

## PROGRAM ECONOMIC ASSESSMENT

### A. Introduction

1. The Asian Development Bank (ADB) has been a major partner in the Government of Bangladesh's economic development, poverty reduction and social protection reform efforts since the country achieved independence in the early 1970s with commitments totaling \$24.2 billion across 772 projects.<sup>1</sup> This policy-based lending (PBL) for *Bangladesh: Strengthening Social Resilience Program (Subprogram 1)*, provides significant further assistance to combat the economic and social fallout of the coronavirus disease (COVID-19) pandemic by providing funding to reduce immediate financial budgetary pressures while locking in commitment to, and accelerate implementation of necessary ongoing reform efforts.

### B. Macroeconomic Context

2. Prior to the protracted global economic crisis caused by the COVID-19 pandemic, Bangladesh's economy had recorded seven consecutive years of increasing gross domestic product (GDP) growth (from 6.0% in 2013 to 8.2% in 2019). Between 2010 and 2019, GDP growth averaged 6.8% and was forecast to grow by 8.1% in 2020.<sup>2</sup> This period saw per capita incomes rise from \$840 to \$1,910, while poverty incidence fell from 31.5% to 20.5% and extreme poverty declined from 17.6% to 10.5%. Since the onset of the COVID-19 pandemic, economic growth has stalled with significant adverse impacts on people's livelihoods, especially of the poor and vulnerable. Employment losses are estimated at 3.7 million of total employed, with over 2.2 million of these in the ready-made garment industry,<sup>3</sup> Bangladesh's leading export industry. Additionally, the majority of informal workers (who comprise 85.1% of the workforce)<sup>4</sup> lost their livelihoods instantly after the nationwide lockdown. Economic growth forecasts have been downgraded by 3 percentage-points, with growth to slow to 5.2% in 2020, the slowest growth rate since the height of the global financial crisis in 2009. This growth forecast is more optimistic than assessments made by other international agencies<sup>5</sup> such that, Bangladesh remains one of the strongest economies compared to other South Asian economies. This lower-than-average contraction may, in part, be attributable to: (i) comparatively lower levels of international integration (notably in tourism); and (ii) the very large informal sector in Bangladesh which—to the extent that non-market activity is not reflected in the National Accounts—can lead to underestimation of GDP.

3. The government implemented a countercyclical economic package amounting to \$14.6 billion (4.4% of GDP)<sup>6</sup> to mitigate the health, social, and economic impacts of the pandemic. With rising expenditures and declining revenues, additional government financing requirements in fiscal year (FY)2020 are estimated at \$8.8 billion (14.2% of the FY2020 budget). Facing constraints on domestic borrowing, the government urgently needs external financing to support key pro-poor initiatives and to inject fresh liquidity into the economy to stimulate aggregate

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<sup>1</sup> Cumulative lending, grant, and technical assistance commitments as of 31 December 2019. Asian Development Bank (ADB). [ADB Projects in Bangladesh](#). Manila.

<sup>2</sup> ADB. 2019. [Asian Development Outlook \(ADO\) 2019 Update: Fostering Growth and Inclusion in Asia's Cities](#). Manila.

<sup>3</sup> ADB. 2020. [Report and Recommendation of the President to the Board of Directors: COVID-19 Active Response and Expenditure Support Program](#). Manila; ADB. [COVID-19 and the Ready-Made Garments Industry in Bangladesh](#). Manila (accessible from the list of linked documents in Appendix 2).

<sup>4</sup> Government of Bangladesh, Bangladesh Bureau of Statistics. 2018. [Labour Force Survey 2016–2017](#). Dhaka.

<sup>5</sup> For example, the International Monetary Fund projects gross domestic product (GDP) growth of 3.8% in 2020 and 4.4% for 2021; the World Bank has revised its fiscal year (FY) 2019–2020 forecast to 2.0%, with projections of 1.6% in FY2020–2021 and 3.4% in FY2021–2022.

<sup>6</sup> Government of Bangladesh, Planning Commission, General Economics Division. 2020. [Eighth Five-Year Plan July 2020–June 2025 Promoting Prosperity and Fostering Inclusiveness](#). Dhaka.

demand. While additional domestic and external financing will increase the overall debt level and debt service payments in the medium term, a recent debt sustainability analysis indicates that Bangladesh has a low risk of debt distress and the additional financing needed to combat the pandemic will not have a significant adverse impact.<sup>7</sup>

