TACKLING THE COVID-19 SOCIAL AND ECONOMIC CRISIS IN BANGLADESH:

Providing universal, lifecycle social security transfers to protect lives and bolster economic recovery

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Acknowledgement

UNICEF Bangladesh commissioned a study to assess the economic fall-out of COVID19 and emergency social protection response in Bangladesh to inform the upcoming Country Programme Document preparation and Bangladesh's response to the pandemic. This is a summary report of a study which is the product of collaboration between UNICEF Bangladesh and the General Economics Division, Bangladesh Planning Commission.

The study team comprised Mekonnen Ashenafi Woldegorgis, Chief SPEAR Section and Hasina Begum, Social Policy Specialist, UNICEF Bangladesh; Stephen Kidd, Principal Social Policy Specialist, Bjorn Gelders, Senior Economist; Daisy Sibun, Senior Policy officer, Nayha Mansoor, Economist from Development Pathways; and, Professor Bazlul Haque Khondker, Senior Economist.

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ACRONYMS

BDT	Bangladesh Taka
BIGD	Bangladesh Institute of Governance and Development
CGE	Computable General Equilibrium
ECHO	European Civil Protection and Humanitarian Aid Operations
EGPP	Employment Generation Programme for the Poorest
FYP	Five Year Plan
GAMS	General Algebraic Modelling System
GDP	Gross Domestic Production
HIES	Household Income and Expenditures Survey
ILO	International Labour Organisation
IMF	International Monetary Fund
LFS	Labour Force Survey
MFS	Mobile Financial Services
MICS	Multiple Indicator Cluster Survey
MNCH	Maternal New Born and Child Health
MIS	Management Information System
NAWG	Need Assessment Working Group
NBR	National Board of Revenue
NHD	National Household Database
NSSS	National Social Security Strategy
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
PPRC	Power and Participation Research Centre
PRI	Policy Research Institute
RMG	Ready-made Garments
SAM	Social Accounting Matrix
SDGs	Sustainable Development Goals
UN	United Nations
UNICEF	United Nations Children’s Fund

Main messages

- Prior to the COVID-19 economic crisis, despite an impressive growth trajectory, Bangladesh and its population were already facing challenges that have left them even more vulnerable to its worst impacts. For example, 85 per cent of the population were living on BDT163 (US$5.50 PPP) per day or less.
- As a result of COVID-19, Bangladesh is likely to experience a recession for the first time since 1975, with CGE analysis suggesting that the economy may contract by 11.6 percentage points, resulting in a deficit of 3.4 per cent for 2020.
- The average income of households could fall by 19 per cent during the crisis and the national unemployment rate may climb to three times higher than what it would have been without COVID-19.
- The current Government response represents a promising start but, now the full scale of the crisis is being revealed, the Government might consider an additional investment to complement existing measures.
- This paper proposes that the Government establish a system of emergency, lifecycle universal transfers for all children, older people and people with disabilities over a period of six months at a cost of 2% of GDP.
- The proposed schemes would reach 94 per cent of the population and ensure support to all children, older people, persons with disabilities and single parent households.
- On average, the proposed schemes would provide incomes that are 19 per cent higher than a 'without COVID-19' scenario and 50 per cent higher compared to their-post-crisis income: a very significant – and, likely, very popular – impact.
- While the national poverty rate is expected to rise to 34 per cent as a result of the crisis, by investing in the proposed schemes, the poverty rate across 2020 would fall to 20 per cent (compared to 19 per cent in the 'without COVID-19' scenario).
- Guaranteeing families and vulnerable groups a minimum level of monthly income would translate into a range of other benefits, including protecting the nutritional health and cognitive development of children. This will protect human capital development and ensure a highly-skilled and competitive workforce can re-commence the nation's growth trajectory.
- The proposed schemes would also mitigate the potential reduction in national GDP of 3.4 per cent, reducing the severity of the recession to 1.8 per cent, almost a 50 per cent reduction, and create around 2 million jobs.
- To facilitate the roll-out of universal, lifecycle, emergency social security benefits, it will be necessary for the Government to fast-track reforms to the delivery systems, in particular registration mechanisms, management information systems and payment systems. A key advantage of universal schemes is that they are much simpler to deliver than the current poverty-targeted programmes.
- Funding a fiscal stimulus will not be easy but will be necessary to protect citizens and the economy in the medium- to long-term. Potential options for addressing the question of financing are outlined at the end of the paper.

Executive summary

The COVID-19 pandemic has triggered the largest economic crisis that the world has seen for many decades. Bangladesh's economy is predicted to be particularly hard hit by the crisis, with demand for Bangladesh's exports falling dramatically, the service industry collapsing and remittances declining. The crisis threatens to unravel years of progress in economic development and Bangladesh is set to experience a recession for the first time since 1975. Analysis using a General Equilibrium (CGE) model suggests that the collapse in growth may be even greater than previously predicted with the economy estimated to contract by 11.6 percentage points, resulting in a deficit of 3.4 per cent for 2020. This is mainly the result of heavy job loss, with CGE analysis indicating that 4.8 million people may become unemployed in 2020 as a consequence of the COVID-19 pandemic. This would see the national unemployment rate climb to three times higher than a situation without COVID-19.

Prior to the crisis, Bangladesh and its people were already facing challenges. According to the World Bank,[1] around 97 per cent of Bangladeshis still live on less than BDT 300 per person per day in 2020. As such, despite an impressive trajectory of progress, the vast majority of Bangladeshis were already living on low incomes prior to the crisis and most households did not have the income security to withstand a major economic shock. Further, overall investment in Bangladesh's core, lifecycle social security is minimal and only 33 per cent of households receive a transfer under the current system – most of them of low value – leaving most of the population entirely unprotected.

Bangladesh's population has been hit hard by COVID-19. On average, household income is estimated to have fallen by 19 per cent and, while the crisis is universal and will impact everybody, those on middle incomes are estimated to suffer the worst income loss. Further, children and young adults are particularly hard hit and reduced incomes could have devastating impacts on wellbeing for the majority of families. There is evidence that, in response to income loss, families are resorting to negative coping strategies such as reducing food consumption, which is likely to cause permanent damage to children's health and, ultimately, Bangladesh's human capital development and future prospects. Indeed, even prior to the crisis, nearly half (45 per cent) of all children aged 6-23 months were reported as not having access to iron-rich foods in the previous 24 hours and 28 per cent of children under the age of 5 were stunted. As a result of the crisis, Roberton *et al* (2020) have estimated that between 5,400 and 28,140 *additional* children under five years of age may die over a period of six months.

The Government's response represents a promising start but, now the full scale of the crisis is being revealed, the Government should consider an additional investment to complement existing measures. Overall, the Government's proposed emergency social security measures cost just 0.16 per cent of 2019 GDP in total and are estimated to reach very few people. Transfer values are too small to boost household consumption. The support is insufficient to effectively stimulate the economy and support economic recovery and nor will it adequately protect families.

1 Source: PovCalNet of the World Bank at: http://iresearch.worldbank.org/PovcalNet/home.aspx

Therefore, this paper proposes that the Government establishes a system of emergency, lifecycle universal transfers for all children, older people and people with disabilities over a period of six months at a cost of 2 per cent of GDP. The proposed schemes would immediately reach 94 per cent of the population and ensure support to all children, older people, persons with disabilities and single parent households. The impacts of the proposed emergency lifecycle schemes on incomes would be significant, providing average incomes that are 19 per cent higher than the incomes households would have been if the COVID-19 crisis had not happened, significantly reducing poverty across all age groups. The proposed schemes could also save Bangladesh's economy from a deep recession, with CGE analysis indicating that it could mitigate losses in economic growth by up to 50 per cent.

To facilitate the roll-out of universal, lifecycle, emergency social security benefits, it will be necessary for the Government to fast-track reforms to the delivery systems, in particular registration mechanisms, management information systems and payment systems. However, a key advantage of universal schemes is that they are much simpler to deliver than the current poverty-targeted programmes. Funding a fiscal stimulus will not be easy but there are a number of potential options for addressing the question of financing. Ultimately, though, the costs of Bangladesh failing to invest in its population are higher and the proposed investment represents a small price to pay for protecting the prosperity of its citizens and economy in the medium- to long-term.

1 Introduction

The COVID-19 pandemic has triggered the largest economic crisis that the world has seen for many decades. The IMF (2020a) estimates that the global economy will contract by 4.9 per cent, far worse than during the 2008/09 financial crisis, and estimates are likely to be revised down. Globally, lockdown measures introduced by Governments to control the spread of the virus have resulted in the closure of whole industries and widespread job loss. The ILO warns that 1.6 billion informal economy workers –nearly half of the global labour force – are in immediate danger of losing their livelihoods.[1] Even in the formal economy, the majority of global employers – 54 per cent – operate businesses in the sectors that will be the hardest-hit by the crisis, namely manufacturing, accommodation and food services, wholesale and retail trade, and real estate and business activities.[2]

Bangladesh's economy is predicted to be particularly hard hit by the crisis. Demand for Bangladesh's exports – particularly from the Ready-Made Garments sector – has fallen dramatically; the services industry has collapsed; businesses are finding it more difficult to operate due to the impacts of the lockdown and physical distancing measures; and remittances are falling rapidly. Many businesses, across both the formal and informal economies, are in danger of either closing down or cutting their workforces.[3] Since Bangladesh has a large working age population – with 55 per cent of the population aged 18-59 years – a high proportion will be vulnerable to income loss as a result of losing their jobs or cuts to wages, which will also affect their families. As highlighted by the IMF (2020b), across the globe these economic challenges are likely to significantly enhance the risk of social unrest and Bangladesh is no exception.

The crisis threatens to unravel years of progress in economic development, with the IMF projecting that the rate of GDP growth in Bangladesh will reduce significantly from an impressive 8.2 per cent that had been predicted for 2020 before the crisis and there is a clear risk of a recession. Bangladesh's recent economic success has largely been reliant on the growth of industry – predominantly the ready-made garments (RMG) sector – and remittance inflows. The global nature of the COVID-19 crisis threatens to cause significant harm to these sectors and reverse these impressive economic gains. Without an appropriate intervention to stimulate spending and protect jobs, the economy is likely to regress and lose its hard-earned position as the country with the highest growth rates in the Asia-Pacific region.

