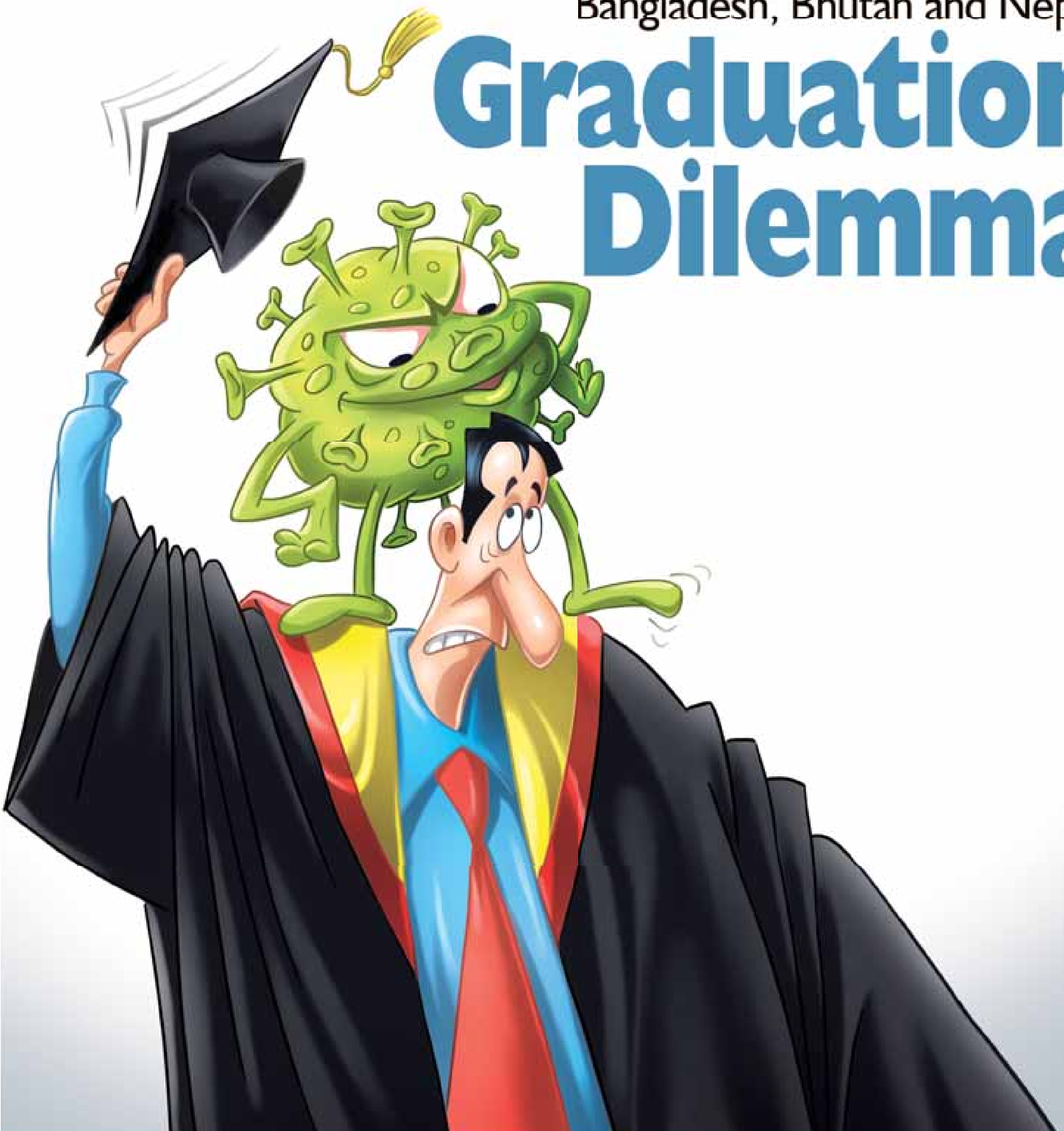
A dialogue on trade and development in South Asia
Vol. 16, No. 3, 2020

TRADE insight

Bangladesh, Bhutan and Nepal

Graduation Dilemma



SDGs PROGRESS | IMPACT ON REMITTANCES | PLAN FOR MSMEs | FOOD SECURITY

A dialogue on trade and development in South Asia Vol. 16, No. 2, 2020

TRADE insight

editors' note

COVID-19 weighs heavy on South Asia

CRISES are inevitable events in human history. In fact, several crises have been turning points in propelling humanity towards new heights of innovation, development, and learnings. However, what makes the COVID-19 crisis unprecedented in recent history is its sheer scope—both in terms of global impact and the different socio-economic variables affected. Particularly jarring is the uncertainty associated with the pandemic—how long the virus will continue its ruthless attack on lives and economies. Effective handling of the crisis has turned out to be an even taller order for most developing countries and emerging economies given their inadequate resources to wage an effective battle on all fronts. South Asian countries predominantly fall into this category.

Having been hard hit by the crisis, there are serious challenges to the development gains that South Asian countries have made in the last couple of decades. As discussed in the different articles of this issue, achieving the Sustainable Development Goals has become ever more challenging, food and nutrition security has become perilous, micro and small businesses in the region are facing existential crisis, and so on.

Adding to the woes, three least-developed countries (LDCs) in the region—Bangladesh, Bhutan and Nepal—are confronted with a unique problem. They have met the development threshold—defined in terms of per capita income, human assets, economic and environmental vulnerability—for graduating out of the LDC group, but the impacts of COVID-19 have given rise to the concern as to whether this would be the right time to graduate. The COVID-19 crisis could very likely affect the development indicators—in the short-term as well as the medium-term—that are the basis for LDC graduation. Thus, graduating based on current development indicators and losing the preferences that LDCs enjoy, such as special and differential treatment and technical assistance, could jeopardize these LDCs' further development prospects. This could render graduation as a transitory event rather than a permanent development milestone that it is envisioned to be.

The cover article in this edition provides an in-depth assessment of the LDC graduation dilemma from each of the three countries' perspective, and offers reasonable answers to whether COVID-19 will affect the graduation prospect of these three South Asian LDCs. It argues that while Bangladesh and Bhutan could still graduate comfortably at the previously prescribed timeline (2021 and 2023, respectively), Nepal's prescribed graduation in 2024 might need a serious investigation. The article suggests that it might be wise to defer Nepal's graduation to a further date.

Notwithstanding the outcome of the 2021 triennial review of the LDCs by the United Nations Committee for Development Policy, which determines the graduation status of the LDCs, one thing is clear: while exiting the LDC group is a remarkable feat, it comes with certain challenges. Hence the graduating countries need clear plans and strategies to overcome the preferences lost from graduation. As succinctly put by UNCTAD's Least Developed Countries Report 2016, "graduation is thus not the winning post of a race to cease being an LDC, but rather the first milestone in the marathon of development." ■

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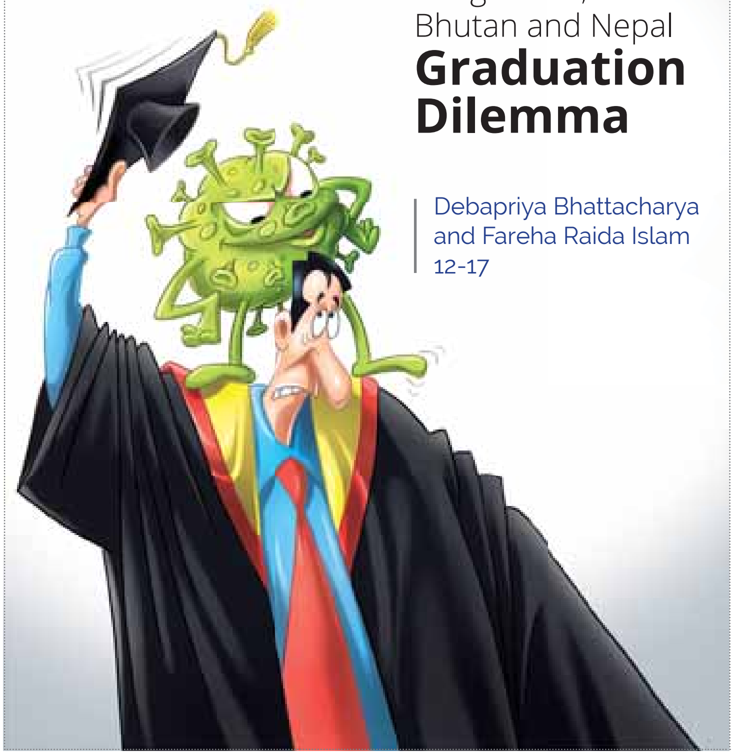
Content



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Nepali orthodox tea gets trademark

NEPAL'S orthodox tea got its own trademark on 22 September, 157 years after the country started growing it. The trademark includes the words 'Nepal Tea: Quality from the Himalayas'. Launched two years ago and formally executed on 22 September, it is the first agriculture produce in the country to get a trademark.

The trademark is expected to help Nepal brand and market its tea, which has been facing an identity crisis for over a century, in the international market. Nepali orthodox tea has been gaining popularity in the international market because of its quality, aroma, taste and after-taste. But other popular tea brands, such as Darjeeling tea, overshadow the Nepali product abroad due to lack of branding, according to Nepali traders.

Tea producers said that a decade-long discussion regarding implementation of the Nepal tea trademark had been resolved. The collective trademark will work as a tool to brand the product abroad, and help Nepali tea producers to expand their footprint in the global orthodox tea market.

Among the 12 factories that have obtained the certificates, nine are from Ilam—Sandakphu Tea Processors, Himalayan Shangri-La Tea Producers, High Hill Tea Producer Cooperative Society, Jasbire Tea Prasodhan, Gorkha Tea Estate, Nepal Green Tea and Speciality Tea, Oasis Tea Industries, Taragaun Tea Estate and Sakejung Hill Range Tea Processing Industry. Two of the factories—Bokre Dada Orthodox Chiya Prasodhan Udhyog and Singhadevi Tea Producers Cooperative—are from Tehrathum, and one factory—Sagarmatha Tea Estate—is from Sankhuwasabha.

Nepal produces around 6,097 tonnes of orthodox tea annually in the hills. It also produces 19,108 tonnes of crush-tear-curl (CTC) tea, known for its strong and bright appearance, in the lowlands of the Terai. *(www.kathmandupost.com/, 23.09.2020)* ■

New commercial waterway opens between Bangladesh, India

A new commercial inland waterway between Bangladesh and India was inaugurated on 3 September with the first export consignment of 50 tonnes of cement from Bangladesh to the Indian state of Tripura.

The trade through the waterway is expected to facilitate bilateral trade in a faster and safer way and to benefit the local communities of both the countries, according to officials. This is the first time that commercial trade between the two countries has started through the Gumti River in the Comilla district of Bangladesh.

The route has been included in the routes of Indo-Bangladesh Protocol (IBP), which is a trial run of the inland waterways protocol between India and Bangladesh. Thus, expected to boost trade between the two countries. *(www.aa.com.tr/, 05.09.2020)* ■

Bangladesh economy shows early signs of pandemic recovery

A rebound in garment orders after demand crashed during spring shutdowns is helping to revive the Bangladesh economy.

Apparel makers, the country's main export industry, say they are looking ahead to Christmas orders from the US and other major markets.

Remittances from Bangladeshi workers employed overseas have also recovered, helping to relieve pressures from a pandemic quasi-shutdown during the spring.

The Asian Development Bank reported that the economic comeback was encouraging. It has forecast that the economy will grow at a robust 6.8 percent annual pace in the fiscal year that ends in June if current conditions persist.

That is a much brighter outlook than in April-May, when global clothing brands suspended or cancelled orders worth more than US$3 billion, affecting about 4 million workers and thousands of factories. "As economies in the West were turning around we were successfully able to get the buyers back to the negotiating table, which is why 80 percent to 90 percent of the US$3.18 billion in cancelled orders have been reinstated," president of the Bangladesh Garment Manufacturers and Exporters Association, or BGMEA, said. Bangladesh earns about US$35 billion annually from garment exports, mainly to the US and Europe. The industry is the world's second largest after China's.

Bangladesh's exports rose 0.6 percent to US$3.9 billion in July, after plummeting 83 percent to US$520 million in April. Imports, which are reported on a quarterly basis, began recovering earlier, rising 36 percent in May-June. In August, exports rose 4.3 percent from a year earlier, to US$2.96 billion, mostly driven by apparel shipments, according to the government's Export Promotion Bureau. Garment shipments totalled US$5.7 billion in July and August. *(www.apnews.com/, 18.09.2020)* ■

Global airlines less hopeful on COVID-19 recovery

GLOBAL airlines cut their coronavirus recovery forecast, saying it would take until 2024—a year longer than previously expected—for passenger traffic to return to pre-crisis levels.

In an update on the pandemic's crippling impact on air travel, the International Air Transport Association (IATA) cited slow virus containment in the US and developing countries, and a weaker outlook for corporate travel.

Lingering travel barriers and new restrictions in some markets are also weighing on nearer-term prospects, IATA said, cutting its 2020 passenger numbers forecast to a 55 percent decline—sharper than the 46 percent drop predicted in April.

June passenger numbers were down 86.5 percent year-on-year, the organization said, after a 91 percent contraction in May. Recovery prospects are weakened by the spread of COVID-19 in the US and developing countries together representing 40 percent of global air travel, IATA said.

International travel is unlikely to rebound significantly without a reasonably priced testing regime that was deemed acceptable by governments. Depending on the country, tests can cost hundreds of dollars.

Business travel may also face a sustained slump, threatening the profitability of long-haul airlines and routes as corporate clients rein in spending and make greater use of video-conferences that have become the norm during lockdowns. *(www.reuters.com/, 28.07.2020)* ■

Afghan transit trade via Gwadar port starts

TRANSIT trade to Afghanistan through Pakistan's strategic Gwadar seaport began on 26 July with a consignment of bulk cargo from the United Arab Emirates (UAE).

"The first transit consignment of bulk cargo through Gwadar to Afghanistan started today. Several consignments are lined up for coming days," said Mohammad Sadiq, Pakistan's special envoy for Afghanistan, on Twitter.

The ship carrying trade goods for Afghanistan anchored at the port, which were transported to the war-stricken country after customs clearance.

With its 600-kilometer coastline, Gwadar is a key deep seaport currently operated by China, which seeks to gain direct access to the Indian Ocean via Gwadar in line with its US$64 billion China-Pakistan Economic Corridor (CPEC) mega project.

The economic corridor is hoped to provide China better access to Africa and the Middle East and also earn Pakistan billions of dollars providing transit facilities to the world's second-largest economy.

On 13 July, Islamabad reopened a key border crossing to resume exports from Afghanistan to India under the Afghanistan-Pakistan Transit Trade Agreement (APTTA). The 2010 bilateral trade agreement provides Afghan traders access to the eastern Wagah border with India, where Afghan goods are offloaded onto Indian trucks.

The agreement, however, does not permit Indian goods to be loaded onto trucks for transit back to Afghanistan.