### C. Sector Context

4. Despite significant reduction in poverty incidence Bangladesh's social protection systems remain significantly underfunded and face several efficiency and effectiveness challenges. These include, (i) inadequate coverage and benefits, (ii) high duplication and leakages, and (iii) fragmentation with too many small programs. The average transfer amount to beneficiaries is inadequate compared to national poverty lines,<sup>8</sup> while many eligible poor and vulnerable receive no assistance. Furthermore, there is no scheme to help mitigate the impact of losing jobs or falling sick for informal sector workers. Targeting errors are critically high in beneficiary selections. The 2016 Household Income and Expenditure Survey indicated that the exclusion error was 71% overall, and the inclusion error was about 46.5%.<sup>9</sup> Limited resources are allocated across too many programs with no scale efficiencies in administration and management. Of 125 programs operating in 2019–2020, the largest 20 social safety net programs (SSPs) comprised more than 70% of the SSP budget, while the smallest 42 programs accounted for just 4%. The majority of these small programs—which stretch administrative resources in terms of beneficiary targeting and management—are initiated and funded by development partners.<sup>10</sup>

5. In recognition of these constraints, the government formulated the National Social Security Strategy (NSSS) in 2015 to improve social protection inclusiveness and efficiency,<sup>11</sup> including a conceptual change to a standardized system based on a lifecycle approach, consistent with the International Labour Organization (ILO) requirements, which seeks to address the causes of poverty in different life stages from birth to old age.<sup>12</sup> The NSSS also identified the importance of cross-sectoral issues, including financial inclusion for disadvantaged people and healthcare response and preparedness. Implementation, however, has been slow and additional funding allocations recommended under the previous five-year plan have not been realized. State expenditure on social protection (excluding civil service pensions) was 0.97% of GDP in 2019,<sup>13</sup> well below the ILO estimate of 4.4% of GDP (excluding healthcare) required to meet basic income security throughout the life cycle as defined by the social protection floor.<sup>14</sup>

<sup>7</sup> See Debt Sustainability Analysis appendix from ADB. 2020. [Report and Recommendation of the President to the Board of Directors: COVID-19 Active Response and Expenditure Support Program](#). Manila (accessible from the list of linked documents in Appendix 2).

<sup>8</sup> At just \$7.0 per person/month, this represents just 29.0% of the national poverty line income of \$24.10 per month.

<sup>9</sup> “Exclusion errors” are defined as eligible people and households not receiving benefits, and “inclusion errors” as noneligible people and households receiving benefits (M. Razzaque. 2020. *Rethinking Social Protection Responses to the Covid-19 Crisis: Issues and Policy Priorities for Bangladesh*. Dhaka.).

<sup>10</sup> M. Razzaque et al. 2020. [Harmonisation of Small Social Security Programmes: Issues and Policy Options](#). Dhaka: Research and Policy Integration for Development (RAPID).

<sup>11</sup> Government of Bangladesh, Planning Commission, General Economics Division. 2015. *National Social Security Strategy of Bangladesh*. Dhaka.

<sup>12</sup> According to the life cycle approach, four guarantees should be included in national social protection floors: access to essential health care, including maternity care; basic income security for children; basic income security for persons in active age unable to earn sufficient income (e.g., due to sickness, unemployment, maternity, and disability); and basic income security or pensions for older persons. See International Labour Organization (ILO). [Social Protection Floors Recommendation, 2012 \(No. 202\)](#). Geneva.

<sup>13</sup> The Eighth Five-Year Plan projects spending growth in social protection from 1.2% to 2.0% of GDP by 2025 and spending on health services from 0.7% to 2.0% by 2025.

<sup>14</sup> ILO. 2019. [Measuring Financing Gaps in Social Protection for Achieving SDG Target 1.3—Global Estimates and Strategies for Developing Countries](#). Extension of Social Security Working Paper. No. 73. Geneva.

6. The shortcomings of the social protection and health systems in Bangladesh have been exacerbated by the COVID-19 pandemic, where estimates suggest nearly 42 million people have fallen back into poverty. Those people are mostly sustaining their lives by day work and highly vulnerable to covariate shocks, such as major illnesses and external events. While domestically imposed restrictions have been very effective at containing the spread of COVID-19 throughout the country (with 540,592 cases and 8,274 deaths to date)<sup>15</sup> the presence of several risk factors leaves Bangladesh highly vulnerable to the possibility of further outbreaks. These include extremely high population density,<sup>16</sup> rapid urbanization, and high levels of urban poverty, such that the most vulnerable do not have access to sufficient primary health care or social protection.

#### **D. Rationale for Reform**

7. There is a large empirical literature that confirms the positive impacts of social protection on household productivity, labor market participation, and inclusive growth in developing countries.<sup>17</sup> Social protection also plays a central role in implementing the Sustainable Development Goals (SDG) in particular, to ending poverty (SDG target 1.3). While Bangladesh remains committed to eradicating extreme poverty by 2031, the trend reversal induced by COVID-19 not only threatens that target but may also delay the country's transition from least developed country status (scheduled for 2026).