Prior to the crisis, and despite impressive economic growth, Bangladesh and its people were already facing challenges. Government revenues comprised only 9.9 per cent of GDP in 2019, well below Government expenditures of 14.8 per cent of GDP. Indeed, this is well below the level required to sustain good public services: many high- and middle- income countries generate government revenues equivalent to at least 30 per cent of GDP while even Nepal has revenues of 23 per cent of GDP.[4] Government gross debt was, however, relatively low at only 34.6 per cent of GDP in 2019 – although it will increase as a result of the COVID-19

1 ILO (2020a)

2 ILO (2020a)

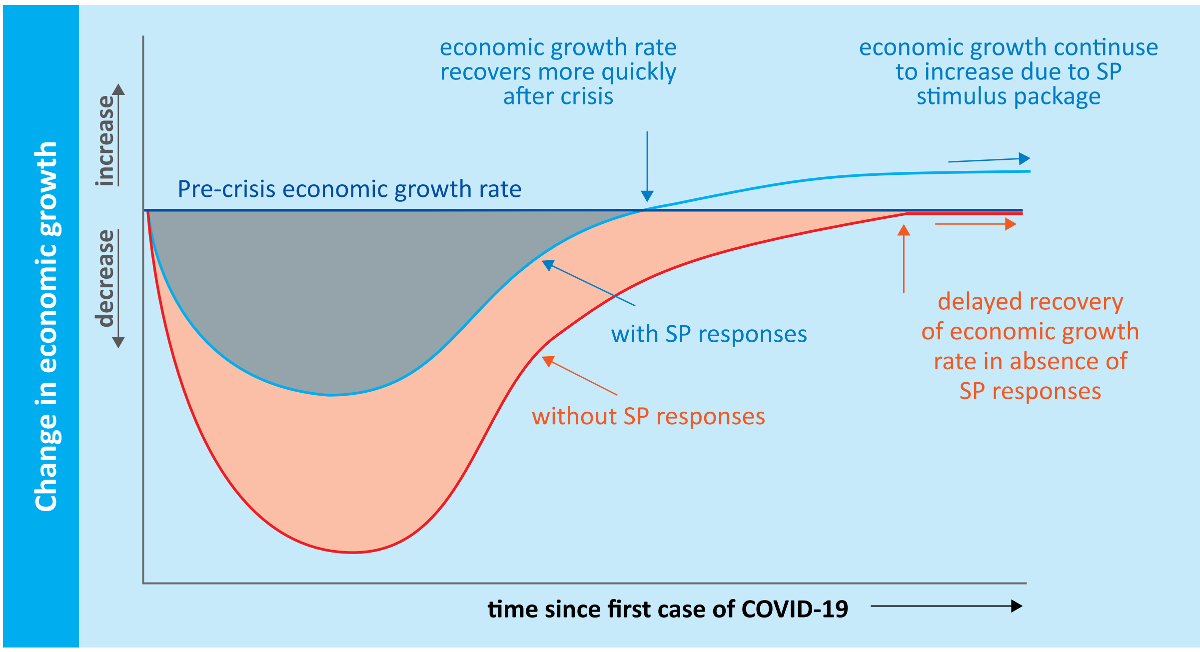
3 UNESCAP (2020).

4 Source: IMF World Economic Outlook database. Retrieved from: https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending

crisis – and annual debt repayments comprised 0.52 per cent of GDP in 2019, or around 5 per cent of Government revenues. The delta region is highly vulnerable to climate-related shocks; for example, Cyclone Amphan and July's heavy monsoon rains have both caused devastating damage in recent months. Further, the majority of households in Bangladesh live on some of the lowest incomes in the region, which left them vulnerable to the crisis.

The United Nations, World Bank and IMF have all recommended that a massive counter-cyclical fiscal and financial effort is urgently required if economies are to avoid devastating recessions and recover from the crisis in the long-term. In policy terms, this means that national governments must implement large-scale injections of cash into their economies by providing social security transfers to their populations, in order to stimulate their spending and keep markets functioning. As Figure 1-1 sets out, a fiscal stimulus package should enable countries to lower the depth of recession and, importantly, recover more quickly. In fact, as international evidence suggests, continuing the fiscal stimulus beyond the crisis may well result in economic growth that is higher than it was before the crisis. Most high-income countries have done 'whatever it takes' to protect their economies and citizens and it is clear that low- and middle-income countries must do the same, or risk enormous damage to national wellbeing.

Figure 1-1: Potential impacts on economic growth as a result of COVID-19, with and without social security responses



Source: UNICEF (2020).

The Government of Bangladesh has recognised the need to intervene to protect the economy and its citizens and as a fiscal stimulus that includes additional social security measures. These measures include small 'top-ups' to the Primary School Stipend, a one-off payment five million poor families and an expansion of the Allowance for the Financially Insolvent Disabled, the Allowance for Widowed, Destitute and Deserted Women and the Old Age Allowance schemes in some of the poorest areas of the country.

However, it is becoming increasingly clear that the COVID-19 crisis is so severe that, despite the Government's early efforts, much more needs to be done to complement this. The current emergency social security measures cost just 0.16 per cent of GDP in total, which will likely not be enough to stimulate the economy or provide families with enough support to be protected against the crisis.The aim of this paper, therefore, is to examine the depth of the crisis and the quality of Government's fiscal response to date. It will set out a proposal to further strengthen the Government's response through an alternative – and easier to implement – fiscal stimulus package that will be more effective in protecting both the economy and families, especially the most vulnerable members of society. The proposal would cost 2 per cent of GDP and would provide monthly transfers to all of Bangladesh's children, older people and people with disabilities. It would be a vital component of a broader national response to the crisis that would safeguard people's health, protect jobs, maintain the viability of businesses and reduce the likelihood of instability.[5] Importantly, it would also be very popular and demonstrate clearly that the Government is caring for its citizens at a time of great need.

The paper, therefore, will present the findings from a series of Policy Briefs that aim to provide evidence to support the Government of Bangladesh in its social security response to the economic crisis created by the COVID-19 pandemic. The paper begins in Section 2 by laying out the details of the assumptions and methodology used to run the Computer-Generated Equilibrium analysis and micro-simulations. In Section 3, it considers the context in Bangladesh prior to the COVID-19 crisis, examining challenges faced by the population of Bangladesh and the state of Bangladesh's existing social security system. In Section 4, the paper analyses the impact of the COVID-19 crisis on Bangladesh, examining impacts on the economy, jobs, remittances, family income, family and child wellbeing and national social cohesion. In Section 5, it briefly considers the Government's fiscal response to the crisis to date. In Section 6, the paper recommended for an alternative package of benefits – which would cost 2 per cent of GDP – and show how this would significantly reduce the recession that Bangladesh is facing and enhance wellbeing among direct and indirect recipients. Finally, in Section 7, the paper will examine options for financing the alternative package of benefits and argue that, after the crisis, Bangladesh could scale back the initial response but continue to invest in universal lifecycle schemes to promote economic recovery in the longer term.

5 Other measures to support economic growth, employment, support to SMEs, as well as other fiscal and monetary measures must also be considered, as proposed in the United Nations' Advisory Paper on Socioeconomic Response to COVID-19.

2 Methodology and assumptions

This section sets out the methodology that was used in the analysis. scenarios and assumptions that were used to model the economic impact of the COVID-19 pandemic and its distributional effects, as well as the potential impacts of emergency social security measure that could be introduced as part of a fiscal response. The analysis had two main phases: first, analysis was undertaken using a Computable General Equilibrium (CGE) model of Bangladesh's economy to determine national level impacts; then, the results from the CGE model were mapped onto the most recent national household income and expenditure survey to determine household level impacts. Similarly, when simulating the mitigation that would result from a fiscal stimulus using social security transfers, both the CGE model and the household survey were used to obtain both macro- and micro-level results.

2.1 Scenarios

Three sets of simulations were developed based on data from the Ministry of Finance, the Bangladesh Bank and international financial institutions as well as discussions with other national stakeholders. A base-case scenario – referred to as the "Without-COVID-19 scenario" was developed. This was essentially a business-as-usual scenario that assumed that the Bangladeshi economy in 2020 performs in line with the projections developed by the government of Bangladesh before the start of the COVID-19 pandemic, which are set out in the macro-economic framework for the Eighth Five Year Plan (8FYP) released in February 2020. In this counterfactual scenario, annual GDP growth is more than 8 per cent.

The impact of the COVID-19 crisis was measured by way of a "with-without" comparison, that is, the difference between with-COVID-19 and without-COVID-19 scenarios for the economy in the year 2020. In the with-COVID-19 scenarios, it is assumed that the economic shock from the pandemic is transmitted through the following direct channels:

- The level of global demand for Bangladesh's ready-made garment products, due to buyers in major export destinations (e.g. in Europe and the United States) cancelling or modifying orders;
- The level of domestic demand for agricultural outputs, especially the demand for fisheries and livestock products as it is income elastic;
- The underutilisation rate of installed capacity in the industry and services sector due to lockdowns to avoid the spread of COVID-19; and,
- Remittance flows from overseas workers.

Two scenarios that estimate the impact of COVID-19 were developed, one which assumed a low-impact of the pandemic and the other a high-impact:

- ***With-COVID-19 low-impact scenario*:** The assumptions underpinning the low-impact scenario are broadly aligned with the government of Bangladesh' revised macro-economic framework for the 8FYP and the Budget 2021 from July 2020 that take into account the anticipated macro-effects of COVID-19. In this scenario, exports from the ready-made garments (RMG) industry are assumed to fall by an annualized rate of 10 per cent and remittance flows to Bangladesh by 3.7 per cent. The agriculture sector grows by 3 per cent largely because of the bumper harvest of the boro rice crop. The effects of a four-week lockdown on the industry and services sector were modelled through a reduction of 5.3 per cent in the utilisation of capital in the production process.
- ***With-COVID-19 high-impact scenario:*** The high-impact scenario uses a set of assumptions that are more pessimistic than those in the low-impact scenario. Foreign demand for RMG and international remittances fall by 30 and 18 per cent, respectively, on an annualized basis. Growth in the agriculture sector is more subdued (1 per cent) due to lower demand for fisheries and livestock produce. The industry and services sector experience an eight-week lockdown, modelled through a reduction of 10.6 per cent in the intensity with which available capital is used.