In June 2020, Pakistan also reopened three key trade routes––the southwestern Chaman, northwestern Torkham, and Ghulam Khan border crossings––for transit trade and exports to Afghanistan. *(www.globalvillagespace.com/, 27.07.2020)* ■

Nepal Electricity Authority can sell power to India, Bangladesh

NEPALI government has given its nod to Nepal Electricity Authority (NEA) to trade electricity with India and Bangladesh.

It is mandatory for the NEA to get the approval of the government for inter-country electricity trade.

Nepal's Minister of Energy, Water Resources and Irrigation Barshaman Pun said the government had given the approval to sell electricity to India and Bangladesh when the domestic production was high and to import electricity from the neighbouring countries when the production was low. With the government's approval, NEA will now be able to buy and sell electricity at competitive price.

NEA has been preparing for short-term sale of electricity in India's energy exchange market for a long time. In the energy exchange market of India, similar to shares, electricity can be bought and sold in real time.

NEA has designated Indian NTPC Vidyut Vyapar Nigam Ltd as its nodal agency to represent it in the market. *(www.thehimalayantimes.com/, 22.07.2020)* ■

India's solar boom threatened by anti-China trade tariffs

INDIA'S great strides on solar development could be hampered by anti-China sentiment, which is compelling the government to cut ties with its most powerful neighbour at any cost.

While the relationship between China and India has been historically strained, in June a military standoff at the northeastern border, which left 20 Indian soldiers dead, escalated the conflict into a full blown trade war.

Since 2018 India has been imposing anti-dumping measures to protect local solar manufacturers from cheap Chinese imports. The government is now doubling down with a new round of customs duties on cells and modules imported from China and Malaysia, where some Chinese companies have set up shop to avoid trade barriers. According to the Power and Renewable Energy Ministry, the plan is to impose up to 25 percent duties on solar modules and a 15 percent tariff on cells during the first year, increasing them to 40 percent and 30 percent respectively in the second year. While these penalties were meant to kick in only after the previous measures had expired, the government has decided to extend the existing safeguard duties for another year, basically taxing all imports twice.

India is aiming to reach 100GW of solar capacity by 2022. As of 31 March 2020, only 37GW were installed. Experts worry that drastic, short term measures will harm both developers and manufacturers, further slowing India's progress.

India's dependence on China is so deep that manufacturers won't be able to replace imports with homegrown tech in just two years. And while foreign investors are increasingly attracted to Indian solar installations, Indian manufacturing doesn't spark the same interest. *(www.climatechangenews.com/, 06.06.2020)* ■

Tea industry in India suffers double whammy from rains and Kenya

INDIA'S long-established tea industry is struggling as heavy rains and the absence of tea pickers because of lockdowns have hammered production and sent local prices spiraling to records, while top buyers are turning to Kenya where the market has dropped.

Output in the world's second-largest producer is set to shrink to the smallest in five years, falling 13 percent to about 1.21 billion kilograms, while exports will drop 16 percent to about 210 million kilograms, a six-year low, according to Mcleod Russel India Ltd., one of the country's biggest growers.

Domestic production is falling after excessive rain in June and July and lockdowns kept workers away from the plantations, while importers in the UK, Egypt and the Middle East may switch to Kenya.

Auction prices in the African nation have fallen after production of black tea climbed more than 40 percent in the first half from a year earlier on good weather, according to the Tea Directorate. By contrast, prices are at a record in the main growing areas of India as average prices jumped about 60 percent between April and early August from a year earlier.

Still, even with the higher prices, lower volumes are hurting the cash flow of Indian tea companies. *(www.economictimes.indiatimes.com/, 12.08.2020)* ■

COVID-19 pandemic derails fight against Zero Hunger

THE world is not on track to achieve Zero Hunger by 2030 and the COVID-19 pandemic will likely add between 83 million and 132 million people to the total number of undernourished in the world in 2020 depending on the economic growth scenario.

The latest issue of *The State of Food Security and Nutrition in the World 2020: Transforming Food Systems for Affordable Healthy Diets* report estimates that currently nearly 690 million people are hungry, or 8.9 percent of the world population, up by 10 million people in one year and by nearly 60 million in five years. In 2019, close to 750 million, or nearly one in ten people in the world, were exposed to severe levels of food insecurity. If recent trends continue, the number of people affected by hunger would surpass 840 million by 2030.

The nutritional status of the most vulnerable population groups is likely to deteriorate further due to the health and socio-economic impacts of COVID-19. Low-income countries rely more on staple foods and less on fruits and vegetables and animal source foods than high-income countries. While the world still faces significant challenges in just accessing food, challenges are even more important in terms of accessing healthy diets.

The cost of a healthy diet exceeds the international poverty line (established at US$1.90 purchasing power parity (PPP) per person per day), making it unaffordable for the poor. The cost also exceeds average food expenditures in most countries in the Global South: around 57 percent or more of the population cannot afford a healthy diet throughout sub-Saharan Africa and Southern Asia.

There are a number of reasons why hunger has increased in the last few years. Weak, stagnant or deteriorating economic conditions are underlying causes of increasing poverty and undernourishment. Economic slowdowns and downturns, particularly since the financial crisis of 2008–2009, have had significant impacts on hunger through various channels. Despite significant progress in many of the world's poorest countries, and extreme poverty rate declining in the last two decades from more than 50 percent to about 30 percent, almost 10 percent of the world population still lives on US$1.90 per day or less, especially in sub-Saharan Africa and Southern Asia. Debt has increased significantly in many poor economies during the last decade, with total debt reaching almost 170 percent of GDP in 2018, thus contributing to rising global risks and weakening growth prospects in many emerging and developing economies.

The increasing frequency of extreme weather events, altered environmental conditions, and the associated spread of pests and diseases over the last 15 years are factors that contribute to vicious circles of poverty and hunger, particularly when exacerbated by fragile institutions, conflicts, violence and the widespread displacement of populations. The number of displaced people in the world in 2018 was about 70 percent higher than in 2010, reaching some 70.8 million, mostly hosted by developing countries.

In Southern Asia, significant progress was also made in reducing hunger in the last ten years in countries such as Nepal, Pakistan and Sri Lanka, owing largely to improved economic conditions.

The two subregions showing reductions in undernourishment, Eastern and Southern Asia, are dominated by the two largest economies of the continent, China and India. Despite very different conditions, histories and rates of progress, the reduction in hunger in both countries stems from long-term economic growth, reduced inequality, and improved access to basic goods and services.

In Asia, the percentage of people exposed to moderate or severe food insecurity remained stable from 2014 to 2016, then started increasing from 2017. The increase is concentrated in Southern Asia where the total prevalence of food insecurity increased from less than 30 percent in 2017 to more than 36 percent in 2019. The global crisis induced by the COVID-19 pandemic will certainly bring these figures to much higher levels, even in regions such as Northern America and Europe, which have traditionally been more food secure. ■

This piece is excerpted from The State of Food Security and Nutrition in the World 2020: Transforming Food Systems for Affordable Healthy Diets jointly published by the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the United Nations Children's Fund (UNICEF), the World Food Programme (WFP) and the World Health Organization (WHO).

South Asia's prospects of **achieving the SDGs** in view of the COVID-19 pandemic

South Asia, which was already lagging in the progress towards achieving the SDGs, is now severely affected by the pandemic.

Jithin Sabu

Sustainable Development Goals (SDGs), a set of 17 comprehensive goals adopted in 2015 for sustainable global peace and prosperity to be achieved by 2030, is facing a major blow from the COVID-19 pandemic. The incredibly ambitious goals include, inter alia, poverty elimination, reduction of inequalities, good health and well-being, quality education, clean water, affordable and clean energy, decent work and economic growth.

While the COVID-19 pandemic has imposed a major roadblock in the progress along the achievement of the goals, the progress of the world with regard to SDGs was already under criticism. For instance, the SDG Summit in 2019 did not find the progress made in the first four years satisfactory. Likewise, according to *The Sustainable Development Goals Report 2020* of the United Nations, no country was on track to meet the target, even before the pandemic. The coronavirus pandemic, which is described as the "worst human and economic crisis of our lifetime" by the UN Secretary General, has exacerbated the already slow progress.

The pandemic-led rise in unemployment and disruption in global supply chains have increased poverty and hunger severely, pushing tens of millions of people into extreme poverty. South Asia, which was already lagging in the progress towards achieving the SDGs, is now severely affected by the pandemic.

South Asia and the SDGs: pre-COVID scenario

Some South Asian countries made notable improvements in human development in the past decades. Countries such as Bangladesh, Nepal and Sri Lanka achieved many targets of the Millennium Development Goals (MDGs) in areas of food security, poverty reduction, primary school enrolment, infant and under-five mortality ratio and immunization coverage.[1] However, there were also countries in the region that were laggards in achieving the MDGs.

South Asia scores poorly in the multidimensional poverty index[2] and the region has the second lowest human development index in the world, just above sub-Saharan Africa. Against this background, SDGs for South Asia were keys to address the major development challenges and fulfil the uncompleted MDG agenda.

However, South Asia's progress regarding the SDG agenda has not been satisfactory. Before the pandemic, South Asian countries were performing below the global average in more than half of the SDGs, including good health and well-being (SDG 3), gender equality (SDG 5), clean water and sanitation (SDG 6), and affordable and clean energy (SDG 7).[3] In fact, the overall performance of South Asia was regressing in some indicators such as sustainable cities and communities (SDG 11), climate action (SDG 13), and life on land (SDG 15). Among other things, the region's existing inequalities in terms of caste, gender and class are impediments to the achievement of the SDGs.

Nevertheless, some improvements were visible in the region. In 2018, no South Asian country was in the list of top 100 countries ranked according to the SDG Index. In 2019, two countries in the region—the Maldives and Sri Lanka— made it to the list and one more South Asian country—Nepal— made it to the list in 2020. Notably, these countries were performing above the global average in goals such as poverty alleviation (SDG 1); quality education (SDG 4); industry, innovation and infrastructure (SDG 9); and decent work and economic growth (SDG 8).

Impact of COVID-19 on SDGs in South Asia

South Asia, which was struggling to meet the SDG targets, is now seriously affected by the impact of COVID-19. The large number of people living in the margins, fragmented social protection coverage, high number of informal employment and economic activities, and underdeveloped public health infrastructure have exacerbated the impact. Besides affecting the lives and livelihoods of the people living in the region, the economic contraction is going to leave governments with a hole in the pocket that will affect budgetary commitments towards SDGs.

South Asia's relatively good performance on poverty reduction of the past five years is now immensely affected. Shutdown of economic activities for months has caused massive job losses and resulted in millions of people falling into absolute poverty in the region. As many as 132 million more people will be pushed into extreme poverty in South Asia and bulk of them will be in India, according to a simulation exercise presented in a report published by the United Nations Economic and Social Commission for Asia and the Pacific.[4]

Similarly, according to the United Nations Children's Fund (UNICEF), around 120 million more children in South Asia will be pushed into poverty in the current year.[5] Decades of hard earned progress in the field of children's education, health and other vital priorities will be wiped out by this pandemic. Because of the reduction in incomes of many families due to job losses both within the country and abroad, expenditure on nutrition, health and education will plummet. A survey by UNICEF in Bangladesh and Sri Lanka revealed that around 30 percent of families have reduced their food consumption due to unaffordability. Government spending on health, nutrition and education also appear to be affected as resources need to be diverted towards countering the pandemic.

> South Asia's relatively good performance on poverty reduction of the past five years is now immensely affected.

Moreover, South Asia has high inequality in access to quality internet connection and electricity. Especially during the pandemic, when online and long-distance education have become the norm, this inequality is going to affect a large number of children who do not have access to quality internet and electricity. This will further the existing social, economic and regional inequalities in the South Asia region.

Millions of people in the region lack basic services such as access to clean water and sanitation facilities, especially in growing urban slum areas. Large investment required to solve this problem is now in jeopardy due to the shrinking government revenues.

South Asia was already underperforming in the SDG concerning gender equality and the pandemic has made the matter worse. Women are more affected than men due to the pandemic in all markers like health, economy, social protection and access to food.[6] Unpaid care work for women has increased due to the proliferation of disease and domestic violence during the lockdown period.

South Asia might see its worst economic performance in the past forty years with at least half the countries projected to experience deep recession according to the World Bank.[7] The collapse of international trade has caused huge economic losses in major labour-intensive sectors such as leather products, garments, handicrafts and shrimps in South Asia. Similarly, tourism and hospitality sectors, which have been heavily affected by the pandemic, are sources of major income for many countries in the region. International remittance inflows, which are significant sources of South Asia's economies and livelihoods, appear to reduce drastically due to the pandemic. Likewise, the backbone of South Asian economies—the micro, small and medium enterprises (MSMEs)— are also heavily affected by the supply chain disruptions, liquidity crunch, demand collapse and labour shortages. The resulting loss of incomes and jobs due to all these factors will have a long term impact on South Asia's journey towards the achievement of the SDGs.

Way forward for South Asia

Existing high levels of fiscal deficit and public debt gives limited fiscal space to South Asia's governments to finance the achievement of SDGs. India alone needs an investment of US$2.64 trillion to meet the SDG targets by 2030 according to the Standard Chartered SDG Investment Map.[8] It is high time to integrate new sources of private capital with scalable and innovative approaches to fill the investment gap as it is not possible for the public sector alone to fund this gap.

Financial guarantees should be scaled up to attract private capital in these countries and reduce investors' exposure to risks. Financial bonds are another tool for bringing additional capital to fund the SDGs. National governments should issue new green[9], social[10] and sustainability bonds.[11]

This is an opportune time to rethink South Asia's current economic growth path, which is coming at a heavy cost to the people and the planet. The region has a large number of countries most vulnerable to climate change and also the world's most polluted cities. Against this background, economic growth in the region should be achieved keeping a long-term vision with the goal of long-term sustainability. Accordingly, economic stimulus packages should have social inclusion and environmental sustainability as major objectives.

The region's fossil fuel subsidy, which is higher than the investments in renewables, should be changed in a manner that will align with the environmental goals of the SDGs. Governments should also utilize the advantage of current low crude oil prices and higher taxes on petroleum products to fund projects that will build greener and sustainable energy systems.

More public funds should be channelized to boost health infrastructure in the region. Increasing annual health expenditure and introducing universal health coverage will help not only in meeting SDG 3(Good health for all), but also to build resilience to future risks. Advanced purchase agreements will lead the private health sector to develop and research solutions that will directly help the lower income populations.

Universal social protection systems can play the role of automatic stabilizers during crises by providing basic income. Scaling up of existing social safety net programmes such as the National Rural Employment Guarantee Act (NREGA) programme in India and Benazir Income Support Programme (BISP) in Pakistan will help to cover the more vulnerable groups, including women. Employment created by these programmes can be used for building local infrastructure and facilities in critical areas such as food, health, education, safe drinking water and sanitation.

Massive public work programmes can be introduced in areas of waste recycling, building new clean-energy systems based on solar and wind energy, climate smart and organic farming practices, transforming waste to energy and creating environment friendly public spaces. This will not only help in job creation, but also in creation of public goods of long-term value and contribute to de-carbonization of the region.