8. Under its Eighth Five-Year Plan (8th plan), the government has prioritized NSSS reforms seeking to modernize the social protection system by combining tax-funded safety net programs with contributory social insurance and employment regulations to protect workers. It also seeks to improve the administrative efficiency and inclusiveness by: (i) harmonizing and consolidating programs; (ii) instituting a modern management information system to develop a single registry of beneficiaries which will improve beneficiary identification and selection transparency, reduce duplication, corruption, and malpractices of beneficiary registration; (iii) replacing food-based transfers with cash payments; and (iv) leverage innovations in financial and digital technologies to extend the government-to-person (G2P) electronic payment system to improve financial inclusion.<sup>18</sup> The single registry system will further contribute to effective monitoring and evaluation of the social protection system and enhance the coordination among the relevant ministries.

9. Health and social protection systems are inextricably linked, and in Bangladesh, these systems were unable to cope with the influx of cases induced by the COVID-19 pandemic. Building social resilience for inclusive growth can also help to prevent or mitigate against the avoidable costs associated with future pandemics or major external shocks. Vulnerable groups, particularly the poor, bear a disproportionate share of these costs, and the World Bank has identified global pandemics as the greatest threat to ending extreme poverty.<sup>19</sup>

#### **E. Program and Policy Formulation**

<sup>15</sup> Worldometer. <https://www.worldometers.info/coronavirus/> (accessed 15 February 2021).

<sup>16</sup> Dhaka is the sixth most densely populated city in the world with 47,400 persons per square kilometer while Bangladesh is the eighth most densely populated country (1,265 persons per square kilometer). Population Stat. <https://populationstat.com/bangladesh/dhaka> (accessed 1 March 2021).

<sup>17</sup> N. Mathers and R. Slater. 2014. *Social Protection and Growth: Research Synthesis*. Canberra: Australian Government Department of Foreign Affairs and Trade.

<sup>18</sup> Bangladesh has implemented a government-to-person system for a small subset of social safety net programs, but coverage is limited given that nearly half of the population is still unbanked.

<sup>19</sup> World Bank. 2013. *Pandemic Risk*. Washington, DC.

10. This PBL will contribute to the development of national capacities to improve social protection systems, including the proper design, management, and financial sustainability of those systems to effectively enhance responsive, inclusive, and efficient social development. The PBL, consisting of two sub-programs, targets three priority reform areas with the following outcomes: (i) coverage and efficiency of social protection improved, (ii) financial inclusion of disadvantaged people improved, and (iii) response to life cycle social and health needs strengthened.

11. **Reform Area 1: Coverage and efficiency of social protection improved.** Under subprogram 1, the Ministry of Finance adopted the social protection budget management unit – management information system (SPBMU-MIS) to digitalize the administration of SSPs. The government will also develop and approve a work plan to consolidate many small SSPs; approve the expansion of coverage of the old-age allowance, the widow allowance, workfare, and the open market sale programs. Under subprogram 2, using the SPBMU-MIS, the government will establish a single registry of beneficiaries to reduce duplication and leakages and strengthen administrative efficiency.

12. **Reform Area 2: Financial inclusion of disadvantaged people improved.** Through the National Financial Inclusion Strategy–Bangladesh (NFIS-B),<sup>20</sup> the government aims to improve access to financial services by enhancing the use of mobile financial services (MFS), to disadvantaged people, including women and micro-business operators. To that end, the Bangladesh Bank has adopted interoperable transactions among all banks and MFS providers and has adopted simplified documentation requirements for opening personal retail accounts to facilitate wider financial intermediation for micro-business operators by accepting electronic payments through MFS. Under subprogram 2, the government will establish the NFIS-B National Council, with responsibility for cross-ministerial coordination, monitoring, and evaluation of the NFIS-B. The government will further create and adopt a fund to promote the use of digital financial services.

13. **Reform Area 3: Response to life cycle social and health needs strengthened.** Under subprogram 1 to strengthen the health system preparedness, the Ministry of Health and Family Welfare (MOHFW) adopted the policy guideline on public health research, including the scope of epidemic and pandemic preparedness. The MOHFW further adopted the National Urban Health Strategy to strengthen health response to the urban population. To strengthen the response to diversified social needs, the government will establish an NSSS-task force. Under subprogram 2 the government will approve the updated action plan of NSSS with a focus on diversified social needs, including the needs of the urban population. The MOHFW will adopt the policy in enhancing the provision of urban primary health by utilizing existing health care facilities in urban areas. Further, the National Health Protection Act will be submitted to the Cabinet. This Act will be the legal basis for strengthening health preparation and enhancing responsive health care services in Bangladesh.

14. Gaining momentum in key social protection and health reforms presents a major challenge for the government given the significant financial and resourcing pressures associated with COVID-19 response and relief measures. The PBL provides the necessary fiscal space to enable reform efforts to progress while also ensuring financial stability over the medium term. The ILO assessed Bangladesh among the lowest of developing countries in terms of fiscal space required to meet SDG 1.3 by 2030).<sup>21</sup>

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<sup>20</sup> The MOF approved the National Financial Inclusion Strategy-Bangladesh for the submission to the Cabinet under subprogram 1. This strategy provides the government’s strategic framework for financial inclusion.