Table 2-1 provides a summary overview of the assumptions regarding the economic effects of COVID-19.

Table 2-1: Assumptions regarding economic effects of COVID-19

Transmission channel	Low-impact scenario	High-impact scenario
Garment industry	Annualised reduction of 10 per cent in export demand	Annualised reduction of 30 per cent in export demand
Agriculture sector	Annual growth of 3.2 per cent thanks to bumper rice harvest and limited effects on rural economy	Annual growth of 1.1 per cent due to drop in demand for fisheries and livestock outputs
Industry and services sector	Underutilisation rate of installed capital of 5.3 per cent due to a four-week lockdown	Underutilisation rate of installed capital of 10.6 per cent due to an eight-week lockdown
Foreign remittances	Annualised reduction of 3.7 per cent	Annualised reduction of 18 per cent

However, as the pandemic has progressed, it has become clear that the low-impact scenario is not realistic. Therefore, for the rest of the paper, the results are provided mainly for the high-impact scenario which appears to replicate more closely what has actually happened in Bangladesh.

2.2 The Computable General Equilibrium (CGE) model

The macro-simulations were conducted with a CGE that combines economic theory with real economic data in order to derive computationally the impacts of policies or shocks in the economy. The CGE model represents the entire economy and take into account the interactions and knock-on effects between its different segments. It fits economic data to a set of equations that aim to capture the structure of the economy and behavioural responses of agents (firms, households, government). When the shock of the COVID-19 pandemic is introduced, the model derives a solution by finding a new set of prices and allocation of goods and factors such that the economy is in an equilibrium again, governed by the economic relationships as specified in the system of equations.

The dataset that forms the backbone of the CGE model is an updated version of Bangladesh's 2017 Social Accounting Matrix (SAM).[6] It represents all monetary flows from sources to recipients that take place in the economy in a single year. The 2017 SAM was amended by recalibrating data to the year 2020, aligning the sector classifications with the framework used for 8FYP, and changing the household classification to one that used age cohorts. Table 2-2 provides a summary overview of the account structure of the 2020 SAM. Some parameter values – such as elasticities which govern the demand and supply responsiveness to price – are not determined within the model. Their values are mostly taken from empirical studies or estimated using data from the Household Income and Expenditure Survey (HIES) 2016 and the Labour Force Survey (LFS) 2017.

6 GED (2019).

Table 2-2: Overview of the account structure of the 2020 Social Accounting Matrix (SAM)

Activities (23)	
	Cereal Crop, Commercial crop, Livestock-poultry, Fishing, Forestry, and Other-crop (06)
	Mining, Other Food, Leather, Textile-clothing, Chemical-Fertilizer, Machinery, Petroleum, Other industry, Construction, and Utility (10)
	Trade, Hotel, Transport, Financial Services, Public Administration, Social Services, and Other Services (07)
Commodities (23)	
	Cereal Crop, Commercial crop, Livestock-poultry, Fishing, Forestry, and Other-crop (06)
	Mining, Other Food, Leather, Textile-clothing, Chemical-Fertilizer, Machinery, Petroleum, Other industry, Construction, and Utility (10)
	Trade, Hotel, Transport, Financial Services, Public Administration, Social Services, and Other Services (07)
Factors of Production (3)	
	Labour factor (02): Unskilled labour and skilled labour
	Capital factor (01): Capital
Institutions (11)	
	Household (5): Households with children 0-5; with children 6-9; with children 10-18; with working age adults 19-64; and with 65+ year olds
	Government
	Rest of the world
	Savings or gross fixed capital (consolidated capital)

The model's equations are specified and solved using GAMS (General Algebraic Modelling System) software – a high-level modelling system for mathematical programming and optimisation. Annex 1 provides additional information on the model's components and specifications.

2.3 Micro-simulations

The macro-level projections from the CGE model were fed into a microsimulation model which used the 2016/17 Household Income and Expenditure Survey (HIES), a large household survey collected by the Bangladesh Bureau of Statistics and the main government instrument for monitoring welfare and living conditions in the country. The HIES – together with data on changes in remittances flows and the size of the population – was used to generate predictions for income distributions at the individual and household levels in 2020.

The analysis first took into account population growth, by recalibrating the survey weights to match the United Nations' population projections for Bangladesh for 2020 by age and sex. The relative distribution of people and households by region was kept the same as in 2016. Next, labour and non-labour incomes in 2020 were simulated using a 'growth calibration' approach by sector and the total economy, for the benchmark and with-COVID-19 scenarios. Changes in international remittance flows and social security coverage were also factored in. To simulate job losses in the with-COVID-19 scenario, Monte Carlo simulations were developed of individuals' labour force status with randomized selection in a segmented labour market. The addition of household income from lifecycle emergency social security programmes was also simulated. Finally, the analysis recomputed households' new per capita income and consumption and analysed welfare effects. The findings presented in this paper are based on median values across the results from 350 Monte Carlo simulations.

Prior to the COVID-19 crisis, despite impressive reductions in the national poverty rate, the majority of families in Bangladesh were nonetheless living on low and precarious incomes, making them less able to cope with the effects of the economic recession. The COVID-19 crisis is exacerbating an already challenging situation for most of the population of Bangladesh, which is further exacerbated by additional crises such as the recent floods. While the majority of the population would benefit from being included within the social security system, many were unable to access the existing system. The following sections will briefly provide an overview of the existing insecurities facing the population of Bangladesh, prior to the COVID-19 crisis, as well as the examining the challenges of using the existing social security system to deliver an effective emergency response.

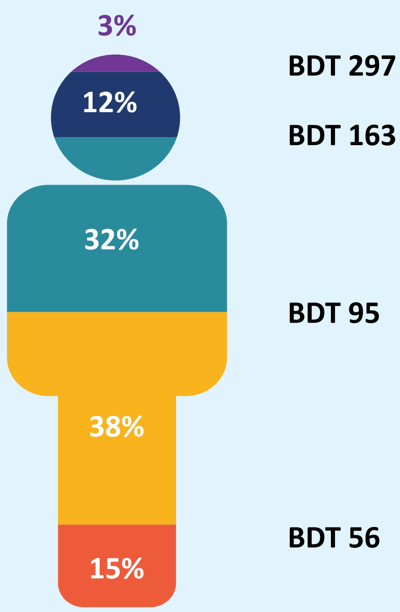
3 The context in Bangladesh prior to the COVID-19 crisis

Prior to the COVID-19 economic crisis, Bangladesh and its population were already facing challenges that have left them even more vulnerable to its worst impacts. This section will consider the challenges faced by the population prior to the crisis and briefly examine Bangladesh's existing social security system.

3.1 Challenges faced by the population of Bangladesh prior to COVID-19

Bangladesh has made good progress in tackling extreme poverty, with official poverty estimates indicating that the percentage of the population living below the national poverty line has fallen from 48.1 per cent in 2000 to 24.3 per cent in 2016.[7] Yet, according to the World Bank[8] – which uses Government of Bangladesh data from the 2016 Household Income and Expenditure Survey – around 97 per cent of Bangladeshis still live on US$10 per day or less, when measured in purchasing power parity (PPP) terms.[9] Using the World Bank's conversion factor – and adjusted for inflation – this is the equivalent of just BDT 297 per person per day in 2020. Further, around 53 per cent of Bangladeshis live on less than $3.20 (PPP) – or BDT95) – per day while 85 per cent of Bangladeshis live on $5.50 (PPP) – or BDT163 – per day or less. This demonstrates that, despite an impressive trajectory of progress, the vast majority of Bangladeshis are living on low incomes and most households do not have the income security to withstand a major economic shock.

Figure 3-1: Proportion of the population living under different per capita daily expenditures



In regional perspective, the population of Bangladesh are living on some of the lowest incomes in the South Asia region. Figure 3-2 shows the per capita consumption of people at the 75th welfare percentile across 10 countries in Asia. In other words, it indicates the level of consumption that the poorest 75 per cent of the population are living on per day, in international PPP terms, meaning that the results are broadly comparable. Bangladesh is far behind other countries in the region, with 75 per cent of the population living on less than $4.45 (PPP) – or BDT127 per day. In Sri Lanka, the consumption level at the 75th percentile is more than double that of Bangladesh, at $10 PPP per day. This suggests that, despite Bangladesh sustaining a high

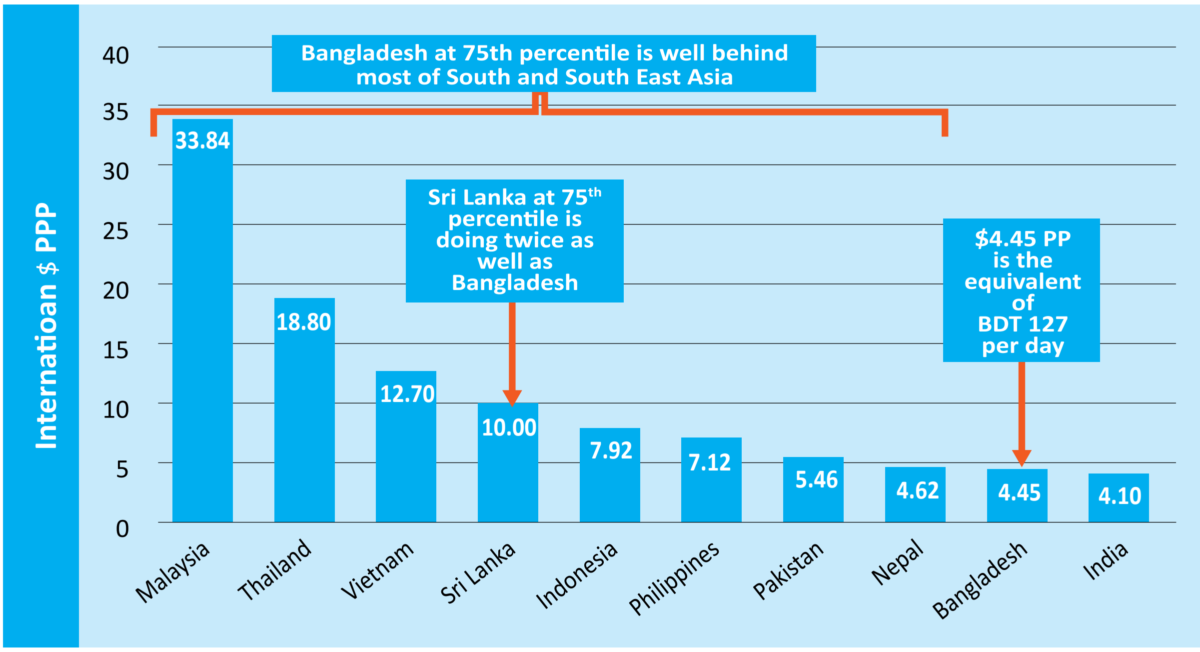
7 Source: HIES 2016.