Governments should also reskill their workforce by providing digital literacy and exposure to future growth sectors. The urbanization strategy in South Asia needs to be reconfigured with a more balanced approach that will reduce the pressure from existing urban centres. MSMEs should be kept afloat by deferred payment of taxes, infusion of new funds through stimulus packages and monetary measures.

Regional and sub-regional cooperation is important for South Asian countries in managing the pandemic's impact and to recover in a sustainable manner. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), South Asian Association for Regional Cooperation (SAARC) and Bangladesh-Bhutan-India-Nepal (BBIN) should be strengthened to harness the potential of cooperation through various joint programmes and projects. The potential of intra-regional trade should be utilized for accelerating recovery and development in the region. Freight corridors in the South Asian region should be strengthened by simplifying documentation formalities, digitization and joint infrastructure building and upgradation.

The world should provide support to South Asia to bridge its gaps in progress towards SDGs. This is critical for the success of the entire world in meeting the SDG targets by the end of this decade. ■

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Notes

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9. Green bonds are any type of bond instruments where the proceeds will be exclusively applied to finance projects with clear environmental benefits.
10. Social bonds are exclusively used to finance projects that aim to mitigate or address any specific social issue or to attain any positive social outcomes.
11. Sustainable bonds are bond instruments where the proceeds will be exclusively used to finance a combination of green and social projects.

Bangladesh, Bhutan and Nepal
Graduation Dilemma

The COVID-19 pandemic has exacerbated the pre-existing vulnerabilities of the graduation-ready economies and have also weakened their transition momentum.

Debapriya Bhattacharya and Fareha Raida Islam

Low per capita income, low level of human assets, and high economic and environmental vulnerabilities are the defining features of least-developed countries (LDCs).[1] A total of 12 countries (out of a total of 47) are set to graduate from the LDC group by 2024.[2] Seven of these 12 'graduating LDCs' are located in Asia and the Pacific, and three of them—Bangladesh, Bhutan and Nepal—are in South Asia.

Limited productive capacities and depressed productivity growth have inhibited these three South Asian countries, like most of the LDCs, from pursuing rapid diversification, which is a major determinant of poverty reduction and an essential factor for sustainable long-term growth.[3] These countries also have low domestic resource mobilization, constricted fiscal space, limited access to private credit markets, and subpar institutional capacities. Moreover, these South Asian graduating LDCs are also climate-affected nations and victims of frequent natural disasters. The Himalayan economies—Nepal and Bhutan—face an additional geographical impediment of being landlocked, which makes connectivity precarious for them.

Incidentally, Bangladesh, Bhutan and Nepal are also going through a simultaneous graduation (often referred to as 'double graduation') phase. They are graduating from low income country (LIC) to lower middle-income country (LMIC) category as defined by the World Bank.[4] The graduation to LMIC category is occurring at a cost in terms of reduced access to concessional loans and relaxed financing modalities. Amidst this, the COVID-19 pandemic has exacerbated the pre-existing vulnerabilities of these economies and have also weakened their transition momentum. As the triennial review of these candidate LDCs by the United Nations (UN) Committee for Development Policy (CDP)[5] draws near, the question is being asked about whether these South Asian graduating LDCs (as well as that of other candidate LDCs) are suitably positioned to leave the group at this juncture. The present article, thus, seeks to explore the empirical and policy question: *Will COVID-19 affect the graduation prospect of the South Asian LDCs?*

Country-level analysis

In view of the analytically derived expected effects of the pandemic on weaker developing countries and taking note of the core criteria of LDC graduation, the figure (see page 14) schematically presents the main transmission channels of the former on the latter.

The table (see page 15) depicts the criteria scores earned by the three candidate LDCs in the past two triennial reviews (2015 and 2018) and the latest updates that will be considered for the 2021 triennial review. Among the three criteria sets, human asset index (HAI) and gross national income (GNI) would both be highly affected, but one may be more influenced than the other in each country. The indicators and sub-indicators of LDC graduation that are potentially the most vulnerable to COVID-19 include GNI per capita, under-five mortality rate, maternal mortality rate, prevalence of stunting, gross secondary school enrolment, gender parity index in secondary education and instability of exports of goods and services. Our discussion does not include the environmental dimension of the economic and environmental vulnerability index (EVI) criteria because there will be minimal, if any, immediate impact on it due to COVID-19, although a weak correlation may be found in the long-term.

> Human asset criteria of LDC graduation could be the hardest hit, but the impact on it may not be seen immediately.

Assessment to be undertaken for the 2021 triennial review would be essentially based on these data points, and will not capture the impact of COVID-19 on the country's economic and related situation. Hence, reflections on supplementary indicators as well as national assessments will be essential to reach a sound judgment.

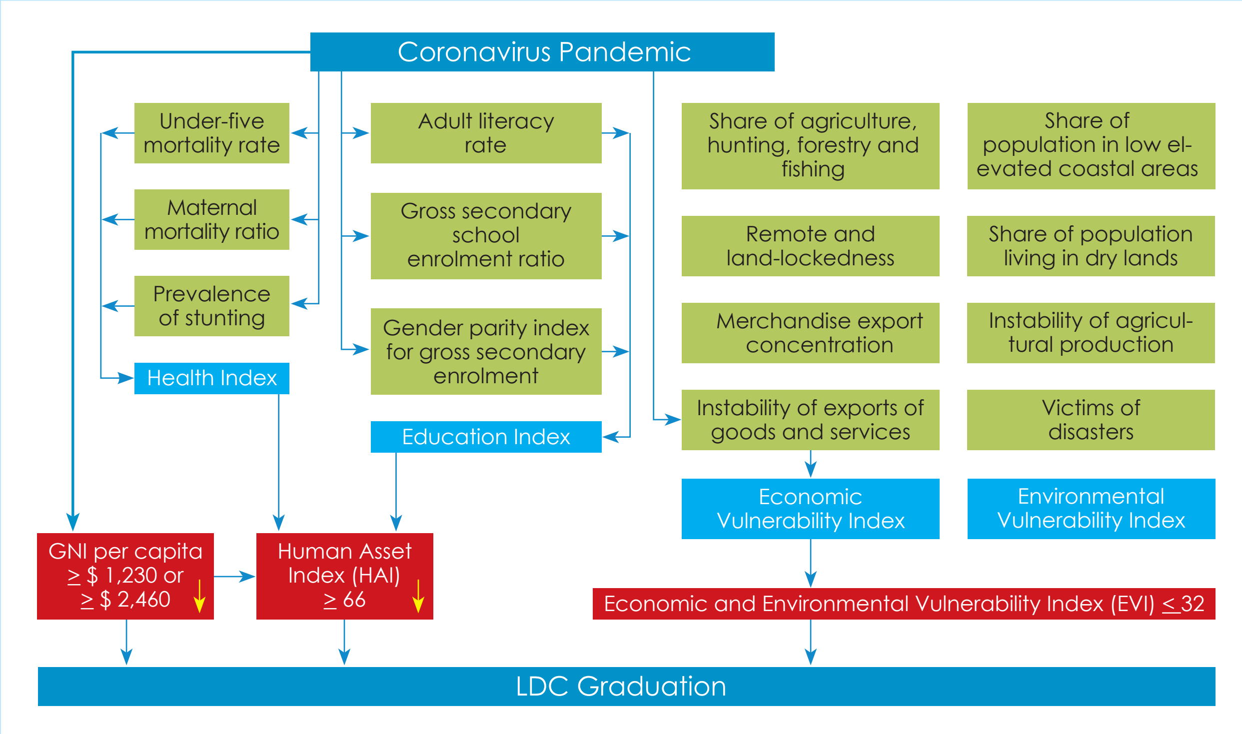
Bangladesh

In 2018, Bangladesh qualified for graduation by meeting all three graduation criteria. The EVI threshold was comfortably met. Sustained improvement in human assets led to meeting HAI criteria in 2018. The income criteria threshold was met only by a small margin, which was a slight cause of concern from the perspective of smooth graduation. However, the latest available data of April 2020 suggest that Bangladesh's GNI per capita has significantly exceeded the threshold for the 2021 triennial review (see Table on page 15). Likewise, HAI has also significantly increased since the last triennial review. Notwithstanding a marginal deterioration, the EVI remains quite positive.

Since COVID-19 struck the country in early March 2020, Bangladesh has been experiencing rapidly surging infections through community transmissions. The pandemic has caused disruptions in demand, supply and production channels. Particularly, a negative shock on the main export item (readymade garments) posed a major challenge to the economy of Bangladesh. Cancellation of orders from the OECD countries have been particularly stirring in this case. Likewise, another pillar of the Bangladeshi economy— remittance receipts—has also been under pressure as migrant workers, especially affected by the oil price crash in the Middle East, have been returning home.[8] Moreover, the already plunging foreign direct investment (FDI) inflow since 2019 has been undergoing a further decline due to the pandemic. Negative effect of COVID-19 on all these growth determinants of the country led the government to revise its estimated GDP growth rate to 5.2 percent for the fiscal year (FY) 2020/21, which is believed by many to be overly optimistic, as against the original forecast of 7.4 percent. Although these trends will inevitably affect the GNI per capita of the country, it will not lead to a large fall from the recent figure of US$1,640, which is significantly higher than the graduation threshold of US$1,222 for the 2021 triennial review.

Human asset criteria of LDC graduation could be the hardest hit, but the impact on it may not be seen immediately. Under-five mortality rate is expected to rise in the medium term along with the prevalence of stunting.[9] Maternal mortality rates are on the rise. The protracted impact of COVID-19 on school closures and income losses will cause gross secondary school enrolment to fall, particularly

Figure
Impact transmission channels on indicators of LDC graduation criteria



Source: Authors' illustration based on information from UN-CDP (2020)[6]

among female students, thus negatively influencing the gender parity index.

Similarly, impact of COVID-19 on the economic component of the EVI is expected to be seen in export instability as the return of stability in export markets remains uncertain.

Our assessment suggests that notwithstanding the immediate and visible adverse impacts of the contagion, all the three core criteria of LDC graduation for Bangladesh will most likely satisfy the required thresholds. This projection is guided by the fact that the recorded benchmark of the country regarding GNI per capita, HAI and EVI scores during the 2018 triennial review had been high enough to withstand certain level of erosion. Moreover, even if the country does not fulfill one of the criteria, it will still be eligible for graduation based on the fulfillment of two other criterions.

It may be surmised from all available signals from official quarters[10] that it seems the government of Bangladesh remains committed to graduating from the LDC group. It would be only politically opportune for the country if the triennial review in 2021 provides the final go, making the graduation coincide with the 50th anniversary of the country's independence.

Bhutan

Bhutan attained the criteria for leaving the LDC group in 2015 upon crossing the GNI per capita threshold significantly and the HAI criteria marginally (see Table on page 15). However, the EVI threshold was not met even in the triennial review of 2018. On the other hand, by 2018, the HAI score had significantly exceeded the required threshold and GNI per capita had seen a further increase. Thus, Bhutan could graduate with flying colours in 2021, but it has decided to defer the event by requesting a transition period until 2023. Bhutan chose to request a five-year transition period instead of the standard three-year transition so as to ensure that last mile challenges in all the sectors were met. It also wanted its LDC graduation to coincide with its twelfth five-year-plan (2018-2023).[11]

Recent data indicate that in 2021 Bhutan will have met the EVI criteria more than sufficiently (see Table on page 15). The HAI score has experienced a further increase in the last three years. Similarly, the country is poised to meet the income criteria by more than double the threshold value, which is a singular criteria for LDC graduation. These positive trends, however, do not capture the impacts of COVID-19 on the economy.

Bhutan has been one of the least-affected countries in the region, with only sporadic cases of COVID-19. However, due to the closure of borders, it has been experiencing adverse economic impacts. Bhutan's tourism income, which is a major contributor of its GDP, has sharply plummeted, and so has the income from its hospitality sector. Adverse effects in its tourism sector have significantly impacted livelihoods through loss of employment. For instance, a survey carried out in the early months of infection (April 2020), found that about 32 percent of the people involved in the tourism sector had lost their employment or were placed on leave-without-pay.[12] This trend is expected to have further exacerbated in the subsequent months. Likewise, Bhutan's export revenue got affected because of prolonged lockdown in India, where it sells 37 percent of its hydroelectricity.[13] Such adverse impacts on Bhutan's economy have led to a revised GDP growth forecast of 1.5 percent for the year 2020, which is a significant downturn compared to the original projection of 7.2 percent.[14] All these conditions may slowdown, if not contract, the growth of GNI per capita of Bhutan.

The most evident impact of COVID-19 on Bhutan may be reflected in the HAI index. Model-based estimates show that indirect effect of the pandemic stemming from factors such as strained health systems and loss of incomes and employment will have a substantial impact on maternal mortality as well as child mortality.[15] Along with a rise in maternal mortality and under-five mortality rates, risks associated with food insecurity and increased malnutrition could lead to a rise in the prevalence of stunting. Secondary school enrolment ratio, which was as high as 90 percent in 2018, will probably also fall. This burden will fall disproportionately on female students, leading to an unfavourable rise in gender parity index in secondary school enrolment.

Bhutan had not met the EVI threshold until the last triennial review and it has been the weakest of the three graduation criteria for the country. Instability of exports, which affects EVI, is expected to rise following the repercussions of COVID-19.

However, even in the case of an unlikely scenario where Bhutan falls short of both the HAI and EVI thresholds due to the adverse consequences of COVID-19, it may still be fully eligible for graduation upon meeting

Table
CDP's decision on LDC graduation: Bangladesh, Bhutan and Nepal

	GNI per capita (US$)			Human Asset Index (HAI)			Economic and Environmental Vulnerability Index (EVI)		
	Latest year data available for the triennial review of 2015	Latest year data available for the triennial review of 2018	Latest year data available for the triennial review of 2021	Latest year data available for the triennial review of 2015	Latest year data available for the triennial review of 2018	Latest year data available for the triennial review of 2021	Latest year data available for the triennial review of 2015	Latest year data available for the triennial review of 2018	Latest year data available for the triennial review of 2021
Graduation threshold	1,242 or above	1,230 or above	1,222 or above	66 or above	66 or above	66 or above	32 or below	32 or below	32 or below
Bangladesh	926 Did not meet the criteria	1,274 Marginally above the threshold	1,640 Much above the threshold	63.8 Did not meet the criteria	73.2 Much above the threshold	75.33 Much above the threshold	25.1 Much below the threshold	25.2 Much below the threshold	27.27 Much below the threshold
Bhutan	2,277 Significantly above the threshold	2,401 Significantly above the threshold	2,941 Significantly above the threshold	67.9 Marginally above the threshold	72.9 Much above the threshold	75.93 Much above the threshold	40.2 Did not meet the criteria	36.3 Did not meet the criteria	25.90 Much below the threshold
Nepal	659 Did not meet the criteria	745 Did not meet the criteria	911 Did not meet the criteria	68.7 Marginally above the threshold	71.2 Much above the threshold	72.13 Much above the threshold	26.8 Much below the threshold	28.4 Much below the threshold	25.40 Much below the threshold

Source: Authors' compilation with data retrieved from official triennial review dataset (2000-2018) and time series estimates dataset (2000-2020) from the UN Department of Economic and Social Affair (UNDESA)[7].


pixabay

the 'double the income' criteria. Furthermore, there is also no indication as yet that the Bhutanese government is reconsidering the country's LDC graduation schedule.[16] Hence, Bhutan seems well positioned for its scheduled graduation from the LDC category in 2023.