<sup>21</sup> Fiscal space is measured as the ratio of tax plus overseas development assistance resources availability to the estimated financing cost of providing a full program of social protection floor benefits (footnote 14).

## F. Transmission Mechanisms

15. The various policy and regulatory reform initiatives, targeting governance and operational service improvements, are expected to generate significant productivity and efficiency gains through reducing duplication and leakages, improved response times, and lower transaction costs. The single registry system is key to improving administrative efficiency by digitalizing the administration processes with a single entry of beneficiaries over various programs. Harmonization and consolidation of many small programs will further improve the social protection impact and efficiency with reinvested savings providing a basis for ‘horizontal’ extension of social protection (ensuring that all people are covered with at least a basic level of social security) and a ‘vertical’ extension (ensuring that more people have access to higher levels of protection).<sup>22</sup> Reduced duplication and leakages will not only deliver efficiency gains but through a more equitable distribution of available benefits will contribute to reduced income inequality. Improved financial inclusion for the poor and disadvantaged provides potential to improve financial literacy, facilitate investment in human capital for poor households and communities, enable people to take economic risks to pursue income-generation opportunities, and to strengthen resilience and social cohesion.

## G. Program Benefits

16. Program benefits are assessed in terms of (i) productivity and efficiency savings attainable through the suite of social protection and health reforms supported by the PBL, and (ii) avoided or mitigated economic and social losses of future pandemics (or other economy-wide impacts, such as natural disasters, or economic shocks). The analysis follows the approach recommended for PBL<sup>23</sup> by ADB.

17. **Productivity and efficiency savings.** A summary of international case study evidence compiled by the World Bank<sup>24</sup> identifies the significant potential to generate savings and revenue for the public sector from the social protection reforms targeted under this program. Inclusive and robust identification systems can offer many concrete benefits for governments, as well as individuals, private companies, and development partners. Evidence suggests that strong national identification systems linked to electronic payment systems have the potential to generate savings and revenue for the public sector by (i) reducing duplication and leakages and reducing fraud in G2P transfers, (ii) reducing administrative costs, and (iii) reduced transaction costs.

18. Examples of estimated savings from the elimination of duplicate and ghost beneficiaries come from India’s Aadhaar system and Pakistan’s National Database and Registration Authority. As of early 2018, the Government of India reported estimated fiscal gains of more than \$12.7 billion since 2013 from Aadhaar-enabled G2P transfers and related reforms to improve beneficiary identification and targeting. Similarly, Pakistan’s National Database and Registration Authority program identified 40.0% of claimants for flood grants to be ineligible, duplicates or fraudulent. In Bangladesh, the inclusion error is even higher, at 46.5% and, assuming this rate to be unchanged, the estimated savings from eliminating inclusion error in 2021 would be \$1.97 billion. Potential total savings (or efficiency losses due to sustained inclusion error) over the life of the 8th plan would amount to \$15.95 billion (Table 1).

<sup>22</sup> ILO. 2017. [Universal Social Protection Floors: Costing Estimates and Affordability in 57 Lower Income Countries](#). Extension of Social Security Series Working Paper. No. 58. Geneva.

<sup>23</sup> ADB. 2020. *Guidance Note for the Economic Assessment of Policy-Based Lending*. Manila.

<sup>24</sup> World Bank. 2018. [Public Sector Savings and Revenue from Identification Systems: Opportunities and Constraints](#). Washington, DC.

19. A single registry of beneficiaries coupled with a digitized and integrated electronic system of transfers provides scope for significant savings in administration costs. The collection, management, and use of personal data is a core function of government administration, however, with a multitude of identification systems and transactions within and across many Ministries and departments leads to duplication of effort and inefficiencies. This is particularly true in paper-based systems which require labor intensive, manual administration throughout the identity life cycle. Administrative costs in Bangladesh are estimated at around 10.5% of the total social protection budget.<sup>25</sup> This compares to an ILO estimate of 4.7% average administrative cost of providing the full range of social protection floor benefits. On this basis, by adopting a single registry of beneficiaries, consolidating programs and digitizing payments, the potential administrative savings might be around 5.0% annually (approximately \$212 million in 2021).

20. Additionally, there is considerable international evidence that digitizing transfer payments reduces transaction costs for both the government, beneficiaries, and intermediaries. UK research identified that government transactions done face-to-face, via post, or by telephone are 50, 30, and 20 times more expensive than digital transactions respectively.<sup>26</sup> In India's Aadhaar experience, one study estimated that the Indian government could save \$4.4 billion per year in reduced transaction costs by connecting every household to the digital automated payment system.<sup>27</sup> The per-transaction cost of a payment to an Aadhaar-linked account would be close to zero, compared with transaction costs for payments made by credit cards (around 3.5%) or debit cards (between 1.25% to 1.5%). Based on analysis of Bangladesh's Social Safety Net budget documents, the various Ministries responsible for social protection programs collectively make over \$660 million transactions annually. Assuming a lower bound of potential transaction cost saving of \$0.50 cents (based on the international evidence) would yield an annual saving of \$330 million.