8 Source: PovCalNet of the World Bank at: http://iresearch.worldbank.org/PovcalNet/home.aspx

9 This should be understood as reflecting the standard of living that Bangladeshis at the 75th percentile would have in the United States of America (USA). Given that the poverty line in the USA is around US$20 per day, this would mean that most Bangladeshis would be considered as living in extreme poverty, if they were to live in the USA with their current incomes.

rate of economic growth in recent years, it has not yet translated into levels of income that would give security to the majority of the population. In fact, between 2010 and 2016, GDP growth accelerated while the pace of poverty reduction slowed, probably due to an increase in inequalities.[10] If Bangladesh is to plausibly achieve its aspirations of achieving the Sustainable Development Goals and becoming an upper-middle income country by 2041, there was still considerable work to do before the COVID-19 crisis, with the challenge now being made more difficult.

Figure 3-2: Per capita consumption of people at the 75th welfare percentile across 10 countries in Asia



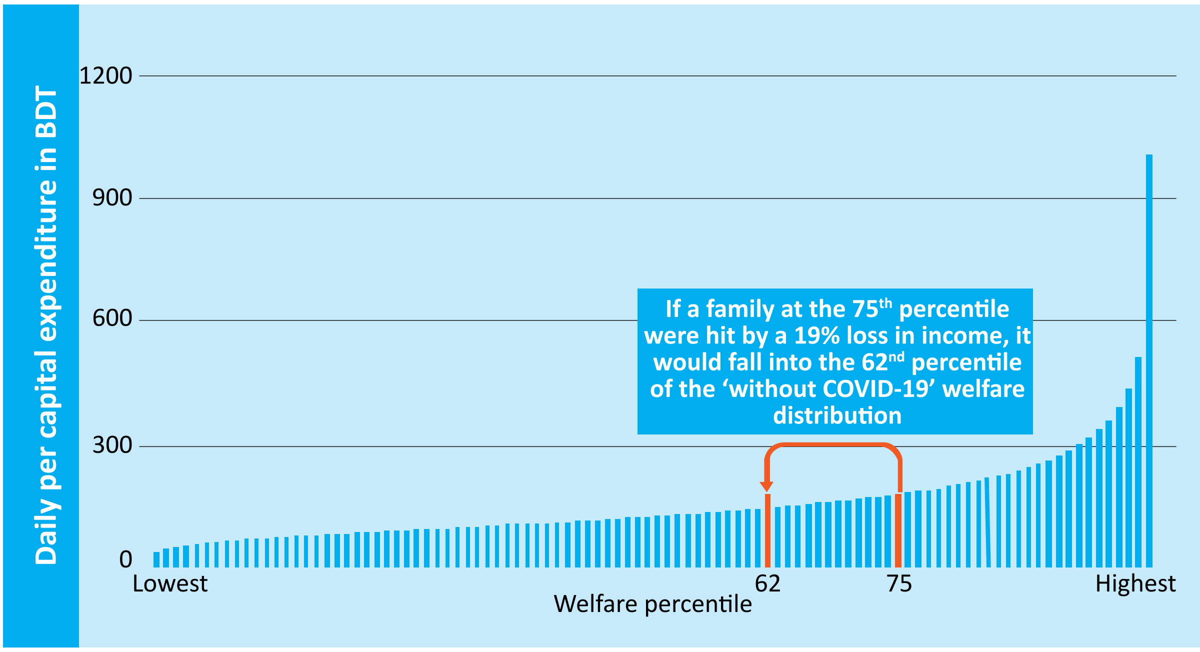
Source: World Bank Povcalnet data, retrieved from http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx

With three-quarters of the population living on a daily per capita consumption of less than BDT127 (US$4.45 PPP) per day prior to the crisis, most families did not have the resilience to cope with a shock as large as COVID-19. In addition, as Figure 3-3 shows, across the majority of the population, incomes are relatively similar. So, if a family at the 75th percentile were to suffer a loss of 19 per cent of their income – the estimated average loss as a result of COVID-19 – it would fall to around the 62nd percentile of the 'without COVID-19' welfare distribution. This demonstrates the vulnerability of many households in Bangladesh. Given that most adults in the bottom 75 per cent of the population in Bangladesh are either working in the informal economy or not participating in the labour market, this level of vulnerability is not surprising.[11] In fact, according to the ILO (2020b), 55 per cent of all employed persons could be characterised as being in vulnerable employment in 2019, rising to 67 per cent among women. If, as a result of a shock, those in vulnerable employment are unable to work or experience reduced incomes, they are unlikely to have sufficient savings to draw upon for more than a short period of time and will, therefore, be obliged to use potentially damaging coping strategies.

10 World Bank (2018).

11 According to Bangladesh's Labour Force Survey, 2016-17, 85.1 per cent of the total workforce aged 15 years or older are in informal employment.

Figure 3-3: Per capita welfare distribution in Bangladesh, showing the impact of a loss of 19 per cent on the income of a family at the 75th percentile



Source: own calculations based on 2016 HIES.

A good indication of whether families are struggling financially, is the proportion of the household budget that is spent on food. While in most high-income countries families spend, on average, less than 15 per cent of their incomes on food, in Bangladesh among the poorest 80 per cent of all households, households spend 56 per cent of their total consumption on food.[12] These figures are higher than averages found in African countries such as Kenya (47 per cent) and Cameroon (45 per cent). Consequently, families are far less able to invest in their children, thereby impacting negatively on children in a number of ways, as discussed below. This high level of vulnerability across most households in Bangladesh shows that being able to afford food and other necessities is not only a "problem of the poor". Indeed, most of those living on middle incomes in Bangladesh have the characteristics of what Guy Standing (2014) has referred to as the 'precariat,' a term reflecting the uncertain and precarious nature of their daily lives, a situation further compounded by the high level of informality across the labour force. The reality, therefore, is that most families in Bangladesh were not prepared to withstand an economic shock on the scale of COVID-19, with children, persons with disabilities, and older persons at particular risk.

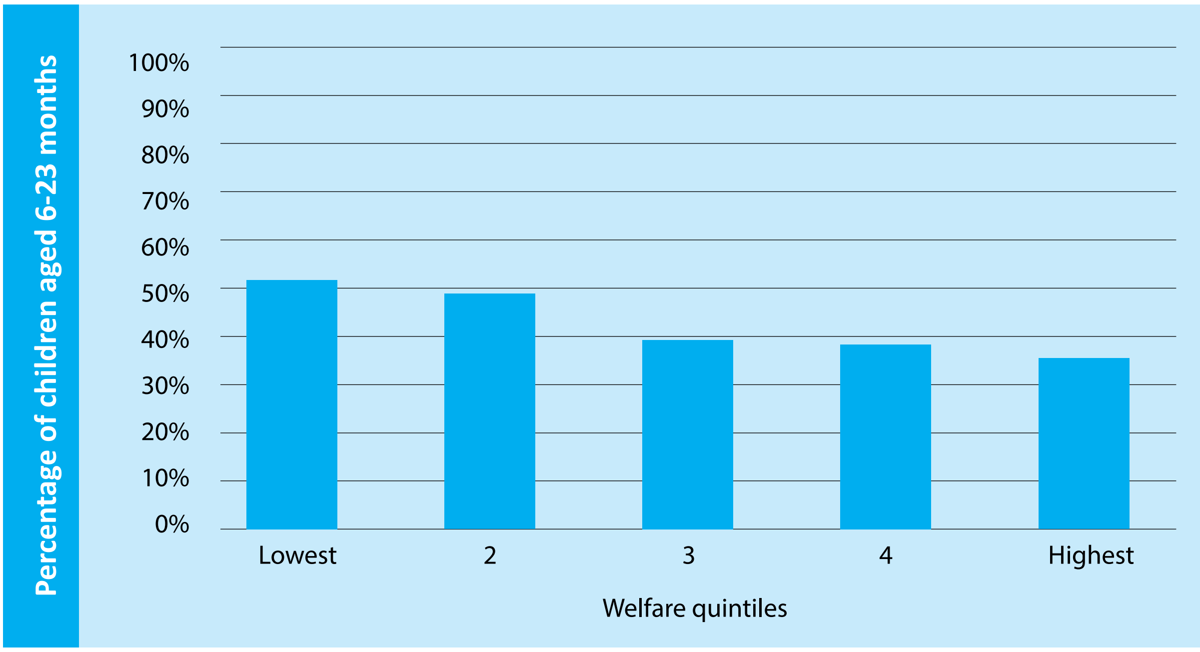
Children are in real danger of experiencing setbacks as a result of the decline in families' living standards and the suspension of public services, such as schooling and healthcare that has occurred during the crisis. Whereas all of the population is at risk of experiencing higher food insecurities and resorting to cheaper and less nutritious food, this can have severe and irreversible impacts on child development. If the consumption of crucial micro-nutrients declines, children may experience setbacks in cognitive development, which can have long-lasting, negative impacts on their learning capabilities and future earning opportunities. If, during the first 1,000 days of life children suffer from poor nutrition and repeated infection, which causes them to be stunted, research indicates that they may never fully recover and will experience, on average, a 26 per cent reduction in lifetime earnings.[13] In some contexts, this can lead to a loss in gross domestic product (GDP) that is twice as large as the amount some

12 Source of international figures: https://ourworldindata.org/food-prices. Information on Bangladesh is taken from the 2016 Household Income and Expenditure survey.