Nepal

Nepal met the criteria for LDC graduation for the first time in 2015 (see Table on page 15). Under regular circumstances, the country would exit the LDC group in 2021. However, upon Nepal's request, the CDP agreed to defer Nepal's exit to 2024 on the grounds of extreme vulnerability.

In the 2015 triennial review, the country met the HAI threshold (although marginally), while it fulfilled the EVI threshold by a significant margin (see Table on page 15). On the other hand, its GNI per capita was significantly below the required threshold. The country, however, underwent a series of serious shocks before the next triennial review in 2018. Apart from the 2015 earthquake, Nepal also encountered border blockade from September 2015 to February 2016, followed by overwhelming floods in 2017. As a result, the EVI score during the 2018 triennial review had seen a fall compared to the earlier review, but remained positive for graduation. Since then, notwithstanding various unfavourable circumstances, the country's HAI score improved significantly (see Table on page 15). However, the income threshold remained unmet.

Latest data (see Table on page 15) show that Nepal might still be eligible to leave the LDC group based on adequate HAI and EVI scores despite not fulfilling the income criteria. This risk of falling short of the required income level will be further exacerbated by the pandemic.

Nepal has been experiencing the COVID-19 spread through a cluster of cases since January. The pandemic is causing economic damage that is considered to be a bigger challenge than the health shock for the country. A lengthy lockdown spanning about five months has not been able to curb a spike in cases and has caused high losses in terms of livelihoods. These negative upshots are expected to trickle down to the LDC graduation criteria and indicators.

> The decision to exit the LDC group depends on robust empirical assessments and on the country's political attitude.

Recovering from a dismal economic growth due to the devastating earthquake of 2015 followed by the border blockade, Nepal experienced an upturn in recent years. But the pandemic-induced fall in remittance inflows, tourism income and export receipts, among others, are going to hold back GDP growth in the current FY 2020/21. Nepal could be one of the five worst-affected economies by COVID-19 among developing Asian economies in terms of remittance loss.[17] Similarly, businesses have reported export order cancellations in significant amounts. It has been estimated that about 23 percent of employment has been lost since the lockdown began.[18] The economic growth is forecasted to drop to 2.3 percent in FY 2020/2021 from 7 percent in FY 2019/20. According to a World Bank estimate, approximately 31 percent of the population who live on the borderline of poverty (between US$1.90 a day and US$3.20 a day) stand at a risk of falling into extreme poverty. All these may impact GNI per capita of Nepal, which is already below the threshold required for LDC graduation.

The HAI and EVI criteria are also affected by the pandemic, especially the former. Falling purchasing power and constrained food accessibility, coupled with chronic malnutrition, will affect the prevalence of stunting, which was already one of the highest in South Asia. Under-five mortality rate may soar because of backlogs in vaccination and immunization. Moreover, health of pregnant and lactating mothers is compromised, giving rise to maternal mortality. For example, the death of a 22-year-old new mother due to postpartum hemorrhage was reported as a result of giving birth at domestic settings because of unavailability of healthcare services.[19] Nepal's education-related indicators are also suffering as lockdown measures have closed educational facilities, and access to information technology remains limited. School dropout rates are anticipated to rise, especially for female students from low-income households, potentially increasing the instances of unpaid domestic care and early marriages in the country. This will have a negative effect on the gender parity index in gross secondary enrolment.

Under these circumstances there may be reasons for Nepal to consider further delaying its exit from the LDC group, currently scheduled for 2024. Even in the pre-COVID-19 period, such a prospect was suggested for graduating with momentum.[20]

Conclusion: the need for a clear plan to exit the LDC club

The ongoing COVID-19-related health crisis in all the three graduating LDCs in South Asia poses varying degrees of economic threats to their prospect of leaving the LDC group. The decision to exit from the LDC group will not only depend on robust empirical assessments, but also on the country's political attitude towards the event.

Guided by our foregoing analysis, we conclude that Bhutan, in spite of the pandemic, may very well satisfy the requirements for LDC graduation. Bangladesh may also follow suit in all probability. It is Nepal which remains in the twilight zone.

In any case, the governments of Bangladesh, Bhutan and Nepal need to expeditiously settle their respective political dilemmas and decide whether they want to leave the LDC group by 2024. In case they decide to go ahead, two tasks become very pertinent.

First, the candidate country should prepare 'an augmented graduation plan' for smooth and sustainable transition from the LDC group, notwithstanding the COVID shock. Availability of such a plan at an early date will not only focus national attention and efforts on its objectives, but also facilitate mobilization of necessary international support.

Second, in view of the COVID-induced damages to lives and livelihoods and recent commitments of global leaders to come in support of vulnerable countries, the graduating LDCs in general and the South Asian ones in particular should mount an international campaign to secure additional preferential assistance during the transition period and beyond. ■

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Notes

1 According to the UN Department of Economic and Social Affairs, inclusion in LDCs are based on the following thresholds: gross national income (GNI) per capita of US$1,022 or below, human assets index (HAI) of 60 or below based on indicators of health and education, and economic and environmental vulnerability index (EVI) of 36 or above based on economic and environmental indicators.

2 Terminal years of graduation of the 12 graduating LDCs are as follows: Vanuatu-2020; Angola, Kiribati and Tuvalu-2021; Bhutan-2023; Bangladesh, Lao PDR, Myanmar, Nepal, Sao Tome and Principe, Solomon Islands and Timor-Leste-2024.

3 UNESCAP. 2019. *Structural transformation and its role in reducing poverty: Asia Pacific countries with special needs development report.* Bangkok: United Nations Publication.

4 The World Bank classifies countries into four income groups according to their GNI per capita —low (US$1,035 or less), lower-middle (US$1,036 to US$4,045), upper-middle (US$4,046 to US$12,535), and high (more than US$12,535) income countries.

5 CDP, a subsidiary body of the UN Economic and Social Council (ECOSOC), is responsible for decisions regarding inclusion in or graduation from the LDC category. In order to do so, the committee undertakes country-specific reviews every three years. The next one is scheduled on February 2021.

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Financial institutions' coping mechanisms against the COVID-19 onslaught Case of Bangladesh

Declaration of relief and stimulus packages by the government of Bangladesh has implications for the coping strategies of banking institutions and the overall economy.

Shah Md Ahsan Habib

pexels

The world is passing through a difficult phase in history due to the COVID-19 pandemic. We are witnessing a mix of health, economic, financial and policy crises. The current environment is characterized by acute business and financial interruptions; disruptions in transportation, communication and other services; uncertainties in future business conditions; and fear and lack of confidence amongst entrepreneurs and clients. In other words, the current environment has all the elements associated with extremely precarious outlook for banks and financial institutions.

In response to the crises, economies around the world have instituted various fiscal and monetary measures. The finance sector is responding and adapting accordingly to support policymakers. As an essential service industry and a critical enabler of economic recovery, banking and financial institutions need coping strategies to address this crisis. This is particularly true for credit-based financial systems such as in Bangladesh, where the banking sector is the major source of financing businesses and economic activities. Broadly, the responses and the coping strategies of banking institutions in Bangladesh can be categorized under five broad heads: addressing the risk of infection; supporting policy goals by offering essential payment and financing services; injecting money in the economy by implementing government's stimulus and central bank's refinance schemes; incorporating recovery strategy to ensure continuity of businesses; and formulating strategies and adopting transformation for future scenarios.

Policy responses and implications for banks

Policy responses in the form of declaration of relief and stimulus packages by the government of Bangladesh and the central bank (Bangladesh Bank) have implications for the coping strategies of banking institutions in Bangladesh. In March-April 2020, the government of Bangladesh announced 18 economic relief and stimulus packages, and Bangladesh Bank (BB) initiated several market intervention measures and refinancing schemes to complement the government's initiatives.[1] The economic relief and stimulus packages declared by the government are primarily being channeled and enforced by the banking industry to support the core economic sectors affected by the pandemic. To that end, BB is engaged in facilitating the process by issuing complementary guidelines, directives and incentives.

As an initial response to support affected businesses, BB announced a moratorium on loan payments and relaxed trade finance-related foreign exchange regulations. BB has encouraged online payments from the initial stages by raising monthly and daily limits on transaction, and has also waived charges on certain online payments. As the monetary policy authority of the country, BB responded to the market needs with several liquidity injection measures that included buying-back of government securities, reducing repo interest rate, reducing cash reserve requirement, increasing advance-deposit ratio and reducing bank rate.

The central bank also offered extended time for realizing export proceeds, submission of import bills of entry, back-to-back letter of credits, payment of export development fund loans, and repatriation of export bills. Several complementary circulars were issued to support banks and their clients for easy availing of economic relief and stimulus packages targeted at small and micro businesses and those in agricultural sectors. In a recent declaration, the central bank decided to introduce a first-of-its-kind credit guarantee scheme worth BDT 20 billion to help micro and small enterprises.

To implement the government's relief and stimulus packages, banking institutions of the country are engaged in injecting stimulus funds into the market. While a necessary step for revival of the economy, it cannot be ignored that the situation will likely lead towards notable contractions of both interest and non-interest incomes of the banks. It is not easy for commercial banks to adjust to the situation when many borrowers are not in a position to pay back their loans, and still, banks are required to support them with additional credit facilities. If the unfavourable business environment caused by a protracted war on the COVID-19 pandemic results in a rise in non-performing loans to a seriously high level, banks will have to confront the capital adequacy and solvency challenges, which are the most critical indicators of financial stability.

Banks' challenges and coping mechanisms

Banks in Bangladesh adopted various measures to cope with the challenges of the COVID-19 pandemic. They continued to operate some of their branches to offer emergency payment and financing services even when the country was under a lockdown imposed to curb the spread of the virus. They adopted the necessary protective measures of the time, such as using face shields, maintaining physical distance, and performing temperature checks of both employees and clients before entering the bank. A section of the banks have formulated separate strategies to address the potential impacts of COVID-19 on their human resource operations. Major initiatives in this connection include maintaining employee rosters, operating a minimum number of branches, forming a committee to monitor affected bank employees, ensuring quarantining of affected employees, maintaining flexibility in office hours, and ensuring health and safety in the workplace.

> Banks are confronted with challenges in the selection of borrowers who qualify for stimulus schemes.

Other than a few essential employees, most were allowed to 'work from home' by the banks during the lockdown. Banks have started offering almost all types of in-person services from office premises since early July.

For ensuring seamless operations, banks have either already formulated or are in the process of formulating tentative plans for alternative infrastructure in head offices and branches based on their future road maps. Increased use of technology remains the centerpiece of such transformations. For example, almost all banks have resorted to online-based education and training platforms to deliver training and capacity development programmes. These measures have notable cost implications for the banking institutions of Bangladesh.

Banking activities in Bangladesh has contracted despite the different measures undertaken by the banks in response to the pandemic. Banks are struggling to maintain their regular deposit growth. There has also been a significant fall in demand for loans—both term loans and working capital loans—due to the business disruption caused by COVID-19 and the associated uncertainties. However, a large number of firms in Bangladesh are productive and innovative enough to bounce back to their pre-COVID state as the effects of the pandemic gradually withers away. In this context, BB's moratorium on loan repayment is a significant aid to borrowers and business houses. The banks, in line with the government's policies, are actively supporting their clients to ensure that they can withstand the challenges of the time and bounce back. However, if the situation persists for a long time, the capacity of banks may be seriously depleted to provide further help, and even their future may be jeopardized.

Banks are also confronted with challenges in the selection of borrowers who qualify for stimulus and refinancing schemes since almost all the businesses are affected. If businesses with the potential to weather the challenge and bounce back could not avail loans under the stimulus packages and refinance schemes, it would not only defeat the ultimate purpose of the government in economic recovery but also pile up banks' non-performing loans. However, in several instances, mainly in the areas of non-essential items, banks are found to be extremely conservative in loan disbursement. This is also due to the fact that most banks' credit portfolios and credit delivery processes are under close scrutiny of the bank management so as to handle upcoming challenges and risks associated with the credit operations of banks.

Another concern of banking institutions in Bangladesh relates to international trade finance. In Bangladesh, banks have significant involvement in trade transactions and therefore, in the current circumstances when international trade has been heavily disrupted by the pandemic, banks are likely to face significant challenges. Exporters are facing uncertainties about receiving payments against their exports. Importers, on the other hand, owing to challenges in receiving their orders on time and reduction in sales due to the fall in demand, are witnessing cash crunches and hence are constrained to pay back the liabilities to the creditor banks. Smaller traders are facing even greater challenges with the cash crunch. In view of these issues faced by exporters and importers, availability of trade finance is turning out to be a serious issue.

Although trade finance does not rank high in terms of non-performing loans at the global level, this is not the case in Bangladesh. Moreover, there are concerns that non-performing loans of the trade finance sector might become an even more serious issue in the coming months. The government and the central bank of Bangladesh have devised stimulus packages and incentives to address the problems associated with international trade and trade finance. Banks are generally availing of these stimulus packages and incentives; however, in some instances, foreign counterparty consent and disagreements are creating barriers both for banks and traders. Banks and traders are also confronting uncertainty regarding their legal liabilities.[2]

One positive development in the aftermath of COVID-19 has been the increasing digitalization of payments. Use of digital payment systems, such as internet-based payments, has increased remarkably in Bangladesh. The central bank has also been very active in promoting digital transactions since the initial waves of the COVID-19 pandemic. This has contributed positively in getting Bangladeshis ready for digital financial transactions. Accordingly, banks in Bangladesh are engaged in adopting and strategizing digital technology, albeit in differential scales, which can be expected to usher in significant innovations in the sector.

On the flip side, with the advent of digital transactions, greater risks of cybersecurity and other financial crimes have also come to the forefront. Hence, as in many other global economies, the Bangladesh Financial Intelligence Unit (BFIU) issued instructions for relaxed and smooth delivery of relief and stimulus packages for quick economic recovery, while also issuing a warning to the banks to be alert about the threats of financial crimes through digital means. Successfully dealing with the potential rise in digital frauds, cyberattacks, and other financial crimes due to quick escalation of digital financial services remains a challenging task for banks in Bangladesh.[3]

> A positive development of COVID-19 has been the increasing digitalization of payments.

