments, especially the United States.
*Source: https://www.hellenicshippingnews.com/, 10.01.2021.*

### Pakistan says all visa restrictions for Bangladeshis removed

Pakistan has lifted all restrictions on visas for Bangladeshi citizens, a move being seen as an ice breaker in the frosty relations between the two countries in South Asia.

“Pakistan has already removed all restrictions on Pakistani visas for Bangladeshi citizens,” said a statement by the Pakistan High Commission in Bangladesh after a meeting between Pakistani High Commissioner Imran Ahmed Siddiqui and Bangladesh’s State Minister for Foreign Affairs Md Shahriar Alam.

Mr. Siddiqui said Pakistan is waiting for the same response from the Bangladeshi side.

Bangladesh, former East Pakistan, gained independence after a bloody war in 1971 over popular resentment against power being concentrated in West Pakistan.

Bilateral relations between the two nations have remained tense since, but reached a peak in 2009 when Bangladesh established a tribunal to prosecute those accused of war crimes in 1971.

During the liberation war, the country’s largest Islamist party had sided with the Pakistani military in a bid to prevent the breakup of the country.

India, Pakistan’s regional rival, had supported the Bangladeshi fighters for independence.

But analysts say Bangladesh began seeking closer relations with Pakistan over India’s “partial attitude” recently, including monopoly control over shared rivers, killings of unarmed Bangladeshi civilians on the borders, and the passing of the controversial Citizenship Amendment Act (CAA).

*Source: https://www.aljazeera.com/, 08.01.2021.*

## World Bank expects global economy to expand by 4% in 2021

As the COVID-19 vaccine started rolling out in many countries, the World Bank expects that the global economy will expand four per cent in 2021, but will still remain more than five per cent below its pre-pandemic trend.

The global economy appears to be emerging from one of its deepest recessions and beginning a subdued recovery, World Bank President David Malpass said on 5 January in a forward to the Global Economic Prospects report, according to which a recovery will likely be subdued, unless policy makers move decisively to tame the pandemic and implement investment-enhancing reforms.

Although the global economy is growing again after a 4.3 percent contraction in 2020, the pandemic has caused a heavy toll of deaths and illness, plunged millions into poverty, and may depress economic activity and incomes for a prolonged period.

Top near-term policy priorities are controlling the spread of COVID-19 and ensuring rapid and widespread vaccine deployment. To support economic recovery, authorities also need to facilitate a re-investment cycle aimed at sustainable growth that is less dependent on government debt, the report said.

The collapse in global economic activity in 2020 is estimated to have been slightly less severe than previously projected, mainly due to shallower contractions in advanced economies and a more robust recovery in China.

In contrast, disruptions to activity in the majority of other emerging markets and developing economies were more acute than expected, the Bank said in its report.

*Source: https://www.livemint.com/ , 05.01.2021.*

## Global Warming could stop relatively quickly after emissions go to zero

Parts of the world economy may have been on pause during 2020, dampening greenhouse gas emissions for a while. But that didn’t slow the overall buildup of atmospheric carbon dioxide, which reached its highest level in millions of years.

If anything, research during the year showed global warming is accelerating. Symptoms of the fever include off-the-charts heat waves on land and in the oceans, and a hyperactive and destructive Atlantic hurricane season.

And through November, the last year was on pace to end up as either the hottest, or second-hottest on record for the planet, almost 1°C above pre-industrial times, inching closer to the 1.5°C limit set by the Paris climate agreement.
*Source: https://insideclimatenews.org/, 03.01.2021.*

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**PUBLICATION**

### Industrialization, input duties and revenue concerns in Nepal | Working Paper 20/01 | Paras Kharel, PhD.

This paper seeks to contribute to the discourse on industrialization in Nepal. It shows that it would be premature to write off manufacturing-powered industrialization. It emphasizes that the debate over whether protecting domestic industry from import competition as part of an industrialization strategy works or not is far from settled. It discusses Nepal's muddled input-tariff policy for exports, and examines whether there are valid revenue loss concerns behind the anti-export bias of the tariff policy. While existing research on Nepal suggests revenue loss is not significant if tariff elimination is targeted at inputs used by a few key export products, the paper suggests further extensions and lines of inquiry, taking into account alternative scenarios. Finally, it highlights some questions, trade-offs and issues in tariff setting for the Government of Nepal to ponder. To read the paper, click here.

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