13 Richter et al. (2017).

countries currently spend on healthcare. Yet, prior to COVID-19, many families with children were already struggling: for example, as Figure 3-4 highlights, on any given day 45 per cent of young children across Bangladesh were unable to consume iron-rich foods, reaching 54 per cent among the poorest quintile (and the high proportions across the welfare distribution is further evidence that low incomes are widespread).[14] Further, in 2018, nearly a third (28 per cent) of all children under the age of five years were stunted.[15] Therefore, prior to COVID-19 many young children were already at risk of experiencing cognitive and physical development setbacks, and this risk will have been enhanced during the crisis. The window of opportunity for early cognitive development is very narrow, so the danger of lifelong consequences for the poorest and most vulnerable young learners is very real. Unless urgent action is taken, the gains in human capital made in recent decades could be severely compromised, with recovery taking many years.

Figure 3-4: Percentage of children 23-59 months who did not take iron rich foods in past 24 hours



Source: Demographic and Health Survey, 2014

In addition, when families have limited incomes to invest in children, this can create further barriers for child development, including for school age children. Home environments may not be conducive to learning. For example, families may experience difficulties in purchasing books, toys and games for their children, all of which play a key role in stimulating their development. As a result of school closures, young children in particular will miss out on learning opportunities in the key formative stages of their cognitive development. Further, income stress in families can contribute to domestic violence, which also impacts on child wellbeing.[16] Domestic violence can impede the cognitive and sensory growth as well as language development of children, while making it more likely that they will experience sleep problems, emotional distress and depression.[17] Further, children living in families where violence is prevalent are, again, likely to have home environments that are less conducive to studying, which can affect their performances at school.

14 Source: Demographic Health Survey (2014).

15 Bangladesh MICS (2019).

16 WHO (2002).

17 Osofsky (1999).

Another significant challenge that Bangladesh faces is a growing youth and working-age population which is likely facing rising unemployment and fewer jobs as a result of the COVID-19 economic crisis. There is a real danger that this could translate into social unrest. In 2018, the World Bank identified job creation as the country's top development priority, indicating prior to the crisis that Bangladesh should focus on generating enough jobs for the 2 million young women and men entering the job market every year.[18] It is commonly argued that such a demographic dividend – if met with sufficient jobs and employment protections – can enhance the trajectory of growth, as it has played a role in sustaining impressive growth rates in Bangladesh in recent years. Conversely, failing to stimulate the economy – and, instead, eroding trust in Government by neglecting the need to invest in its population – may well lead to disaffection among young people which is likely to heighten the threat of social unrest and even crime and violence.[19]

Further, Government per capita investment in citizens is fairly low and the Government may wish to consider increases as a means of further enhancing trust in Government during this time of crisis. For example, in 2017, 74 per cent of total per capita health expenditure was paid for by citizens out of pocket, a sharp rise from 61 per cent in 2000.[20] The share of the national budget invested in health and education is shrinking and is the lowest in the South Asia region.[21] The rising unemployment and stagnating economic activity experienced during economic crises – particularly when combined with poor access to publicly funded services – can increase the risk of social unrest. A lack of publicly funded services also means that citizens are precariously reliant on their incomes to meet their basic needs, including their healthcare needs which, for many, will become increasingly urgent due to the virus and leaves the population all the more vulnerable to economic and health shocks.

Bangladesh is also particularly vulnerable to other covariate shocks, which have already exacerbated the coping mechanisms of many Bangladeshis and will compound the effects of the COVID-19 economic crisis. For example, Bangladesh is among the countries most at-risk to the worst effects of the climate crisis, which are set to further escalate as a result of climate change. A recent monsoon has left one-quarter of the entire country flooded, with over 1 million homes inundated by the floods.[22] The Needs Assessment Working Group estimates that more than 7.5 million people were affected, many of whom will have lost all their assets.[23] ECHO estimates that over 1,900 schools were damaged, leaving over 800,000 children without access to education. Recent monsoon flooding follows Cyclone Amphan which, just two months earlier, destroyed the homes of around 500,000 people.[24] Further, Bangladesh is home to the world's largest refugee settlement in Cox's Bazar where unsanitary conditions and overcrowding makes it impossible for the 1 million settled refugees – predominantly Rohingya from Myanmar – to stay protected from the virus. The threat of the rapid spread of the virus in the area exists in a context of already tense relations between refugees and the host community.

18 World Bank (2018).

19 Links between economic grievances, unemployment and increased violence crime and unrest are borne out by the international literature. See: Nordin and Almén (2017); Bell et al (2014). Also see ILO (2011) and IMF (2020b) on importance of investing in social security to protect social cohesion in times of economic crises.

20 WHO (2020).

21 Chaity (2018).

22 New Yorker (2020).

23 NAWG. (2020b).

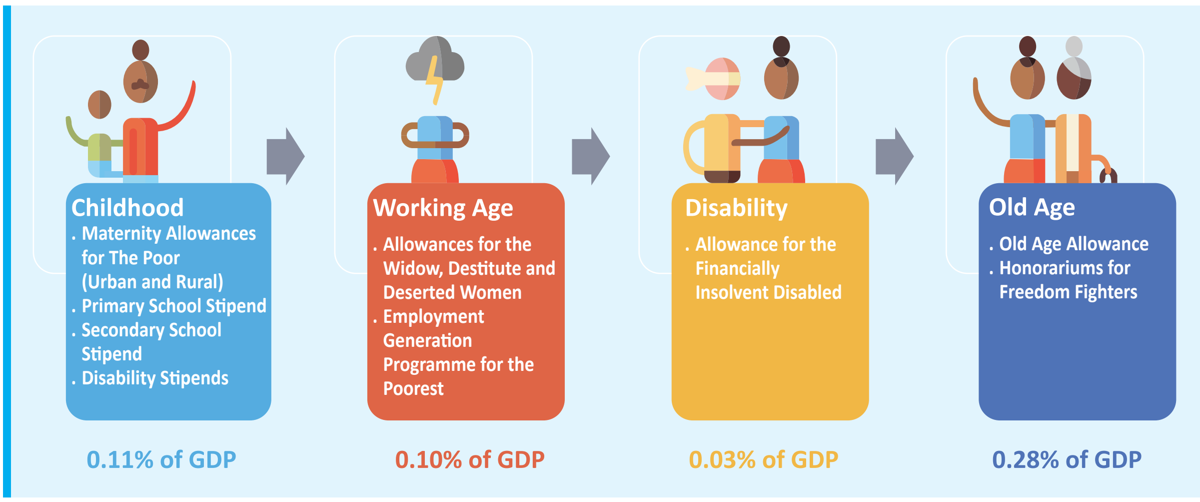
24 UN Bangladesh estimate.

Overall, a myriad of challenges and intersecting vulnerabilities has left the population of Bangladesh at a heightened risk of being affected by the economic and health impacts of COVID-19. As in all countries, an adequate fiscal response is necessary to strengthen economic recovery, protect families and enhance social cohesion. The next section will briefly evaluate Bangladesh's existing social security system and examine whether it is prepared to be able to respond to large-scale crises such as that generated by COVID-19.

3.2 The social security system in Bangladesh

Bangladesh has more than one hundred programmes that are classified as social security which are implemented by more than 30 line-ministries and departments. Yet very few can be considered to be social security in the conventional sense. This is because most of these schemes are very small, highly-targeted and many provide only in-kind transfers or are, instead, livelihoods or social development programmes. An effective social security system should comprise schemes that offer regular and predictable income support to citizens as they progress across the life course, while also offering a safety net when a crisis happens. Further, these are the only kinds of programmes that will be able to provide the basis of an effective shock-response in times of crisis. The schemes that most closely align to forming such a lifecycle social security system in Bangladesh – and that will be considered when assessing the effectiveness of the existing social security system in this paper – are shown in Figure 3-5 and described in more detail in Table 3-1.

Figure 3-5: Core lifecycle social security schemes in Bangladesh and levels of investment[25]



Source: Development Pathways (icons from Freepik)

Overall, the level of investment in Bangladesh in core, lifecycle social security is minimal. Table 2-3 sets out additional basic information on Bangladesh's core, lifecycle social security schemes – including workfare schemes – and shows that the level of investment in programmes focusing on children, survivors, people with disabilities and older people – excluding the public service pension – is only 0.52 per cent of GDP.[26] Worryingly, this represents a significant fall in investment since 2012 when over 0.77 per cent of GDP was spent on these same schemes.[27]

25 These do not include the Public Service Pension since this reaches only a small amount of relatively wealthy households. Information from 2019 Mid-Term Review.