Lastly, as a part of coping strategies, banks' boards have become more pro-active in the COVID-19 aftermath. This is also essential for successfully executing the critical monitoring tasks that the banks have to perform in a rapid manner at this critical time. Likewise, most banks have made arrangements that promote continuous dialogue with the management, which helps identify issues and provide strategic directions to handle evolving challenges.[4]

Way forward

Banking institutions' regular communication with their regulator is necessary to deal with the current challenging situation. Regulators must be well informed about the challenges that banks are confronting. In the current scenario, banking challenges might not get priority over 'contamination risk' and 'economic recovery' concerns, but they would eventually have to be dealt with by the regulators.

Banking institutions should also take COVID-19 as an opportunity to support their clients and affected communities, and thus improve their reputation and popularity. If a bank fails to reset itself with a reshaped strategic approach during the current crisis, it could suffer from an erosion of trust from consumers, businesses and the community. Therefore, banks should shoulder greater responsibility and show accountability to the society by keeping aside profit motives in the short run for the sake of long-term business and social benefits. ■

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Twin challenges

of climate change and COVID-19 on agriculture and food security in South Asia

COVID-19 has disrupted many activities in agriculture and food supply chains in South Asia, further compounding the challenges of food and nutrition security and sustaining livelihoods.

Golam Rasul, Nilhari Neupane, Abid Hussain

Agriculture is the backbone of South Asia. Besides providing food and nutrition, it also serves as the source of livelihood for a majority of the people in the region. Besides, it has important linkages with various sectors such as trade and manufacturing, and is an important source of foreign exchange earnings. However, the agriculture sector in South Asia also faces numerous challenges. It faces an enormous pressure due to its high population density. While the region has 5 percent of the global agricultural land, South Asian farmers have to feed over 20 percent of the global population. Similarly, with about one-third of the world's poor living in South Asia, this region is one of the poorest in the world. About 70 percent of these poor people in the region live in rural areas and depend primarily on agriculture for food, nourishment and livelihoods. Also, although irrigation facilities have increased considerably in South Asia, a large share of agricultural land is still rainfed and is therefore highly vulnerable to climate change. Increasing temperatures, changing seasonal rainfall patterns and accelerated melting of glaciers due to changing climate have been threatening agriculture and food security in the region. And now the novel coronavirus (COVID-19) has further disrupted many activities in agriculture and food supply chains in South Asia, further compounding the challenges of food and nutrition security and sustaining livelihoods.[1]

Climate change ravaging agriculture and threatening food security

Climate change is a pressing issue in South Asia. Temperatures have been rising across the region and are projected to continue increasing for the next several decades under all plausible climate scenarios.[2] The Intergovernmental Panel on Climate Change (IPCC) projects a 0.5°C–1.2°C rise in temperature by 2020, 0.88°C –3.16°C rise by 2050, and 1.56°C–5.44°C rise by 2080 in South Asia.[3] Similarly, growing evidence indicates that the historic precipitation patterns are changing and that these changes will become stronger and less predictable in the future. An influential report by the IPCC—*Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems*—projects that the extent of heat-stressed areas in South Asia could increase by up to 12 percent in 2030 and 21 percent in 2050 relative to the baseline period 1950–2000.

All these changes—rise in temperature, changes in precipitation, and expansion of heat-stressed areas—have detrimental effects on crop yields and livestock production. Hence, food and livelihoods security of millions of people in South Asia, where more than 20 percent of the total population are already facing the challenges of food insecurity, will be vulnerable.[4] Higher temperatures reduce crop yields through increased evapotranspiration and by creating a favorable climate for weed and pest infestation. Likewise, changes in precipitation patterns increase the likelihood of crop failures and reduce the production of crops in rainfed areas. Several studies indicate a large negative impact of climate change on the yields of many crops in South Asia. For instance, the global agriculture model of the International Food Policy Research Institute (IFPRI) finds that, by 2050, there will be a 50 percent reduction in yield for wheat, 17 percent for rice and 6 percent for maize because of climate change in South Asia.[5] Likewise, another study finds that, by 2080, cereal production in South Asia will be reduced by as much as 10 percent if the temperature increases by 3°C.[6]

A number of studies have assessed the impact of climate change on crop yields of different crops in different countries.[7] The largest effect will be on two cereal crops, wheat and rice, that are the main staples in South Asia. For the region as a whole, wheat yield will decline by as much as 50 percent by 2050.[8] The highest decline in wheat yield will be in Bangladesh and India (60 percent each), followed by Pakistan (27 percent). Likewise, by 2050, rice yield is expected to decline by 17 percent in South Asia. The decline will be the largest in India (by as much as 40 percent), followed by Nepal (32 percent), Bangladesh (10 percent) and Bhutan (4 percent). Yields of maize and sugarcane will also be affected by global warming.[9] Given that South Asia is a prominent producer of these crops, mainly wheat and rice, and also hugely dependent on them for food security and nutrition, decline in their production in the region can destabilize the global food market and threaten global food security.

Besides its impact on crop yields, climate change is also expected to increase hydrological extremes such as floods, droughts and heat stress.[10] Growing evidence suggests that flood events and their intensity are increasing in South Asia, which will have significant adverse effects on agriculture and food security unless adequate adaptation and mitigation measures are adopted. For instance, in 1974, a series of floods in Bangladesh damaged about 0.6 million tonnes of crops, which contributed to one of the worst famines in decades. Furthermore, according to scientists, climate change may alter monsoon characteristics of South Asia (its onsets and offsets), thus affecting water availability for agriculture and food production in the future. This will have detrimental impacts on the region's agriculture.

Melting glaciers due to climate change will also impact agriculture in South Asia. Rising temperature has accelerated the melting of glaciers. As per the IPCC Special Report on the Ocean and Cryosphere,[11] most of the glaciers in the Hindu-Kush Himalaya (HKH) region will reach peak water production by the middle of this century, and almost all HKH glaciers will reach the peak by the end of the century. The melting of Himalayan glaciers will affect downstream areas in several ways. Initially, the melting of glaciers will increase water availability. This increase will be during the summer and rainy season, when the monsoon is dominant and is likely to affect people with an increase in the intensity of floods. However, as the glaciers shrink, the water supply will gradually reduce, especially in the dry season when more water is needed for irrigation, and this may affect agriculture and food security in large parts of South Asia, including the Indo-Gangetic Plain, which is the breadbasket of the region.

> Increasing intensity of floods in South Asia will have significant impacts on agriculture and food security.

Climate change is also likely to drive the spread of pests and diseases and increase the pest resistance of crops, thus adversely affecting agriculture.

Shocks in agriculture and food security due to the COVID-19 pandemic

South Asian countries took very stringent measures to contain the spread of COVID-19 early on. Although they have loosened the restrictions significantly compared to the initial periods of the lockdown, the situation is far from what it used to be before the pandemic. Economic activities remain largely subdued—travels are banned, movement of goods and services are restricted, and businesses are operating well below their capacities. Labour, the main input in agriculture, is not as mobile as in the pre-COVID period. National, regional and global supply chains have been disrupted.

While lockdown and social distancing measures are critical for saving people's lives and combating the spread of the coronavirus, these measures have depressed agricultural operations with many migrant workers unable to participate in agricultural activities. Furthermore, the disruptions arising from COVID-19 responses have impacted agricultural activities and supply chains, including marketing, transportation, distribution and consumption of agricultural goods and inputs in South Asia.

The intensity of COVID-19 shocks on agriculture in South Asia has also been amplified by the fact that the COVID-19 outbreak coincided with the planting and harvesting season of many crops, including wheat, paddy, fruits and vegetables. For instance, in Bangladesh, farmers could not bring harvested watermelon to the market because of transportation bans. Marketing and selling of poultry, dairy and fruits have also been affected severely in many South Asian countries. Beekeepers could not migrate their bees for spring blooms, procure buckets for the collection and storage of harvested honey, or perform honeybee colony multiplication works.

Denizens of the mountain regions could not harvest non-timber forest products (NTFPs), which are a major income source of people living in the high mountain areas of Bhutan, India and Nepal.

COVID-19, through transport restrictions and market disruptions, has also affected farmers by depressing prices of agricultural products—prices of farm products have collapsed and farmers are compelled to sell their harvests at very low prices. For instance, farm prices for wheat in India have declined substantially due to the lack of facilities to transport the harvest to markets. Similarly, demand for poultry has also shrunken considerably. While prices of farm products declined, consumer prices of many essential food items increased, amid shortages, in almost all the countries during the initial outbreak of COVID-19.

The agriculture sector was further impacted by restrictions on the cross-border movement of goods. Border restrictions not only affected the movement of food items but also affected the supply of agricultural inputs such as chemical fertilizers, seeds, and farm equipment. While a decline in the trade of food products affected food availability in remote areas and caused a price hike in food-importing countries such as Afghanistan, Bhutan, Maldives and Nepal, unavailability of agricultural inputs severely impacted farming operations.[12] For instance, in Afghanistan, food prices increased by 30 percent in Kabul, with wheat flour prices increasing by a hefty 80-100 percent when Pakistan decided to close its border with Afghanistan.

Meeting food and nutritional requirements by many South Asian households has thus been a challenge due to the increase in food prices on the one hand, and the loss of jobs on the other. Many poor households have been forced to cut their expenditure on food items, which has compromised their nutrition intake. As estimated by the United Nations University, the COVID-19 pandemic will push 16 million people in South Asia into extreme poverty. Moreover, a global economic slowdown is highly likely to force international migrant workers to return to their home countries, thus drying up their source of income. All of these will have a dire impact on the food purchasing power of many people in the region.

Tackling the twin challenges of climate change and COVID-19

Climate change presents a grave risk to humanity. Its effects on agriculture and food security are already evident, including in South Asia. COVID-19 has added to the challenges. Urgent and decisive actions are necessary to ensure food and nutrition security and save people's lives and livelihoods. Only national efforts are not sufficient in achieving this. Regional and global cooperation is also necessary.

> Regional and global cooperation is necessary to ensure food and nutrition security.

South Asian countries must act collectively to share experiences regarding the impacts of climate change and COVID-19 on their agriculture and food security and work together to improve the disrupted agriculture supply chain. They must create favourable conditions to make the agriculture sector more attractive, especially to the young labour force, while implementing other reforms such as fast-tracked investments in technology and logistics. Innovative strategies and approaches are needed to address the impacts of both climate change and COVID-19 on agriculture and food security. South Asian countries should also take the current crisis as a unique opportunity to use the disruptive forces of the COVID-19 pandemic and the associated recovery policies to accelerate the transition to a more sustainable and resilient society. Some of the short-term support to address COVID-19 challenges can be linked to long-term economic growth by investing in natural capital to improve long-term productivity and resilience. ■

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Labour migration in South Asia Lessons from COVID-19

The pandemic has exacerbated the unfavourable employment and migration situations endured by migrant workers across multiple dimensions.

Bilesha Weeraratne

The COVID-19 pandemic has affected people across the globe, without distinguishing between natives and migrants. By mid-June 2020, migrants accounted for over 8 percent of the population in eight of the 15 countries most affected by COVID-19.[1] Recent global estimates indicate that more than 111 million migrant workers are affected by the pandemic.[2] The effects of the pandemic on migrant workers transcend geographic boundaries and are felt by their families and economies in their countries of origin. This article examines the implications of COVID-19 on migrant workers from five key labour-sending South Asian countries, namely, Bangladesh, India, Nepal, Pakistan and Sri Lanka, and their economies, with the aim to identify key areas to collaborate to improve the future well-being of migrant workers.

Labour migration and remittances

South Asian economies rely heavily on remittance inflows from international labour migration. Before the onset of COVID-19, there were large regular outflows of migrant workers from South Asian countries, ranging from 203,186 from Sri Lanka to 700,159 from Bangladesh in 2019 (see Table).

A notable feature of labour migration from South Asia is the popularity of the Middle Eastern region as a destination. Countries such as Saudi Arabia and Qatar absorb the largest number of South Asian migrants. Other popular destination countries include the United Arab Emirates (UAE), Oman and Kuwait (Figure 1 on page 25). Moreover, migrant workers from South Asia are disproportionately concentrated in relatively lower skilled occupations. For instance, in 2019, about 50 percent of migrant workers from Bangladesh, Nepal, Pakistan and Sri Lanka were employed in unskilled and semi-skilled occupations (Figure 2 on page 25).

Table
Migrant worker departures (2019)

Country	Departures
Bangladesh	700,159
India	368,048
Nepal	236,208
Pakistan	625,203
Sri Lanka	203,186

Source: Author's compilation based on Bureau of Manpower, Employment and Training (Bangladesh); Ministry of External Affairs, Overseas Employment Division (India); ILO (2020a)[3]; Bureau of Emigration and Overseas Employment (Pakistan); and Central Bank of Sri Lanka.

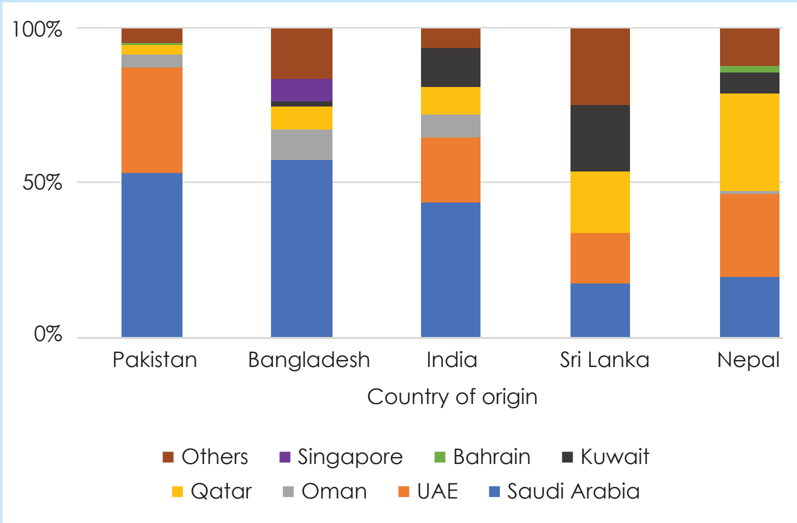
A majority of migrant workers from South Asia are temporary employees, who leave their families behind. As a result, there is a regular inflow of remittances to South Asian economies. In 2019, this region received 20 percent (US$140 billion) of the total global remittances. India received the highest remittances, which was US$83.1 billion, while Pakistan and Bangladesh received US$22.5 billion and US$18.3 billion, respectively. The amount of remittances received by Nepal (US$8.1 billion) and Sri Lanka (US$6.7 billion) are relatively small; yet they accounted for over 27 percent and nearly 8 percent of their economies' respective gross domestic product (GDP).[6]

COVID-19 implications

Job losses and return

The most critical issues faced by South Asian migrant workers during this

Figure 1
Migrant workers' destinations by origin (2019)