21. Table 1 presents a summary of the combined potential savings from reduced inclusion errors, administrative and transaction cost savings over the next five years based on projected GDP and budget data contained in the 8th plan.<sup>28</sup> These are substantial gains; however, it is important to note that these estimates are just for illustrative purposes and by no means should be treated as the actual outcomes of the policy reforms. It may take several years before inclusion errors are reduced delaying savings and, in most cases, sufficient coverage is necessary before fiscal benefits are noticeable. An ADB report, for example, suggests that the identification systems with coverage below 50 percent are of limited use, while benefits for the public and private sector begin to kick in once systems reach 80 percent coverage or more.<sup>29</sup> Furthermore, high duplication and leakages have been attributed to 'low-effort management' inferring that administration costs could rise in order to bring duplication and leakages down (footnote 36, p. 715).

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<sup>25</sup> This estimate is derived as the ratio of wages and salary related expenses to program expenditures sourced from Ministry of Social Welfare budget documents. See Government of Bangladesh. [Grant No. 26 129 - Ministry of Social Welfare Medium-Term Expenditure](#). Dhaka.

<sup>26</sup> United Kingdom Cabinet Office. 2012. [Digital Efficiency Report](#). London: Central Digital & Data Office.

<sup>27</sup> A. Gelb and C. Decker. 2011. [Cash at Your Fingertips: Biometric Technology for Transfers in Developing and Resource-Rich Countries](#). Working Paper. No. 253. Washington, DC: Center for Global Development.

<sup>28</sup> Estimates are based on the total social protection budget, excluding pensions paid to retired government employees and their families, with the implicit assumption that inclusion errors should be negligible for this category of spending. These pensions represent approximately 30% of total social protection spending.

<sup>29</sup> ADB. 2016. [Identity for Development in Asia and the Pacific](#). Manila.

**Table 1: Potential Efficiency Savings Over Five Years**

Year	Budget Forecasts		Social Protection Budget		Potential Efficiency Savings			
	GDP	Exchange	GDP	% of	Inclusion	Administrative	Transaction	
	(TK billion)	Rate	(\$ billion)	GDP	(\$ billion)	Cost Savings	Cost Savings	
2021	31,565	89.4	353.1	1.2%	4.24	1.97	211.8	330.2
2022	35,661	91.9	388.0	1.3%	5.04	2.35	252.2	330.2
2023	40,363	94.2	428.5	1.5%	6.43	2.99	321.4	330.2
2024	45,776	96.5	474.4	1.7%	8.06	3.75	403.2	330.2
2025	51,956	98.6	526.9	2.0%	10.54	4.90	526.9	330.2
<b>Total potential savings</b>						<b>15.95</b>	<b>1,715.60</b>	<b>1,651.00</b>

GDP = gross domestic product, T = Bangladesh Taka.

Note: Estimates assume constant inclusion error of 46.5%, 5.0% administrative savings, and transaction cost saving of 0.50 cents per transaction.

Source: Government of Bangladesh, Planning Commission, General Economics Division. 2020. [Eighth Five-Year Plan July 2020–June 2025 Promoting Prosperity and Fostering Inclusiveness](#). Dhaka.

22. **Healthcare efficiency savings.** While it is difficult to precisely quantify productivity and efficiency savings from the various healthcare reform initiatives supported by the PBL, the international literature confirms systemic reforms can generate large positive returns and lead to sustainable health financing and improved health outcomes. A detailed cross-country comparison by the World Health Organization,<sup>30</sup> for example, estimated for lower-middle income economies, potential productivity savings, as a share of total health expenditure, of between 20–40% achievable across all activity categories assessed. Reinvesting these savings to achieve allocative efficiency within the health sector would generate sustainable health financing with a view to achieving universal coverage.<sup>31</sup> Based on 2019 health expenditure in Bangladesh, a conservative estimate of 5% in efficiency gains, achievable from the PBL reforms, would yield \$175 million in annual savings. While these are substantial gains, it is, however, important to note that these estimates are just for illustrative purposes and by no means should be treated as the actual outcomes of the policy reforms.

23. **Estimation of benefits (avoidable costs).** Pandemic risk is a combination of low probability, infrequent occurrence events that – in the absence of prevention, mitigation, and containment measures – generate severe economic and societal impacts with developing countries bearing a disproportionate burden. Furthermore, risks are rising, not least due to the level of globalization and interconnectedness, but also the accelerated pace of urbanization increasing the speed of contaminations and thus reducing lead times for authorities to enact and coordinate countermeasures.