26 Please see Table 2.3 for sources.

27 Kidd and Khondker (2013).

Table 2-3: Overview of core tax-financed, lifecycle social security schemes in Bangladesh (2019) [28]

Scheme	Ministry responsible	Number of beneficiaries	Monthly transfer value	Annual transfer value (% of GDP pc)	Annual budget (BT)	Annual budget (US$)	Annual budget (% of GDP)
Childhood							0.11%
Primary education stipend	Ministry of Primary and Mass Education (MoPME)	14.4 million children	BDT 100	0.7%	Tk 15.5 billion	US$ 181.7 million	0.06%
Secondary education stipend	Ministry of Education (MoE)	0.8 million children	Between BDT 115-290	0.7%- 1.8%	Tk 2 billion	US$ 23.6 million	0.008%
Disability stipends[29]	Ministry of Social Welfare (MoSW)	0.08 million children	Between BDT 300-1000	2.2%- 7.3%	Tk 545 million	US$ 6.7 million	0.002%
Maternity Allowance for the Poor (Rural)	Ministry of Women and Children Affairs (MoWCA)	0.7 million individuals	BDT 800	5.8%	Tk 6.9 billion	US$ 81.4 million	0.03%
Allowance for Low-Income Lactating Mothers (Urban)	Ministry of Women and Children Affairs (MoWCA)	0.25 million individuals	BDT 800	5.8%	Tk 2.5 billion	US$ 29.5 million	0.01%
Women and Employment							0.10%
Allowances for the Widow, Destitute and Deserted Women	Ministry of Social Welfare	1.2 million[30] individuals	BDT 500	3.6%	Tk 8.4 billion[31]	US$ 104.9 million	0.03%
Employment Generation Programme for the Poorest (EGPP)	Ministry of Disaster Management & Relief	1 million[32] households	BDT 200 daily wage[33]		Tk 16.5 billion	US$ 206 million	0.07%
Disability							0.03%
Allowance for the Financially Insolvent Disabled	Ministry of Social Welfare	1 million[34] individuals	BDT 700	5.1%	Tk 8.4 billion	US$ 99.1 million	0.03%
Old Age							0.28%
Old Age Allowance (age 62 for women, 65 for men)	Ministry of Social Welfare	4 million individuals	BDT 500	3.6%	Tk 24 billion[35]	US$289 million	0.09%
Honorariums for Freedom Fighters[36]	Ministry of Liberation War Affairs (MoLWA)	0.25 million individuals[37]	BDT 10,000 – 30,000	6.8%- 20.5%	BDT 46.2 billion[38]	US$ 547.7 million	0.19%
Totals		**23.68 million**					**0.52%**

28 Information from Mid-Term Review, unless footnotes state otherwise.

29 Information is for 2017-2018. Ministry of Finance (2017).

30 This figure of 1.2 million is given by PRI (2019a). World Bank (2019a) cites the alternative figure of 1.4 million beneficiaries.

31 World Bank (2019a).

32 World Bank (2019b).

33 Tk200 for daily wage for maximum of 80 days' work. World Bank (2019b).

34 World Bank (2019c) cites the figure of 1 million beneficiaries. The Mid-Term Review of the NSSS (2019) says that it aims to have reached 1 million beneficiaries in 2018/2019.

35 World Bank (2019d) f

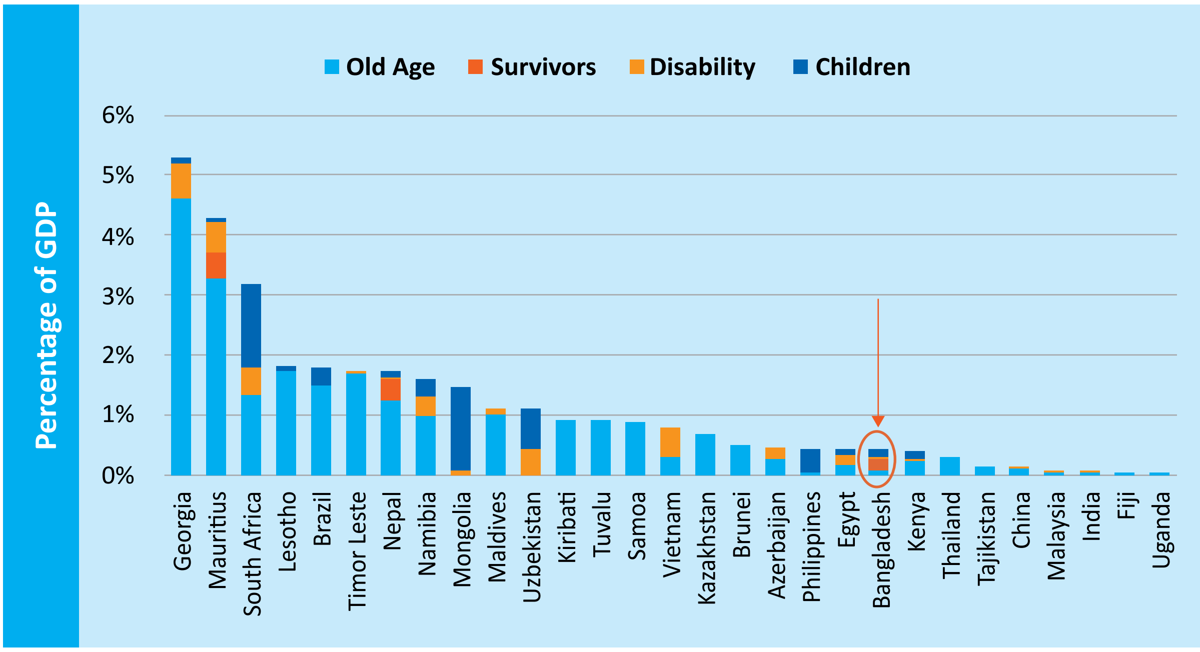
36 Including Honorarium for Freedom Fighters, Honorarium & Medical Allowances for Injured Freedom Fighters and Ration for Shaheed Family & Injured Freedom Fighters.

37 This is the estimated number of beneficiaries for 2018-19 given by PRI (2019).

38 This is the estimated budget for 2018-19 based on information from PRI (2019).

This level of investment in core, lifecycle social security funded from general taxation is well below the level of investment across a range of other low- and middle-income. As Figure 3-6 shows, it is below the 1.7 per cent invested by Nepal, a much poorer country. Indeed, when expenditures on social insurance schemes are taken into account, some middle-income countries – such as Brazil, Mongolia and Uzbekistan – are investing more than 8 per cent of GDP.

Figure 3-6: Level of investment by a range of low- and middle-income countries in core tax-financed, lifecycle social security schemes[39]

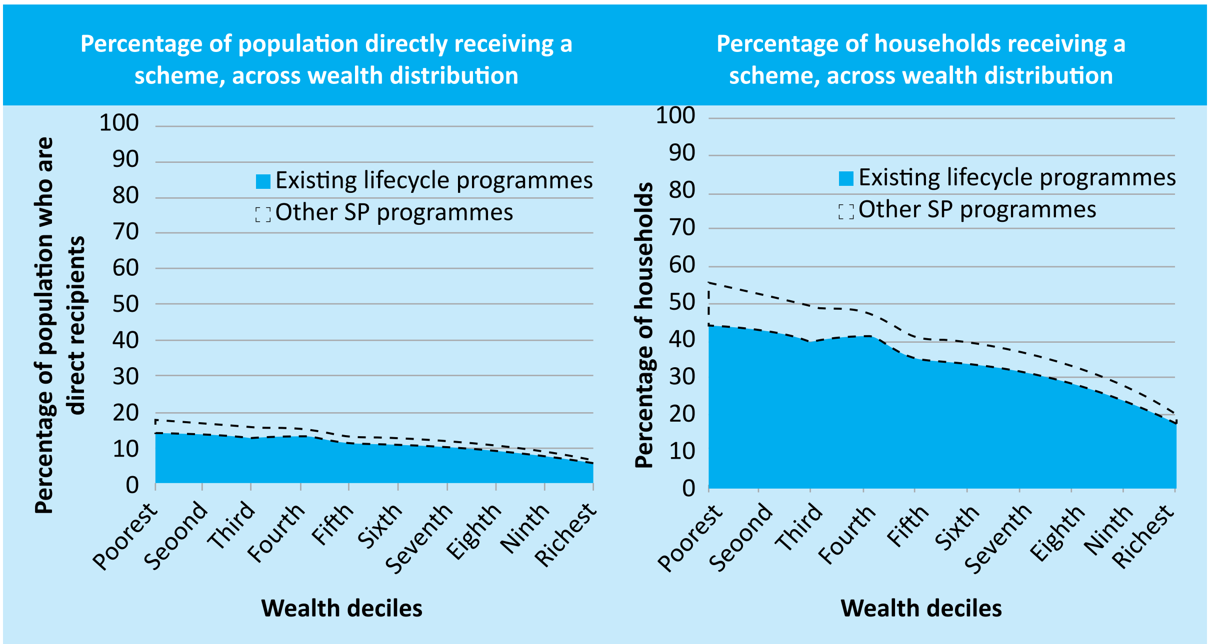


Source: Analysis undertaken by Development Pathways

Overall, the existing core cash-based schemes (outlined in Figure 3-5) achieve very low coverage across the national population. Cumulatively, the direct recipients of schemes comprise only 11 per cent of the population. The scheme with the highest coverage is the Primary Education Stipend, which was made universal in 2015 for all primary school children at Government schools. Yet, even this scheme only benefits 8.6 per cent of the population directly. When considering the proportion of households reached by a scheme, coverage is still low. As Figure 3-7 shows, only around 33 per cent of households receive at least one core social security scheme. The majority of recipient households access the Primary School Stipend while other programmes have limited coverage. There are 27 per cent of households nationally receiving just one programme and 6 per cent receiving more than one.