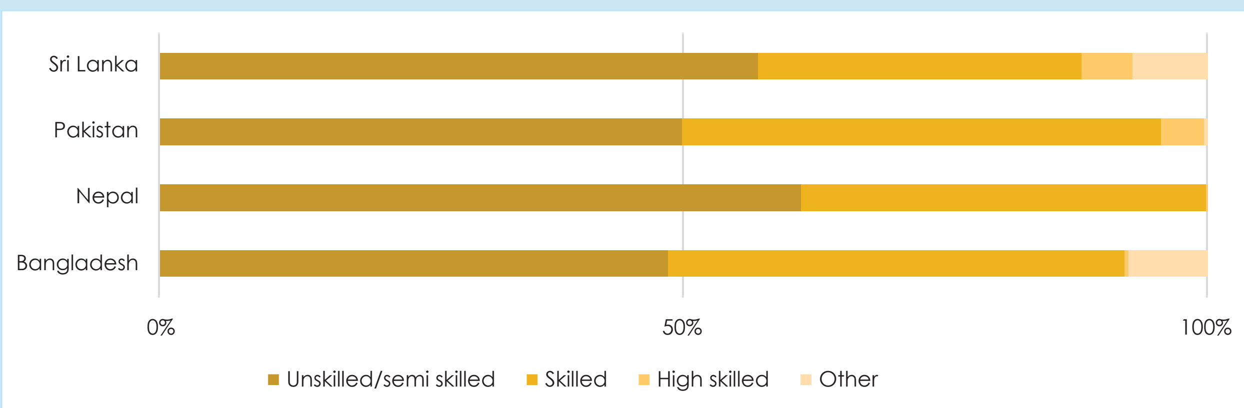


Source: Author's compilation based on Bureau of Manpower, Employment and Training (Bangladesh); Ministry of External Affairs, Overseas Employment Division (India); ILO (2020a)[3]; Bureau of Emigration and Overseas Employment (Pakistan); and Central Bank of Sri Lanka.

pandemic are the adverse employment outcomes, including loss of employment, wage cuts, furlough, under-employment, and wage theft. For instance, by April 2020, around one in every four high-skilled Sri Lankan migrant workers in the Middle East had experienced wage cuts or layoffs, while nearly two thirds feared similar outcomes in the near future.[7] These adverse employment outcomes are due to the high concentration of migrants in sectors most vulnerable to COVID-19, such as manufacturing, tourism, hospitality and travel.[8] Moreover, the concentration of South Asian migrants in low-skilled jobs and the nature of employment contracts; their income and education levels; and their living conditions associated with low-skilled jobs further add to their vulnerability.[9] Specifically, poor working and living conditions of low-skilled migrant workers make physical distancing impossible. Such vulnerability is further heightened by the strategies adopted by the Middle Eastern countries before and during the pandemic. For instance, the limited opportunities available for migrant workers to assimilate leads to issues in access to healthcare, employment protection and welfare. During the pandemic, less assimilated migrant workers have been found to be worse off in terms of accessing testing and treatment. Similarly, inward-looking policies of countries in the Middle East, especially during the pandemic, have discriminated against migrant workers during layoffs and re-hiring.

As such, job losses and growing anxiety are causing a large number of migrant workers to return to their home countries in South Asia. An estimated 127,000 migrant workers are expected to return to Nepal[10], while over 150,000 Indian workers in the UAE have registered to return home.[11] Similarly, nearly 40,000 migrant workers wish to be repatriated to Sri Lanka.[12]

Figure 2
Skills composition of South Asian migrant workers departing in 2019[a]



Note a: Nepal's data is for FY 2018/19.
Source: Author's compilation based on CBSL, BMET, Government of Nepal (2020)[4], and Shah et al. (2020)[5].

Apart from the immediate implications of the pandemic, in the medium term there could be additional returns due to the non-renewal of expiring employment contracts and visas. Moreover, there are many potential migrant workers who are unable to take up their planned jobs. For instance, in contrast to the 60,406 average monthly departures that took place from Bangladesh between January and March 2020, there were no departures in April and May. A similar absence of migrant worker departures was seen in Sri Lanka from mid-March to May, in contrast to the over 40,000 total departures recorded during January to March 2020. The monthly average departure from Sri Lanka in June and July 2020 was 5,468, which is substantially lower than the average monthly departure of nearly 17,000 recorded in 2019.

Drop in remittances

The decline in employment opportunities for migrant workers will lead to a drop in remittances to South Asia. The World Bank[13] has projected a decline in remittances to South Asia by US$31 billion in 2020, while other estimates have predicted the decline in the range of US$18.3 billion to US$28.6 billion.[14] India and Pakistan are projected to experience drops of 23 percent each, Bangladesh a drop of 22 percent, while Nepal and Sri Lanka are projected to experience 14 percent and 19 percent drop in their remittance receipts, respectively.[15] Such drastic drops in remittances have a direct impact on South Asian households as many of them rely heavily on regular remittances. For instance, in Nepal more than 56 percent of the households receive remittances,[16] while the corresponding figures for Sri Lanka and Pakistan are 7 percent[17] and 8 percent[18], respectively. As such, disruptions to remittances caused by the pandemic can push these households into poverty and cause difficulties in meeting even basic needs as well as accessing education and health services.[19]

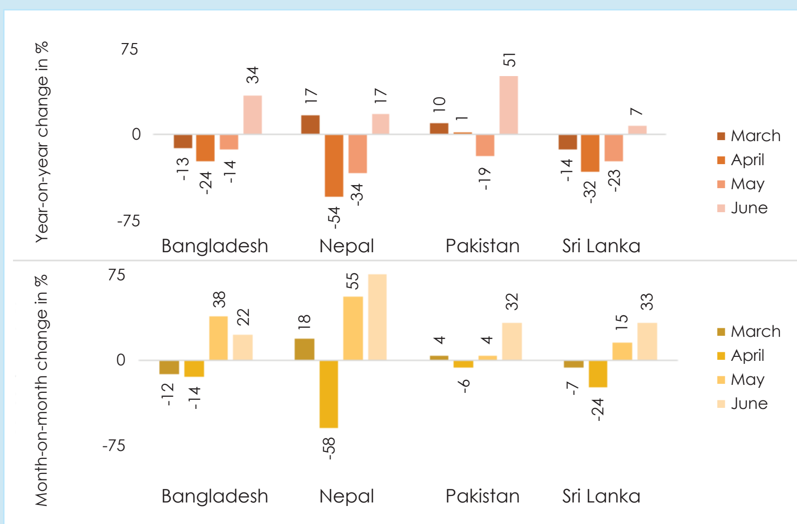
The flow of remittances to South Asian countries from March to June 2020 somewhat confirms the projected declines. In March, April and May 2020, Sri Lanka and Bangladesh experienced sharp declines in remittances year-on-year, while Nepal witnessed the biggest year-on-year decline in April and May (top panel in Figure 3). The worst year-on-year decline in remittances was recorded in Nepal in April 2020, which was 54 percent. In terms of month-on-month changes, Bangladesh, Nepal, Sri Lanka and Pakistan recorded declines in April 2020, with Nepal recording the worst of 58 percent (bottom panel in Figure 3). Of these four countries, Pakistan appears to have experienced the least downturn in remittances during March to June 2020. By June 2020, all four economies have recorded growth in remittances, both year-on-year and month-on-month.

The decline in remittances to South Asia during April and May are due to issues in accessing remittance service providers under lockdown situations overseas, as well as non-payment of wages, wage cuts and layoffs.[20] As such, the improvement in June could be mainly due to the easing of restrictions overseas. It could also be due to measures adopted by South Asian countries to attract additional remittances, such as the introduction of the Special Deposit Account in Sri Lanka with higher interest rates for remittances.

Conclusion and way forward

The adverse foreign employment outcomes and related decline in remittances to South Asian countries are not specific to the COVID-19 pandemic. They are mainly due to the unfavourable employment and migration situations endured by migrant workers, even prior to the pandemic. The onset of the pandemic only exacerbated and highlighted these unfavourable outcomes across multiple dimensions. The rise in the number of returning and retained migrant workers add to the stress of the already weak South Asian labour markets, which have limited absorption capacity. This situation also challenges the waning resilience of households, communities and societies in these countries of origin. As such, the decline in remittances and foreign employment opportunities have adverse implications on the welfare of migrant workers and their left-behind family members.

Figure 3
Changes in monthly remittances to South Asia (March to June 2020)



Source: Author's compilation based on data available from Bangladesh Bank, Nepal Rastra Bank, State Bank of Pakistan and Central Bank of Sri Lanka.

The effects of the pandemic on foreign employment and remittances are common to most South Asian labour-sending countries, and no country alone is likely to be capable of highlighting these concerns without affecting its own competitiveness in the international labour market. In this context, it is important for South Asian countries to develop a common voice and strive to address the adverse employment concerns of their labour migrants. The following are three possible areas for collective action.

- Renegotiate the importance of allowing migrant workers to assimilate in host countries. Better assimilation would ensure better access to healthcare, working terms and conditions, and the welfare of migrant workers. Towards this, South Asian countries need to harness the collective strength of regional and global fora and frameworks such as the Abu Dhabi Dialogue, Colombo Process, Global Forum of Migration and Development, Sustainable Development Goals, and the Global Compact for Safe, Orderly and Regular Migration.
- The South Asian region has experienced large inflows of returned and repatriated migrant workers, often with pending dues from employers. Individual migrant workers and sending countries have limited capacity to claim these dues and redress migrant workers' plight. As such, it is important for South Asian countries to collectively demand for a redress mechanism for returned and repatriated migrant workers. Currently, there is an ongoing initiative to develop an international justice mechanism for repatriated migrant workers to address the issues on wages and other outstanding claims in a systematic manner.[21] It is important for South Asian countries to collaborate with and support this initiative, and highlight South Asian concerns in terms of improving the outcomes for returned and repatriated migrant workers.

Labour-sending countries should join hands to improve the plight of South Asian migrant workers.

- The drop in remittance receipts of South Asian households and economies negatively affect the well-being of left-behind family members and that of the economies. To 'keep remittances flowing' South Asian countries can collectively support the call by Switzerland and the UK to keep remittance channels open to ensure the unhindered flow of remittances worldwide during the pandemic. Here also, South Asia-specific concerns have to be pushed into the ongoing international initiative.

In conclusion, learning from the experiences of COVID-19, South Asian labour-sending countries should join hands and provide relevant input and support to larger international initiatives working to improve the plight of South Asian migrant workers and their families. ■

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Notes

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19 *ibid.* Note 7.

20 *ibid.* Note 8.

21 MFA, CCRM, Lawyers Beyond Borders, Solidarity Center, and SARTUC. 2020. *Call for an Urgent Justice Mechanism for Repatriated Migant Workers.* Migrant Forum in Asia (MFA), Cross Regional Center for Refugees and Migrants (CCRM), Lawyers Beyond Borders, Solidarity Center, and South Asian Regional Trade Union Council (SARTUC).

COVID-19 struggles
Small businesses in South Asia fight to stay afloat

Pervasive informality among micro and small businesses in South Asia has forced governmnets to look beyond support measures such as loan concessions and tax deferrals.

Dikshya Singh

The COVID-19 pandemic has battered lives and livelihoods in South Asia. The disease and the measures adopted to curb the spread of the infection brought economic activities to a standstill for months. This has affected small businesses, which are highly dependent on day-to-day sales for their survival, the most. Inability to operate their business on the one hand, and lack of demand for their products and services, on the other, have left small businesses in tatters.

Small businesses contribute to economic activities in South Asia significantly. About 67 percent of the total employment in the region is in establishments such as local bakeries, grocery stores, neighbourhood kindergarten, fancy restaurants and local eateries, neighbourhood car repair shops, small hotels, travel agencies, gyms, small transport agencies, etc.[1] Lockdowns imposed due to the COVID-19 pandemic have resulted in small businesses' loss of revenues and hence their inability to pay rents and utilities and retain their employees. Many of them have already pulled their shutters permanently. As the pandemic shows no signs of tapering off soon, permanent shut down of businesses is expected to accelerate further.

Generally, micro and small enterprises are particularly vulnerable to any kind of disruption in business activities. They do not have adequate financial safeguards in place or have easy access to lines of credit compared to relatively large firms. This makes micro and small enterprises susceptible to bankruptcy during difficult times.[2] Multiple surveys conducted across the world have shown that small businesses have liquidity sufficient to withstand their loss of revenue for only about three months.[3] Accordingly, in the context of COVID-19, 25-36 percent of small businesses across the world were expecting their permanent closures in the first four months of the pandemic. Many of these businesses have either been closed down permanently or have adopted measures to wind down.

Impact to small businesses in South Asia

COVID-19 did not spread in South Asia in the early months of 2020 and stay-at-home orders were prescribed only in late March. However, many businesses in the region had started feeling the impact before March due to disruptions in the supply chain owing to the viral spread in China and other Asian countries.[4] Similarly, international travel bans impacted tourism-dependent businesses early on.[5] The prolonged lockdowns and restrictions on large congregations have led to a drastic shrinkage in consumer demand and consumption level, which have further dented economic activities in the region. According to the World Bank's latest South Asia Economic Outlook, even viable micro and small enterprises in South Asia are expected to be severely affected by the COVID-19 pandemic as they lack the resources to survive over the next six months.

In India, based on the 'Udhyog Aadhar Number', there are more than 8 million units of registered micro, small and medium enterprises (MSMEs)[6] while an estimated 63 million micro enterprises are in operation.[7] MSMEs are estimated to have employed more than 110 million people and they account for 45 percent of the country's total industrial production and 40 percent of total exports.[8] Due to the pandemic and the containment measures, MSMEs in India have lost 20–50 percent of their revenue. Micro and small businesses have borne the maximum brunt due to their precarious liquidity situation.[9]

pexels

In Pakistan, small businesses, including micro enterprises, constitute over 90 percent of the business enterprises and contribute an estimated 40 percent of the country's GDP. Small and medium enterprises employ 78 percent of Pakistan's non-agricultural labour force and produce about 25 percent of the country's manufacturing exports.[10] Like elsewhere, these enterprises have suffered from contraction in demand due to the pandemic and containment measures.[11] A survey found that almost 95 percent of the surveyed MSMEs had indicated that their businesses were affected by the pandemic, and three-fourths of the surveyed firms had reported that they expected a decrease in sales by over 60 percent due to the lockdown.

Similarly, in Bangladesh, some 99 percent of all non-farm enterprises are micro and small and they provide employment to 20.3 million people.[12] MSMEs are estimated to contribute up to 25 percent of Bangladesh's GDP. A World Bank and International Finance Corporation (IFC) survey in Bangladesh found that, due to the COVID-19 pandemic, 91 percent of small businesses suffered the worst decline in cash flow and experienced their revenue decline by more than half of the normal period.[13] Due to losses incurred by the pandemic, these businesses have enough cash to sustain them only for less than three and a half months.

In Nepal, micro enterprises (establishments employing less than 10 people) make up 96 percent of the 900,000 commercial establishments in the country, according to the *National Economic Census 2018 Report*. In a rapid survey conducted by SAWTEE to assess the impact of the COVID-19 pandemic on small businesses, representatives of their association said that small businesses have financial capacity to stay solvent for up to three months.[14] Besides the loss of revenues due to lockdowns, small businesses are facing difficulties in receiving payments from past sales. Similarly, the Business Pulse Survey carried out by the IFC and the World Bank found that 80 percent of MSMEs in Nepal have suffered from a slump in sales and have taken measures such as granting leave without pay or reducing working hours and/or wages of their employees.[15]

> Small businesses affected by the pandemic lack the resources to survive over the next six months.