24. There have been various attempts in the past to quantify economic losses caused by pandemics using historical data. Modelling by the World Bank in 2013<sup>32</sup>, for instance, estimated that a severe influenza pandemic, equivalent to the 1918 Spanish flu, would generate economic losses amounting to 4.8% of global GDP, or more than \$3 trillion. This equates to annual expected value of \$30 billion.<sup>33</sup> While most studies measure economic losses in terms of direct costs (e.g., medical and hospitalization costs) and indirect costs (e.g., lost earnings due to illness and

<sup>30</sup> D. Chisholm and D. Evans. 2010. [Improving Health System Efficiency as a Means of Moving Towards Universal Coverage](#). *World Health Report (2010) Background Paper No. 28*. Geneva: World Health Organization.

<sup>31</sup> Defined as “access to promotive, preventative, curative and rehabilitative health interventions for all at an affordable cost, thereby achieving equity in access”.

<sup>32</sup> World Bank. 2013. [Pandemic Risk](#). Washington, DC.

<sup>33</sup> This assumes a 1% probability of occurrence in any given year, i.e., it is a once-in-a-hundred-year event.

productivity costs), a more recent model expanded the concept of income losses to incorporate the intrinsic cost of excess mortality.<sup>34</sup> This study estimated the expected annual cost of pandemic influenza at 1.6% of national income lower-middle-income countries, including both lost income and the intrinsic cost of elevated mortality. By this measure, the annual expected value of income losses in Bangladesh could be as high as \$5.1 billion.<sup>35</sup>

25. Initial estimates of the economic impacts of COVID-19 in Bangladesh serve as a baseline for determining future avoidable losses. However, quantifying the impacts of the crisis for a country like Bangladesh is not straightforward due to a paucity of data. For example, Bangladesh does not provide quarterly GDP estimates, making short-term fluctuations in economic output difficult to ascertain, such that growth predictions of international agencies vary significantly. ADB supported research<sup>36</sup> estimated economy-wide and sector-specific impacts COVID-19 under scenarios based on outbreak severity and duration to contain the pandemic. The estimated impact is relative to a 'no-COVID baseline' scenario. Results for Bangladesh are summarized in Table 2, which range from -7.6% of GDP under the short-term containment scenario to -11.4% of GDP under the longer-term containment scenario. Assuming COVID-19 is a one-in-a-hundred-year event, this represents an annual expected losses valuing between \$208 million and \$312 million. These results are consistent with the medium-shock (-6.2% of GDP) and high-shock (-9.3% of GDP) scenarios of a more recent study by the BRAC Institute of Governance and Development (BIGD).<sup>37</sup>

**Table 2: Estimated economic impacts of COVID-19: Bangladesh 2020**

Scenario	Shorter-containment Scenario		Longer-containment Scenario	
	as % of GDP	in \$ millions	as % of GDP	in \$ millions
Global Spillovers (excluding tourism)	-0.6	-\$1,773	-1.0	-\$2,653
International tourism demand decline	-0.1	-\$191	-0.1	-\$276
Domestic demand decline	-6.9	-\$18,859	-10.3	-\$28,289
	<b>-7.6</b>	<b>-\$20,823</b>	<b>-11.4</b>	<b>-\$31,218</b>

GDP = gross domestic product.

Source: Asian Development Bank.

26. More generally, the benefits of having established social protection systems in place also enable governments to rapidly respond to other economy-wide shocks such as natural disasters and economic shocks. This is because social protection programs, by building resilience, support economic recovery, by helping households to avoid having to sell assets they rely on for their livelihoods or withdrawing children from school when faced with events that lead to a shock to household incomes. Having long-term, ongoing social protection programs in place is crucial for countries' human and economic development, both in normal times and during a crisis.

27. **Poverty Impacts.** Another preventable cost resulting from investing in social protection and pandemic preparedness relates to the adverse distributional consequences where vulnerable groups, particularly the poor, are disproportionately impacted. Successful implementation of social protection reforms supported by this PBL are expected to generate positive spillovers in terms of

<sup>34</sup> V. Fan, D. Jamison, and L. Summers. 2018. *Pandemic Risk: How Large Are the Expected Losses?* *Bull World Health Organ.* 96 (2). pp. 129–134.

<sup>35</sup> Based on 2019 gross national income of Tk26,560.9 billion and exchange rate of \$1 = Tk84.

<sup>36</sup> A. Abiad et al. 2020. The Impact of COVID-19 on Developing Asian Economies: The Role of Outbreak Severity, Containment Stringency, and Mobility Declines. In S. Djankov and U. Panizza, eds. *COVID-19 in Developing Economies*. London: Centre for Economic Policy Research.