39 The figure for Bangladesh – and other countries – does not include the public service pension or workfare schemes.

Figure 3-7: Percentage of population directly receiving a programme and percentage of households receiving a programme, across the wealth distribution



Source: Analysis undertaken by Development Pathways of HIES (2016)

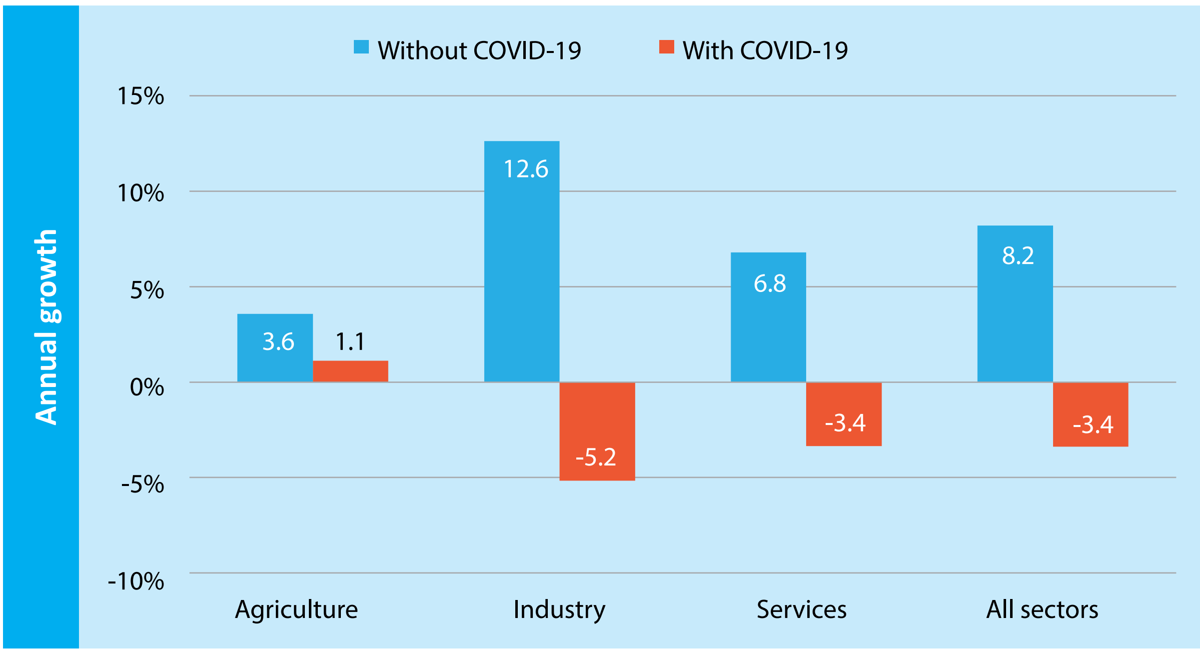
4 The impacts of the COVID-19 crisis on Bangladesh

Globally, the COVID-19 crisis has had devastating impacts on most economies and populations, and Bangladesh – whose people are particularly vulnerable to income shocks – is no exception. This section will examine the impact that the COVID-19 crisis is likely to have on the national economy, jobs, remittances, family incomes, family and child wellbeing and national social cohesion.

4.1 The impacts on the national economy

The impacts of the COVID-19 crisis on Bangladesh's economy are, as yet, unknown, but Bangladesh is likely to experience a recession for the first time since 1975. International organisations have predicted severe reductions in GDP as a result of the economic shocks generated by COVID-19. Under an optimistic scenario, the World Bank and IMF estimate a reduction in GDP of between 5.6 and 6.2 percentage points. In reality, the collapse in growth is likely to be even greater. Analysis using a General Equilibrium (CGE) model suggests that the economy may, in fact, contract by 11.6 percentage points, resulting in a deficit of 3.4 per cent for 2020.

Figure 4-1: Modelled GDP growth (annual %) by sector for 2020, without COVID-19 and with COVID-19



Source: Bangladesh CGE Model 2020.

4.2 Impacts on jobs

Contractions in GDP estimated by the CGE model are largely the result of heavy losses in the industry and services sectors. Figure 4-1 shows modelled annual GDP growth by sector, under both the 'without COVID-19' scenario and the high impact post-COVID scenario which this paper assumes is the most realistic. While the GDP of the industrial sector was estimated to grow by 12.6 per cent in 2020 before COVID-19, it is now estimated to experience a net contraction of 5.2 per cent instead. This is largely because the textile industry – which accounts for 80 per cent of Bangladesh's exports[40] – will be particularly hard hit by the global nature of the COVID-19 crisis. The industry has been suffering both supply-side shortages from China and a severe drop in demand in key export countries due to the widespread closure of retail shops in Europe. Drastic cuts to industry are likely to impact a large segment of the workforce, with 30 per cent of the entire workforce employed in manufacturing. The RMG sector alone employs over 4 million people, most of them women, while around 15 million additional jobs are either directly or indirectly dependent on the sector. Similarly, while the GDP of the service sector was estimated to grow by 6.8 per cent before the crisis, it is now projected to contract by 3.4 per cent. The services sector employs around 44 per cent of the entire workforce, meaning nearly half of the entire workforce plus their dependents will be impacted by cuts to the services sector alone.

The human cost of the crisis will be significant, as the threat of job and income loss will be particularly acute in Bangladesh. Simulations using CGE analysis indicate that 4.8 million people may become unemployed in 2020 as a consequence of the COVID-19 pandemic. This would see the national unemployment rate climb to three times higher than what it would have been without COVID-19.

Job loss caused by the crisis will be particularly difficult for those in informal employment, since they often work without access to any job security or protections. Bangladesh's Labour Force Survey, 2016-17 found that 85.1 per cent of the total workforce aged 15 years or older were in informal employment, while only 14.9 per cent were in formal employment. Yet, even those in formal employment are at risk, with 80.4 per cent of dismissed workers in the RMG sector – most of whom are female – sent home without their severance pay, despite many brands having "responsible exit" policies.[41]

4.3 Impacts on remittances

While remittances inflows usually increase in times of crisis because migrants living abroad send more money to help their families back home, the global nature of the COVID-19 crisis will see remittances halt. Remittance inflows have historically provided a steady source of external income for Bangladesh – equivalent to roughly 5 per cent of Bangladesh's GDP in 2019 – yet, the World Bank predicts that remittance inflows will decline by 22 per cent in Bangladesh in 2020, the sharpest decline in remittances in recent history.[42] As a major contributor to growth, this will cause significant harm to the economy. This crisis of remittances will also majorly impact household income and welfare. A survey conducted by the Bangladesh Institute of Development Studies in 2014 found that around 34 per cent of remittances are used for food expenditure.[43] As such, a loss of remittances could undermine the nutrition and food security of families who rely on remittance transfers to meet their basic needs. The loss of remittances – which would usually provide a safety net to boost families' incomes in a crisis – will mean the effects of income loss, as examined in the following section, will be felt more acutely.

40 Textile Today (2020).

41 Anner (2020).

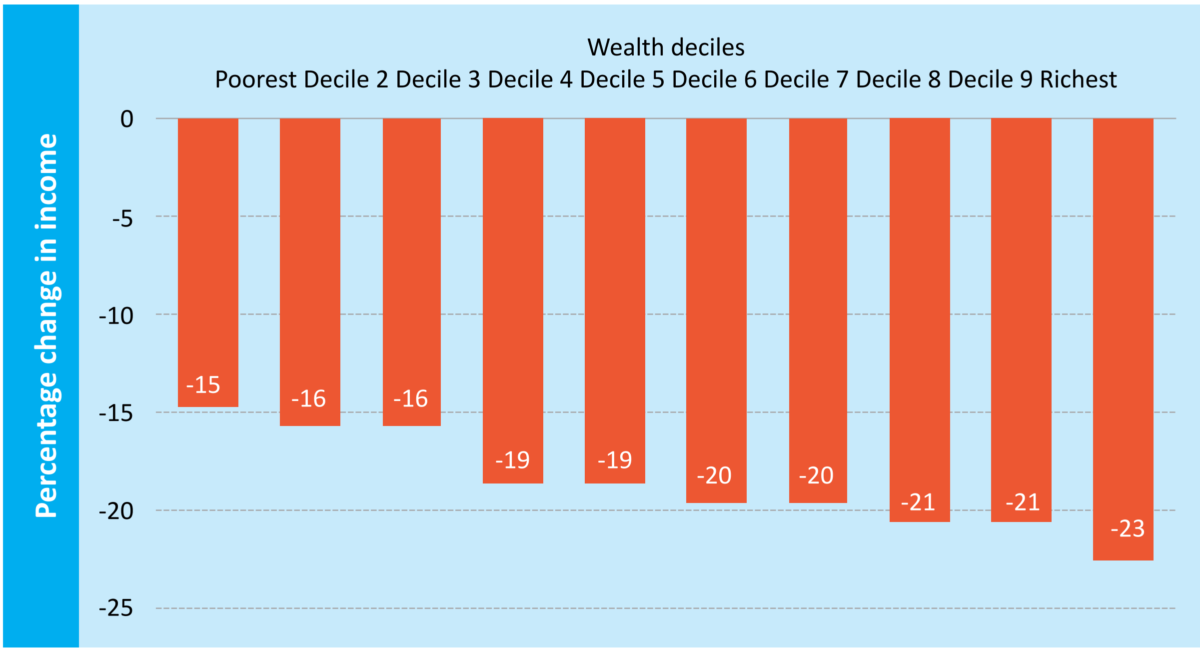
42 World Bank (2020).

43 BIDS (2017).

4.4 The impacts on family incomes

The average income of households could fall by 19 per cent during the crisis. Figure 4-2 demonstrates the potential impacts on households across the welfare distribution during the period of the crisis itself, based on simulations using the national household income and expenditure survey (HIES) for 2016.[44] While the crisis is universal, the hardest hit – in terms of relative income loss – are those on middle incomes, in other words those households with cash incomes between BDT 3,330 and BDT 5,080 per person per month. Although the poorest members of society prior to the crisis are less affected – again, in terms of relative income loss – it is important to note they were already living on very little and the further average income loss of 15 per cent will have had a serious impact on their wellbeing.