In Sri Lanka, MSMEs account for about 90 percent of all the businesses and provide 45 percent of employment.[16] A survey conducted by the International Trade Centre in Sri Lanka found that 62 percent of micro enterprises and 71 percent of small enterprises were strongly affected by COVID-19.[17] However, as per the survey, about two-thirds of small businesses said that they did not expect closure of their business and 22 percent of them said that they were expecting to shut their businesses only temporarily. This indicates that Sri Lanka's micro and small enterprises are relatively resilient.

Although cases of infection in Bhutan is low, the pandemic has battered the country's tourism industry, thus impacting businesses and self-employed professionals dependent on tourism the most. According to the 'Rapid Socio-Economic Impact Assessment of COVID-19 on Bhutan's

Tourism Sector' conducted by the National Statistics Bureau, 63 percent of households in Bhutan are dependent on tourism for their livelihood. Among them, 74 percent have reported significant drop in their incomes.[18] Similarly, the drop in revenue has left 44 percent of the businesses with debts unable to repay the interests on their loans.[19] Another tourism-dependent economy in South Asia, the Maldives, is grappling with the fallout from travel restrictions. Temporary closure of businesses due to the lockdown, reduced operating hours and slowing demand have substantially reduced sales and revenue of most businesses in the Maldives. A survey showed that a large number of sole proprietorship businesses were facing challenges to manage working capital as they account for a bigger share of the retail trade sector.[20]

The Afghan economy, which was already reeling under prolonged conflict and political instability, has been hit hard by the pandemic. According to the Business Pulse Survey, conducted by the IFC and World Bank, loss of sales in businesses across all sectors has left nearly 64 percent of workers in a highly vulnerable position with businesses more likely to close down.[21]

Mitigating measures

Most of the countries in South Asia have responded to the economic crisis brought by the pandemic by offering concessional loans and tax deferrals to businesses. The governments are cognizant of the importance of micro and small enterprises for their economies and in job creation. Hence, they have announced various support towards protecting these firms. According to a report by the World Trade Organization (WTO), 152 WTO members and observers have introduced measures such as payment deferrals, state loans and state-backed loan guarantees, as well as wage financial support. This is true also for countries in South Asia.[22]

However, effectiveness of these supportive policy measures to cushion small businesses from an economic fallout is doubtful considering the pervasive informality in the region. The overwhelming presence of informal small enterprises, which are not registered, make these businesses defenceless as they have limited or no access to state-announced support.[23] Since the most common form of government support offered to firms during this crisis is tax waiver, the unregistered small businesses that do not pay taxes will get no benefits whatsoever. Even among the registered firms, tax liability of smaller units are negligible considering their turnover, thus tax deferral and flexibility in payment do not help a lot.

Similarly, in the case of refinancing and interest payment deferral, only a small number of firms appear to derive the benefits. One of the prominent challenges faced by small firms is lack of access to credit as they do not have enough collateral and/or clout to get loans from formal financial institutions. Even the formally registered MSMEs in South Asia meet only 33 percent of their required financing needs through formal financial institutions.[24]

> Giving money in the hands of people helps sustain effective demand, thus indirectly propping up businesses.

Major considerations

Support offered by South Asian countries to their small businesses need to consider these challenges. The measures that work in countries with higher tax and regulatory compliance may not be applicable in the context of South Asia. There is no silver bullet to address the pervasive informality in the economy, and in some cases, it may not be advisable to formalize all the businesses. During times of crisis like the present, one of the ways to help informal businesses might be sustaining the workforce that is engaged in informal works. For example, the cash transfer programme in Pakistan under its *Ehsaas* programme,[25] or employment programmes such as India's National Rural Employment Guarantee Scheme[26], provide cash to the people in need. These social security programmes make humanitarian sense as well as economic sense. Giving money in the hands of people helps sustain effective demand in the economy, thus indirectly propping up businesses. Besides providing cash transfers to the needy, helping the self-employed, who make up a large part of micro enterprises, re-orient into other sectors might also help preserve their livelihood. For example, Bhutan has launched an initiative to promote agriculture in urban and peri-urban areas and engage those out of work due to the COVID-19 pandemic.[27]

All of the countries in South Asia have taken steps towards providing concessional loans to firms. These measures offer small business the much-needed working capital and preventing their permanent shut down. However, lending to micro and small enterprises is risky since the chances of small businesses going bust is much higher than bigger businesses.[28] Even many of the registered smaller firms tend to be opaque and do not maintain proper accounting practices. They experience faster declines in profitability during crises. Hence, firms that receive subsidized loans may also not have the capacity to repay the borrowed amount on time, given the uncertainty. Thus, providing credit guarantees to financial institutions and assuring them that the loans going bad will not dent their balance sheet can be an effective way to enhance small businesses' access to finance. For example, India has offered credit guarantee to the banks that will be lending to MSMES and 'fund of the funds' to infuse equity in the MSMEs.[29] These types of funds need to be continued even when the impact of the pandemic wanes and used as a vehicle to provide credit access to micro and small businesses.

Moreover, a large number of small businesses have forced to turn to digital platforms to generate sales. Especially in countries like Nepal and Bangladesh, where e-commerce footprint is minimal, the pandemic has emerged as the much needed disruption. However, unless there are enabling infrastructure, such as easy logistical arrangements and payment system, this spurt in e-commerce activities might remain short-lived.

The current crisis can also be used as an opportunity to communicate effectively with small businesses. Among the various reasons for many businesses to remain informal is the perception regarding red tapes and compliances required from registered firms. In reality, regulatory control for small firms are limited and tax rates are also minimal. The upside of getting registered is the access to state-offered services and, most importantly, it enhances their creditworthiness. Authorities should better communicate these facts to micro and small firms and bring them into the formal net. ■

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Turning challenge into opportunity

Exporting PPE from South Asia to the US

The growth in demand for PPE provides an opportunity for South Asian countries that have competitive advantage in the production of apparel.

Janaka Wijayasiri and Anushka Wijesinha

Since the COVID-19 outbreak, demand for Personal Protective Equipment (PPE) has spiked globally. Demand for PPE, such as surgical masks, goggles, gloves and gowns, has overwhelmed production capacity and depleted stockpiles, leading to significant price increases. Prices of surgical masks have increased six-fold while prices of respirators and gowns have tripled and doubled, respectively[1].

In March, the World Health Organization (WHO) had said that there was a need to increase the production of PPE in response to COVID-19[2], and had urged governments to act quickly to boost supply. Countries have been implementing various measures to help firms expand production capacity, while manufacturers of non-medical devices are reorienting towards PPE production to address shortages. For example, major automakers in the US teamed up with medical and PPE manufacturers to ramp up production and supply of medical devices needed to fight the pandemic.[3]

Over the past few years, healthcare systems in many countries have encouraged or forced the offshoring of PPE production to low-cost providers. Abrupt supply disruptions in major PPE producer countries and trade restrictions and export bans on PPE in more than 20 economies[4] have resulted in worsening the problem.

The growth in demand for PPE in the US market provides an opportunity for South Asian countries that have competitive advantage in apparel production.

Export of PPE from South Asia

The apparel industry is an important export sector in several South Asian economies, particularly Sri Lanka and Bangladesh. It has been adversely affected by the COVID-19 pandemic, first on the supply side and then on the demand side as the outbreak spread from China to the rest of the world, including to Bangladesh's and Sri Lanka's main export markets—the US and the EU. According to the Export Development Board (EDB), Sri Lanka's export of apparel and textile was down by 30 percent in the first half of 2020 compared to 2019. Meanwhile, Bangladesh's US$35 billion industry had already lost US$3.16 billion, in the form of cancelled or suspended international orders, by mid-April 2020.[5]

In order to mitigate the situation, apparel exporters in these countries are looking to reposition their exports, with some exporters already exporting PPEs while others are thinking of making this switch. Brandix —one of Sri Lanka's largest apparel exporters—has shipped 200 million non-surgical face masks to the US and has ramped up factory production in this area. Other manufacturers in the country are working with the United Nations Children's Fund (UNICEF) and the United Kingdom National Health Service (NHS) to meet the demand in other markets as well. In Bangladesh, the leading apparel exporter Beximco delivered 6.5 million PPE gowns to the US's Federal Emergency Man-

pexels

South Asian producers should understand which PPE products are likely to have demand in the US, beyond the short-run surge.

agement Agency (FEMA), via its US partner company Hanes.[6] However, South Asia's apparel exporters have not been able to fully exploit the opportunity.

Guidance for producers

Many potential PPE exporters in South Asia have poor understanding of the US PPE market and knowledge of regulations and standards in relation to exporting PPE to the US, especially in the context of a complex regulatory environment governing PPE supply. Although firms in the apparel industry of both the countries are familiar with various quality standards and certification requirements—given their integration with prominent US and EU brands with high compliance requirements—the medical devices sector (and its associated regulations) is entirely new to the industry. Hence, taking into consideration the following issues could help South Asian exporters expand their PPE market abroad, particularly in the US.

Mind the surge

According to past experiences of outbreaks like SARS, demand for PPE surged immediately and dramatically during outbreaks followed by a rapid return to sale figures prior to the crisis. In case of the current pandemic, given the uncertainty as to how long this will last, it is hard to predict when the demand for PPE will drop to the pre-crisis level. But one thing is apparent—there is no slowing down of demand for PPE at the moment. However, while PPE such as isolation gowns and surgical gowns have been experiencing routine shortages in the US, other items are likely headed for surplus. Also, it is important to note that the non-medical PPE market is bigger in size than the medical market and might be easier to supply to. As such, South Asian producers should understand which PPE products are likely to have sustained demand in the US, beyond the short-run surge.

Understand the supply chain

The US market for PPE is complex with its own set of rules/norms and key players. While some companies are involved solely in manufacturing and supply their products to distributors/suppliers, others are vertically integrated and are involved not only in manufacturing but also in distribution. PPEs sold to the commercial market are routed through Group Purchasing Organizations (GPOs), which help hospitals, nursing homes, etc. realize savings and efficiencies by aggregating purchasing volume and using that leverage to negotiate discounts. Manufacturers also sell to the alternative end market—the federal market—directly or through federal resellers[7], but this is a comparatively smaller market. Major distributors also sell to the federal system[8] directly. Clearly, the PPE value chain in the US is dominated by strong players with established relationships. As such, it would be important for South Asian producers to engage a representative/agent to navigate the system and to work with manufacturers/distributors to assess the opportunities. For instance, Bangladeshi company Beximco's partnership with American brand Hanes and the existence of Beximco Pharmaceuticals' FDA-certified production facility has helped Beximco in obtaining the necessary regulatory certifications to access the US market.

Federal procurement landscape

The US government is a unique and a niche market even for companies already doing business in the US. Each federal agency buys its own supplies, and so marketing and sales are best targeted to a small number of

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large federal consumers that include the Department of Homeland Security (procures in response to emergencies), Veterans Administration (purchases for federal hospitals for veterans), and the Department of Health and Human Service (oversees the national stockpile). Not all opportunities to sell PPE to them are advertized because a large part of the PPE is acquired through standing distributor contracts or under existing programmes/agreements. Federal buyers are governed by complicated regulations, and these make it challenging for suppliers. While this market is not closed to foreign suppliers, the Federal Acquisition Regulation—the primary regulation overseeing acquisition of supplies and services by the government agencies in the US— places certain limitations on foreign acquisition. The market is open to foreign suppliers but there is a risk of losing out in case US manufacturers start producing PPE locally. In fact, the pandemic may prompt government support for more on-shore production. In comparison, the commercial market for PPE is not only less restricted but also bigger than the federal procurement market. As such, South Asian producers need to consider focusing on the commercial market as their entry point.

Regulatory compliance

Last but not least, selling a medical device in the US comes with many responsibilities, including completing technical documents, maintaining and following a quality system, inspection by the regulator (Federal Drug Administration–FDA) and an on-going commitment to quality compliance, which apparel manufacturers in South Asia should be mindful of when exporting PPE to the US. During a public health emergency such as the present situation, the FDA has used its Emergency Use Authorization (EUA) authority to allow the use of some unapproved medical devices to respond to a national health crisis. While this could facilitate PPE exports from South Asia to the US, it is important to bear in mind that this is a temporary exception while the EUA regime is in place. Hence, South Asia's apparel industry during this period can develop its products and work towards obtaining the FDA approval to ensure access to the US market even beyond the current effects of the COVID-19 pandemic. ■

Dr. Wijayasiri and Mr. Wijesinha are economists based in Sri Lanka. This article is contributed in the authors' personal capacity and views expressed in it are authors' own and do not reflect the views of any organization/s they represent. Some material for this article was obtained from presentations provided by Deloitte Consulting for two webinars hosted by the USAID PARTNER project in Sri Lanka.

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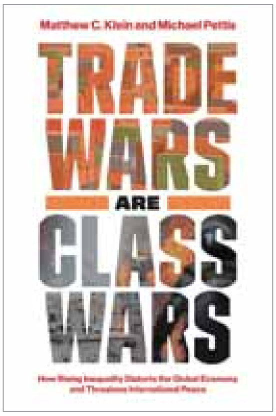

Financial imbalances cause trade wars

Title: Trade Wars are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace
Authors: Matthew C. Klein and Michael Pettis
Publisher: Yale University Press
ISBN: 9780300244175

Anushka Wijesinha

Lately, the US–China trade war has come to dominate the discourse on international trade and has raised many questions about issues beyond trade and for countries beyond the US and China. Yet, analyses of how we got here have largely been focused on familiar narratives—geopolitical considerations and great power rivalries, unsavoury economic ideologies and voter attitudes towards certain countries' policies. What makes this book *Trade Wars Are Class Wars* intriguing is that it moves away from these narratives, and focuses on a set of historical factors that arguably have set the stage for where we are today.

The book begins by arguing that origins of the current trade wars have their roots in the domestic conditions of China, Germany and the US over the past three decades, rather than in the geopolitics. In the opening chapter focusing on global finance, the authors argue that booms in international flows of capital had much less to do with trade flows or fundamental growth prospects. It could rather be attributed to domestic monetary conditions in countries that had capital surpluses and were looking for places to deploy it.

The authors argue that a global 'savings glut' generated by countries such as Germany and China are creating huge global imbalances in demand and supply, leading to trade conflict. The 'class war' that the authors refer to is essentially drawn from the argument that the imbalances are caused by government decisions (for instance in China) that suppress wages and consumption in order to boost investment and export surplus savings. They note that trade war is "a conflict mainly between bankers and owners of financial assets on one side and ordinary households on the other—between the very rich and everyone else".

They argue that new investments could not be absorbed more productively in China without making institutional reforms, and domestic consumption was not high enough to absorb the surpluses—a familiar debate on 'rebalancing' of the Chinese economy. But they do acknowledge that the export-driven model that China followed was not all bad as China had much catching up to do. Perhaps this argument needs to be placed alongside actual data on Chinese domestic consumption, which by many measures has grown steadily.