<sup>37</sup> S. Rahman et al. 2020. *Socio-economic Impact Assessment of Covid-19 and Policy Implications for Bangladesh*. Dhaka: BRAC Institute of Government and Development. This study also includes a low-shock scenario consistent with official government estimates of a 3.7% fall in GDP.

poverty reduction and related benefits. For example, research evidence demonstrates that measures to improve financial inclusion are linked to a reduction in poverty incidence.<sup>38</sup> Specifically, as more people from lower income groups gain access to financial services and credit facilities, they increasingly can engage in productive activities, which in turn enables them to smooth their consumption in the face of short-term adverse shocks. Similarly, given that around 40% of school dropout in Bangladesh is due to poverty,<sup>39</sup> reduced poverty incidence is also expected to lead to higher school completion rates and consequent economic benefits through higher labor market participation, employment, and earnings.

28. While it may still be too early to predict the depth and duration of the crisis, global lockdowns have resulted in the first rise in worldwide poverty headcount ratios since the late 1990s and have eroded much of the gains made in poverty reduction over the past decade, with Sub-Saharan Africa and South Asia being the hardest hit regions.<sup>40</sup> According to the World Bank,<sup>41</sup> South Asia is set to plunge into its worst-ever recession as the devastating impacts of COVID-19 on the region's economies linger on, taking a disproportionate toll on informal workers and pushing millions of South Asians into extreme poverty. This represents a significant setback in terms of achievement of SDG, in particular SDG1.3, to eliminate extreme poverty by 2030.

29. Various simulations and rapid assessments by several think-tanks<sup>42</sup> in Bangladesh suggest that the COVID-induced 'new poor' would be in the range 16–42 million. The portion of population living below the poverty line is simulated to be 33–44% against the pre-crisis estimate of 20.5%. This implies between 58 and 76 million individuals would be in poverty (Table 3). If the vulnerable population were added to this, the combined poor and vulnerable could be as high as 90 million persons.

**Table 3: COVID-19 Impact on Poverty in Bangladesh**

Source	Total Poor (million)	New Poor (million)	Poverty Rate (%)
SANEM	70	36	40.90
CPD	68.4–75.7	34.4–41.7	40%–44
PRI	58.1	24.1	34.10
PPRC-BIGD	70	36.9	43.40
BIDS	59.76	15.84	33.20

BIDS = Bangladesh Institute of Development Studies, CPD = Centre for Policy Dialogue, PPRC-BIGD = Power and Participation Research Centre - BRAC Institute of Government and Development, PRI = Policy Research Institute of Bangladesh, SANEM = South Asian Network for Economic Modelling.

Source: M. Razzaque. (2020) *Rethinking Social Protection Responses to the Covid-19 Crisis: Issues and Policy Priorities for Bangladesh*.

30. A recent ADB study suggests varying degree of poverty incidence in the post-COVID-19 environment for Bangladesh.<sup>43</sup> The results of the simulations reveal that with COVID-19 related decline in per capita consumption in the range of 5.0% to 20.0% is expected to increase the

<sup>38</sup> See for example, C. Park and R. Mercado. 2015. [Financial Inclusion, Poverty, and Income Inequality in Developing Asia](#). *ADB Economics Working Paper Series*. No. 426. Manila: Asian Development Bank.

<sup>39</sup> N. Sarker, M. Wu, and A. Hossin. 2019. [Economic Effect of School Dropout in Bangladesh](#). *International Journal of Information and Education Technology*. 9 (2, February): pp. 136–142.

<sup>40</sup> G. Valensisi. 2020. *COVID-19 and Global Poverty: Are LDCs Being Left Behind?* *The European Journal of Development Research* 2020/32: 1535-1557.

<sup>41</sup> World Bank. 2020. [Beaten or Broken? Informality and COVID-19](#). *South Asia Economic Focus*. Washington, DC.

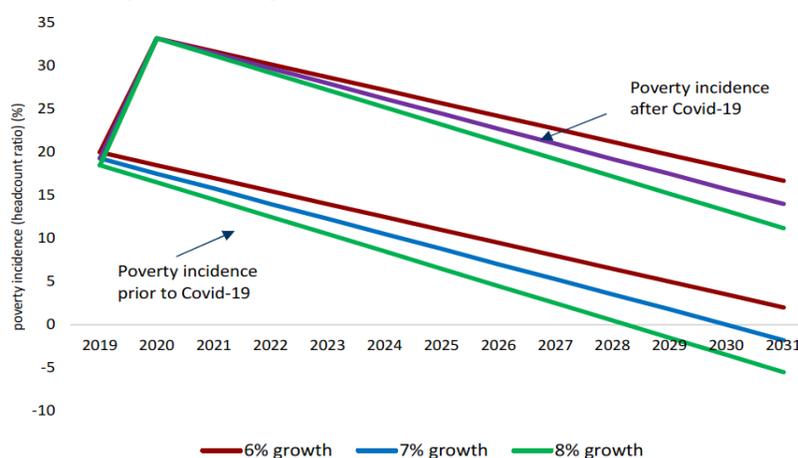
<sup>42</sup> See for example, 2020. *Rapid Response Survey: Poverty Impact of COVID-19*. Power and Participation Research Centre and BRAC Institute of Governance and Development; A. Sumner et al. 2020. *Estimates of the Impact of COVID-19 on Global Poverty*. *WIDER Working Paper*. No. 2020/43. Helsinki: United Nations University.