The authors argue along similar lines regarding wage and consumption repression in Germany, particularly by way of the Hartz reforms introduced by the social democrat government. They observe that business investment has fallen while business profits have risen and this has not helped grow worker incomes.

In summary, the authors make a provocative argument that we are reading international trade wars wrong. These are not conflicts based on national interests and competing views of the world, but an outcome of internal class wars. They suggest that interests between workers in the US or in China may have complementarities and as do elites in the US and China against many of the other people in their own country.

Against their diagnosis of the root of trade wars, the concluding chapter offers a host of possible solutions to address income inequality and the over-dependence on the US financial system. Given one of the author's specific expertise on/in China, there are many reform recommendations aimed specifically at Chinese decision makers. There are, however, fewer specific recommendations aimed at European and American decision makers.

Although the subtitle of the book contains the phrase "…threatens international peace", the discussion linking the trade wars to armed conflict between states or domestic security turmoil is quite light. Yet, it is discussed more in terms of an implied threat, that if the global economic, trade and financial system does breakdown, then the risks of armed conflict within and between states is much higher and is likely to overpower any existing cooperation and goodwill currently existing between states. Perhaps, then, this book comes at an interesting time when the future of global trade and economic cooperation is under the microscope, and the world seems destined for a new global order on the heels of the COVID-19 crisis. ■

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Special Drawing Rights in the time of COVID-19: a primer

As SDR allocations can allay liquidity constraints faced by countries, proposals of another allocation to deal with the COVID-19-induced economic crisis are being discussed.

Kshitiz Dahal

The COVID-19 pandemic has been having deleterious impacts on economies worldwide. The economic fallout could be more pronounced for the least-developed and many developing economies as they face severe resource constraints to effectively manage the economic downturn. As a result, the impact of COVID-19 may be significantly harsher in these economies, which imperils the development gains made by these countries in the last couple of decades. Among the many measures discussed to help these countries effectively deal with the fallout, new issuance of Special Drawing Rights (SDR) has been proposed as an option to assist the resource-crunched economies.

What is an SDR?[1]

SDR is an international monetary reserve asset created by the International Monetary Fund (IMF) in 1969 to supplement the stock of international reserves. SDRs are held only by the IMF members and a few prescribed holders that are allowed to acquire SDRs and transact with them.[2]

Besides its role as the international reserve asset, SDR also functions as the medium of payment within the IMF system to repay IMF loans and pay for interest earned on reserves. Furthermore, SDR also acts as a unit of account for the IMF.

A brief history of SDR[3]

SDR was created in 1969, during the Bretton Woods System (BWS) era to tackle the perceived contradictions in the BWS pointed out by Robert Triffin in 1960, what came to be known as the Triffin Dilemma. Since the US dollar was the primary international reserve, growth in international reserve needed to keep up with growing global trade could be maintained only at the expense of the US running a persistent balance of payment deficit. However, since the US dollar was pegged to the gold, the persistent balance of payment deficit would undermine other countries' confidence that the US dollar's linkage with the gold will remain unchanged. Thus, according to Triffin, the world was confronted with a choice between confidence in the US dollar and the shortage of international liquidity, which would ultimately collapse the BWS. SDR was created to counter this dilemma as an international reserve that could supplement the US dollar and hence prevent a shortage of international reserves.

Although SDR was envisioned to play an important role in the international monetary evolution by being a major source of international reserve base, it lost its importance when the dollar's convertibility with gold was suspended in 1971 and an ultimate collapse of BWS in 1973. With the dollar's linkage with gold broken and with the deepening of capital markets that allowed for borrowing foreign reserves, SDR's need was obviated. However, three SDR allocations have been made even after the collapse of BWS—one general allocation worth SDR 12.1 billion in 1979-81 against the background of serious loss of faith in US dollars as a store of value; another general allocation in 2009 of SDR 161.2 billion and a special one-time allocation of SDR 21.5 billion in the same year, through an amendment in the IMF Articles, to ease global liquidity concerns propagated by the global financial crisis.[4] Thus, SDR allocations, once intended to be regular to provide the world with the necessary liquidity to support an expansion in global trade, have been sporadic, issued only against a crisis that threatens global liquidity.

Value of SDR

SDR was initially defined in terms of gold by making its value equivalent to US dollars such that SDR 1 = US$1. However, after the collapse of BWS became certain in 1973 and the major currencies began to float freely, SDR was redefined as a basket of currencies, weighted in terms of their importance to global trade and finance. The review of the basket's composition and weights is carried out every five years by the executive committee of the IMF. The last review was held in 2015, which added Chinese renminbi to the basket comprising the SDR. The composition of currencies in the SDR basket and their respective weights is presented in the Table.

How does SDR function?[5]

SDRs accrue to IMF member countries, as a proportion of their IMF quota, after each SDR allocation. Since there is no market for SDR, the transactions are thus made through 'voluntary trading arrangements', where IMF members exchange their SDR holdings (in part or whole) for freely usable reserve currencies (the currencies in the SDR basket) with either the IMF members or the prescribed holders. Under special circumstances where the voluntary trading arrangements prove inadequate, SDRs can be exchanged using what the IMF calls a 'designation mechanism' whereby the IMF makes the exchange possible by designating members with strong external positions to buy SDRs from members with weak external positions.

SDR holdings earn an interest rate and SDR allocations are charged an interest rate. If an IMF member does not use its SDR allocations, its SDR holding equals its SDR allocation and hence there is no interest earned or charged. But when an IMF country sells its SDR holding such that its SDR holdings now fall below its SDR allocation, interest is charged on the difference. Likewise, the buyer of SDR earns interest on the difference if its SDR holding exceeds its SDR allocation. The SDR interest rate is determined weekly and is based on a weighted average of the representative interest rate of the short-term financial instruments in the money market of SDR basket currencies.[6] SDR interest rate also applies to interest charged for IMF loans and interest paid for reserve position in the IMF.

SDR allocations in the time of COVID-19

Keeping up with the trend of allocating SDRs in response to the global liquidity crisis, proposals of yet another allocation to deal with the current economic crisis have been discussed. While SDR allocations are believed to allay liquidity constraints faced by many countries because of the COVID-19 pandemic, the proposal has nonetheless met with resistance from some IMF shareholders, most notably the US, which has a controlling power in the matter.[7] While there are valid concerns that SDR allocations, by virtue of being distributed in proportion to IMF quota of member countries, would accrue predominantly less to least-developed and developing countries, the allocation would nevertheless provide an unconditional and cost-effective source of international liquidity to these economies, and most importantly at a time when they are resource-constrained. The liquidity thus obtained would be especially vital for countries that are not covered by financial safety nets or currency swap agreements.[8] Furthermore, given the unprecedented scale of the crisis, other IMF options such as the emergency funding via the IMF's rapid credit facility and rapid financing instruments provide only limited assistance—many countries are hesitant to apply for IMF loans and IMF's traditional lending capacity (of US$1 trillion) is already limited to meet the liquidity needs in a worse-case scenario (estimated by the IMF to be around US$2 trillion).[9]

Table
Currency composition and weights of the SDR basket

Currency	Weights determined in the 2015 review	Fixed number of units of currency for a 5-year period starting 1 Oct 2016
U.S. Dollar	41.73	0.58252
Euro	30.93	0.38671
Chinese Yuan	10.92	1.0174
Japanese Yen	8.33	11.900
Pound Sterling	8.09	0.085946

Source: IMF Factsheet[5]

Hence, it seems imperative that a special SDR allocation be made to aid the resource constrained economies in their efforts to revitalize their economies. Even better would be if the different proposals discussed in the past for reforming SDR allocations such as creating a pool of SDRs that could be donated to countries in need and issuing SDRS on a regular basis are finally implemented. This would make SDR allocations serve the need of the countries irrespective of their IMF quotas. ■

Notes

1. For a detailed description of SDR, refer to: IMF. 2018. "Special Drawing Rights." *IMF Financial Operations (Fourth Edition)*. Washington, D.C.: International Monetary Fund. For a brief overview of the SDR, refer to IMF Factsheet on SDR at the IMF website.
2. According to the IMF publication: IMF Financial Operations, 2018, as of 31 December 2017, there were 15 prescribed holders of the SDR, which included four central banks, three intergovernmental monetary institutions, and eight development institutions.
3. Williamson, J. 2009. "Understanding Special Drawing Rights (SDRs)." *Policy Brief Number PB09-11*, Washington, D.C.: Peterson Institute for International Economics.
4. The first SDR allocation —general SDR allocation of 9.3 billion SDR— was made in the Bretton Woods era, which was distributed in the period 1970-72.
5. For a general overview of SDR allocations and transactions, refer to Questions and Answers section covering SDR Allocations at the IMF website: https://www.imf.org/external/np/exr/faq/sdrallocfaqs.htm. For a detailed account of SDR allocations and transactions, refer to: IMF. 1995. User's Guide to the SDR: A Manual of Transactions and Operations in the SDRs. Washington, D.C.: International Monetary Fund.
6. Please visit the SDR interest rate calculation page at the IMF's website for an explanation and example of the computation of the SDR interest rate.
7. Plant, M. 2020. "Making the IMF's Special Drawing Rights Work for COVID-19 Economic Relief." *CGD Notes*. Washington, D.C.: Center for Global Development.
8. Gang, Yi. 2020. "The IMF should turn to special drawing rights in its Covid-19 response". *Financial Times*, 16 July 2020.

Webinars on COVID-19 and South Asia

SOUTH Asia Watch on Trade, Economics and Environment (SAWTEE), in association with Biruni Institute, Afghanistan, Centre for Policy Dialogue (CPD), Bangladesh, Research and Information System for Developing Countries (RIS), India, Sustainable Development Policy Institute (SDPI), Pakistan, and Institute of Policy Studies of Sri Lanka (IPS), organized a series of webinars to deliberate on various socio-economic aspects of the COVID-19 pandemic, how they relate to South Asia and what should be the future course of action for South Asian countries.

Webinars on eight different themes of importance to the South Asian region were organized from 22 September to 16 October. The topics included new global order post COVID-19 pandemic, future of e-commerce, foreign investment outlook post-COVID-19, labour migration and remittances in South Asia, impact of COVID-19 on tourism and revival strategies, COVID-19's lessons for cooperation on climate change, and future of development finance. One of the major emphasis of the discussions was the need for renewed regional cooperation to solve the challenges posed by COVID-19 through eliminating current dysfunctional regional governance in South Asia.

The webinars were participated by distinguished policymakers, academicians, representatives from think-tanks and representatives from the private sector. ■

Facilitating local trade in border areas

PEOPLE-CENTRIC cross-border trade in local products through participation and partnership is a key for India-Bangladesh border area development, said experts at a webinar held on 24 September by CUTS International under a regional programme on Trans-boundary Rivers of South Asia managed by Oxfam Novib.

The webinar brought together traders and business communities in India and Bangladesh to discuss specific issues and problems that arise while trading across border through waterways.

Procedural issues, non-recognition of standards and infrastructural constraints are major bottlenecks of trade between Bangladesh and Northeast India as mentioned by Abu Taher Md Shoeb, President, Sylhet Chamber of Commerce.

The opening of new trade route between Sonamurain Tripura and Daudkandi in Bangladesh on a pilot basis has generated an excitement among the traders. According to Shalahuddin, Export Manager, Premier Cement Mills Limited, Bangladesh, the business group which had recently sent the first cargo consignment from Bangladesh to Tripura, "Trade via waterways saves time and money. As a result, consumers get better access to locally-produced low-cost products. Encouragement of such trade in local products will contribute to local areas development in the border areas of Bangladesh and India." ■

Policy evaluation workshops gets underway

SRI Lanka's Ministry of Environment and the Institute of Policy Studies of Sri Lanka (IPS) held an introductory and scoping workshop, the first in a series of five workshops, to undertake a policy evaluation for designing and implementing an optimal policy package (OPP) for Measuring, Reporting and Verification (MRV), Sri Lanka Carbon Registry (SLCR) and Sri Lanka Carbon Crediting Scheme (SLCCS).

The policy evaluation workshop is a component of the World Bank-funded 'Climate Mitigation Action Support Project (CMASP)' which aims to strengthen Sri Lanka's policy framework to reduce greenhouse gas (GHG) emissions.

Dr. R. D. S. Jayathunga, Director, Climate Change Secretariat, Ministry of Environment, explained that the objective of the workshop was to identify gaps in the existing policies and to propose concrete recommendations for an OPP covering key sectors such as energy, transport, industry, waste and forestry.

Ms. Priyanka Dissanayake, Disaster Risk Management Specialist, World Bank stated that the World Bank promotes transparent policy framework development processes and the grant funding seeks to build institutional readiness for GHG mitigation. Ms. Dissanayake added that though the grant was given by the World Bank, the ownership is with the Government of Sri Lanka and the Environment Ministry.

Dr. Athula Senaratne, Research Fellow and Head, Environment Economic Policy Research, IPS, explained that the CMASP comprises of two main components: (1) the analytical work to select appropriate carbon pricing instruments (CPIs) for nationally determined contributions (NDCs); and (2) roadmap for an OPP to be implemented during the 2021-2030 period. ■

Policy, regulatory facilitation sought for Pakistan's digital economy

POLICY and regulatory facilitation is necessary for the digital economy of Pakistan to grow and reach its potential and hence, to contribute to the national economy more robustly, said experts during a public-private dialogue on 'Pakistan in digital trade: challenges and opportunities' organized by the Sustainable Development Policy Institute (SDPI) on 24 September.

Member of Pakistan's Prime Minister's Task Force on Information Technology (IT) Pervez Iftikhar, while presenting an overview of the IT and Telecom sector in Pakistan, opined that the regulations of Pakistan Telecommunication Authority and State Bank of Pakistan at present are not conducive enough to bring investment in this sector from abroad. The processes are tedious, and the availability of market data desired by investors is missing.

He added that the public sector is not investing in the production and facilitation of digital technologies while data protection law, much desired by investors, is still awaited.

Managing Director of the Pakistan Software Export Board, Osman Nasir, said that the lack of venture capital and comprehensive insurance framework in the digital sector is discouraging investors. He said that the double taxation treaties also need to be promoted to boost trade-in-services in addition to efficient judicial system.

Vaqar Ahmed, Joint Executive Director, SDPI, emphasized that digital economy requires allowing greater trade in IT and ICT products and the promotion of stronger digital infrastructure. He added that the government's response to crises like COVID-19 and monsoon rains remained weak in some regions due to poor internet connectivity.

Rafay Khan, an economist with World Bank, said digitization at the firm level has taken place due to COVID-19. However, many firms were still not able to adopt digital technologies due to weak financial and human resources, he added.

Director-General at Pakistan Telecom (PTA), Arif Sarga, informed participants that PTA is working to promote cloud services for greater data storage. ■

South Asia Watch on Trade, Economics and Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

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