<sup>43</sup> Numbers quoted refer to the \$3.20 per day poverty line. See ADB (Economic Research and Regional Cooperation Department). 2020. *COVID-19 and Poverty: Some Scenarios*. Manila. Unpublished.

poverty incidence (using the \$3.20 per day in 2011 Purchasing Power Parity benchmark) from 31.5% to 35.5% (under the -5.0% consumption scenario) or as high as 49.5% (-20.0% scenario). This equates to an increase from 52.9 million to 59.6 million (under the -5.0% scenario) or as many as 83 million persons (under the -20.0% scenario). A more recent study<sup>44</sup> used a multi-regional computable general equilibrium modelling framework (Global Trade Analysis Project model) to simultaneously measure the overall socio-economic impacts on Bangladesh based on low, medium, and high-shock scenarios. This study estimated that COVID-19—under the low shock scenario—could push up the proportion of the population living in poverty up to 22.7% from the immediate pre-COVID rate of 20.5%. The corresponding figures could be 24.0% and 25.7% under medium and high shock scenarios, respectively. These more modest poverty impacts are consistent with the official revisions to GDP growth forecasts from 8.2% to 5.2%.

31. It is still a matter of much conjecture as to how much of the increase in poverty is temporary in nature. The nature of recovery and how pro-poor the post-COVID growth process is going to be will eventually determine how fast the lost gains in poverty reduction can be recouped. In a background paper prepared for the 8th plan, Sen et al. (2020) estimated that based on various GDP growth scenarios and elasticities of poverty reduction with respect to growth, it is now unlikely for Bangladesh to eliminate poverty until around 2035–2038 (Figure 1).<sup>45</sup> While it is not possible to quantify the lost gains in poverty reduction due to COVID-19 or the cumulative costs of additional social protection financing required to return poverty incidence to pre-COVID levels, in 2021, the government will transfer an additional 2–3% of GDP (or \$7.1 billion to \$10.6 billion) as a temporary measure to poor and vulnerable families who lost income and employment due to the pandemic.<sup>46</sup>

**Figure 1: Poverty Rate Projections Based on Different Growth Scenarios**



Source: B. Sen et al. 2020. *Poverty in the Time of Corona: Trends, Drivers, Vulnerability and Policy Responses in Bangladesh*. Dhaka: Ministry of Planning.

## H. Adjustment Costs to Implement Reforms

<sup>44</sup> S. Rahman et al. 2020. *Socio-economic Impact Assessment of Covid-19 and Policy Implications for Bangladesh*. Dhaka: BRAC Institute of Government and Development.

<sup>45</sup> B. Sen, Z. Ali and M. Murshed. 2020. *Poverty in the Time of Corona: Trends, Drivers, Vulnerability and Policy Responses in Bangladesh*. Dhaka: Ministry of Planning.

<sup>46</sup> Footnote 6.

32. The costs associated with the establishment, operation and maintenance of the SPBMU-MIS, single registry of beneficiaries and the NFIS-B initiatives are yet to be determined. Based on the Aadhaar experience in India, from inception until 2017, the total cost of Aadhaar implementation was approximately \$1.4 billion dollars, with steady-state costs converging at around \$150 million per year. As a result, the program cost a little over \$1 per person to implement but had generated savings of around nine times the cost of implementation (footnote 27). In terms of health-related initiatives, for developing countries, the World Bank and World Health Organization estimates suggest an average spend of \$1.7 per capita per annum is required to implement a full range of preparedness and prevention measures mitigate against future pandemic-induced losses.<sup>47</sup> While the health initiatives outlined under Reform Area 3 are not this extensive, for Bangladesh, this equates to \$283.9 million annually (around 13.4% of health expenditure or 0.1% of GDP). In comparison to the scale of avoidable costs, the costs of strengthening preparedness are not exorbitant, however, Bangladesh does not currently have the fiscal space to implement the necessary reforms without significant and continued overseas development assistance support.

### **I. Effects of the Reforms**

33. The proposed reforms will be instrumental in eliminating duplication and leakages, increasing the coverage of social protection transfers, lowering the risks faced by the poor and vulnerable population, reducing poverty and help in reducing income inequality and build social capital. Furthermore, potential efficiency savings, if reinvested, will lead to more financially sustainable, coordinated, and efficient social protection and health preparedness systems such that adverse effects of the COVID-19 pandemic are mitigated, and future economic and social losses are avoided.

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<sup>47</sup> World Bank Group. 2019. [Pandemic Preparedness Financing—Status Update](#). Washington D.C.