Figure 4-2: Impact of the COVID-19 crisis on average per capita household income, by welfare decile

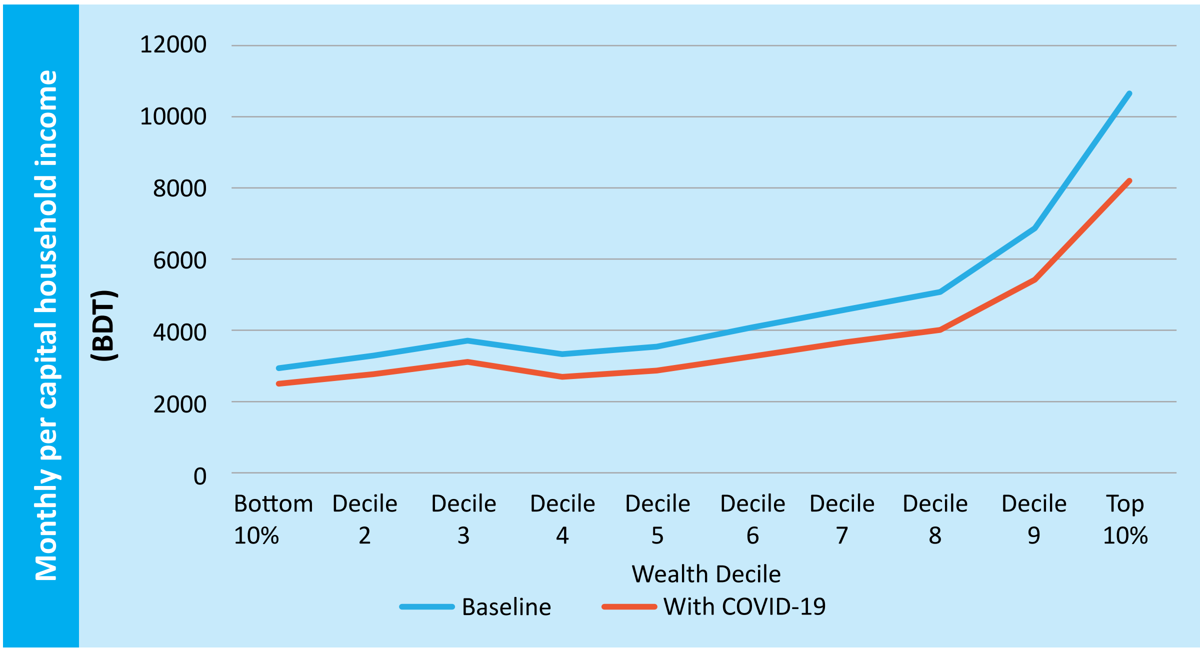


Source: own calculations based on 2016 HIES.

The reduction in incomes as a result of the COVID-19 crisis is further illustrated in Figure 4-3, which compares household incomes before COVID-19 to the estimated impacts of the crisis by the simulation. Across the welfare distribution, it shows that those on low and middle incomes will be significantly worse off as a result of the crisis.

44 To undertake the analysis, the dataset was adjusted to reflect the situation in Bangladesh in 2020.

Figure 4-3: Comparison between monthly household incomes before COVID-19 and the estimated impact of the crisis, across the welfare distribution



Source: own calculations based on 2016 HIES.

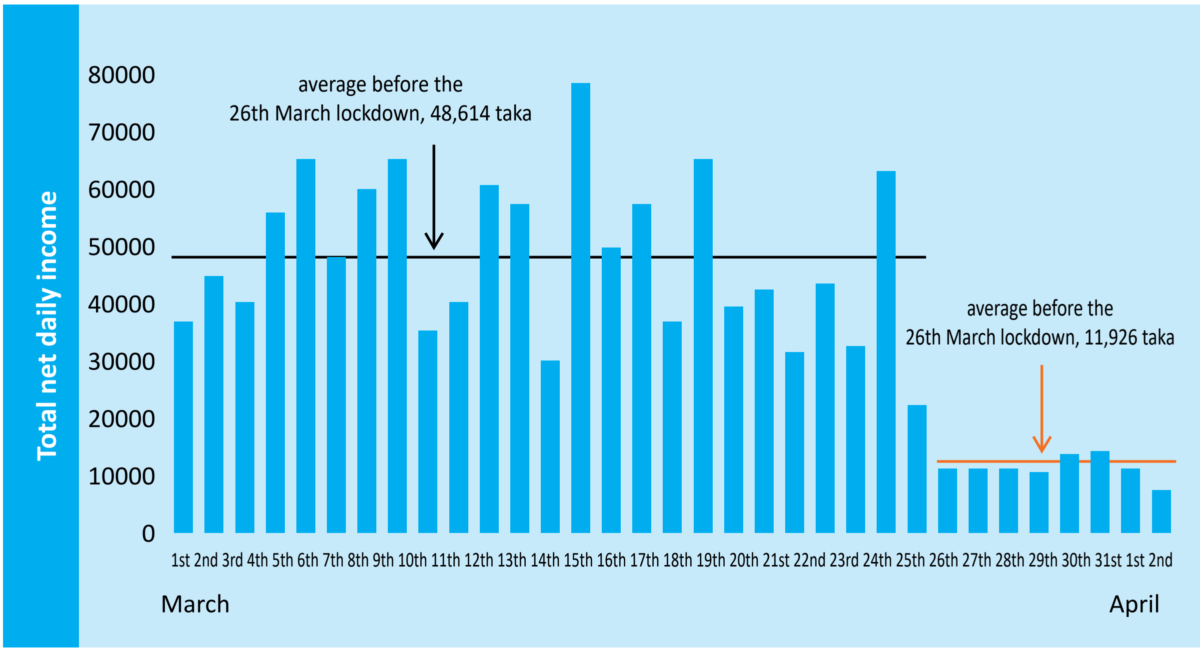
Other studies looking at the impact of COVID-19 in Bangladesh corroborate these findings. As Figure 4-4 shows, UNICEF study surveyed 60 low-income households in Bangladesh and found that their combined net daily income almost immediately fell by 76 per cent once the lockdown was introduced in March 2020[45] This is a very high income loss and, since it is an average, it is likely to obscure the reality that many households will have lost all their income. Further, most RMG factories closed after this study, meaning that the scale of income loss is likely to have since got much worse.[46] Indeed, another study conducted by PPRC-BIGD found that 71 per cent of urban workers survey in April were rendered entirely economically inactive – meaning they had no income at all – from the previous week, with 51 per cent of rural workers experiencing the same.[47]

45 UNICEF (2020)

46 World Bank (2020).

47 PPRC-BIGD (2020). The study surveyed 5,471 households across both rural and urban Bangladesh between 4th and 12th April 2020.

Figure 4-4: Combined total earned daily net income for 60 low-income households (BDT), including remittances from overseas and welfare payments



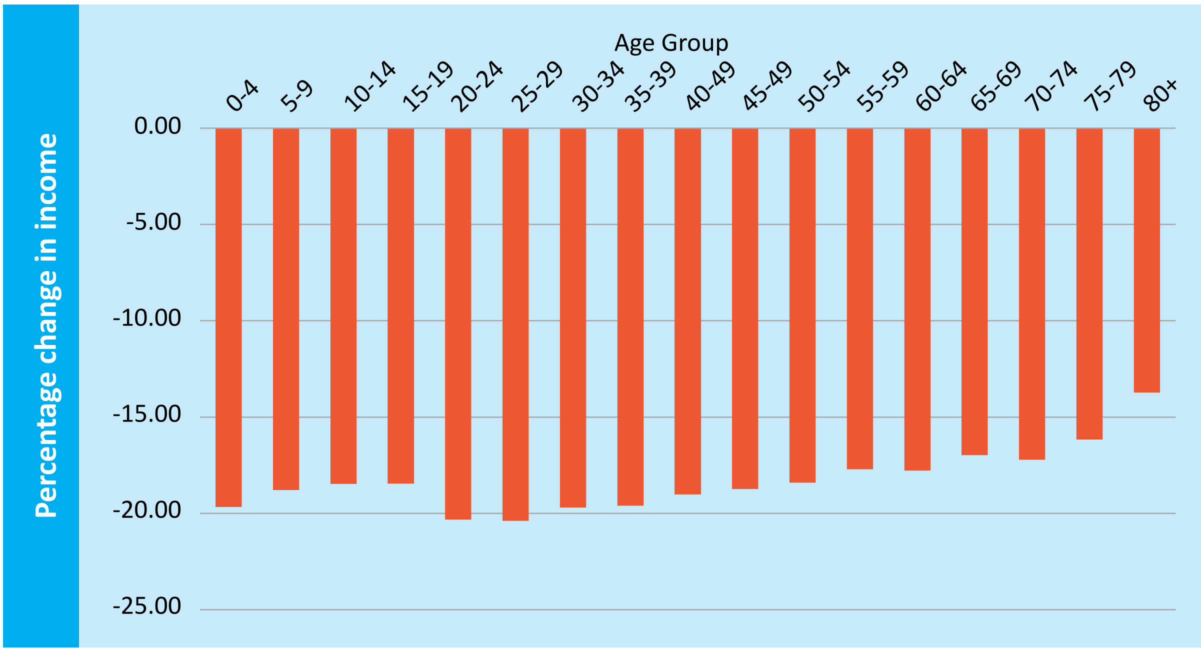
Source: UNICEF (2020).

Reduced incomes could have devastating impacts on wellbeing for the majority of families. Families will likely be forced to use negative coping strategies, including limiting meals and eating less nutritious foods. In the PPRC-BIGD study, respondents reported that, on average, they only had enough food stocks, savings and available income to feed their family for between 8-14 days, with the fewest savings reported in urban areas.[48] Seventy per cent of respondents to a Needs Assessment Working Group (NAWG) study indicated they were not able to provide a varied diet to children between 6 and 23 months.[49] This risks causing significant negative impacts on child nutrition which is likely to harm children's welfare and cognitive development, with many young children never recovering.

The COVID-19 crisis will cause significant income loss across all age groups but will hit children and young adults particularly hard. As Figure 4-5 illustrates, across 5-year age groups, no age group will experience an income loss below 14 per cent. However, the largest average income losses (20 per cent) are experienced by young children aged 0-4 years and young adults aged 20-39 years. All children are set to be particularly hard-hit by the crisis, with children under 15 years of age estimated to experience, on average, a 19 per cent reduction in income.

48 PPRC-BIGD (2020).
49 NAWG (2020).

Figure 4-5: Impact of the COVID-19 crisis on average per capita household income, across 5-year age groups



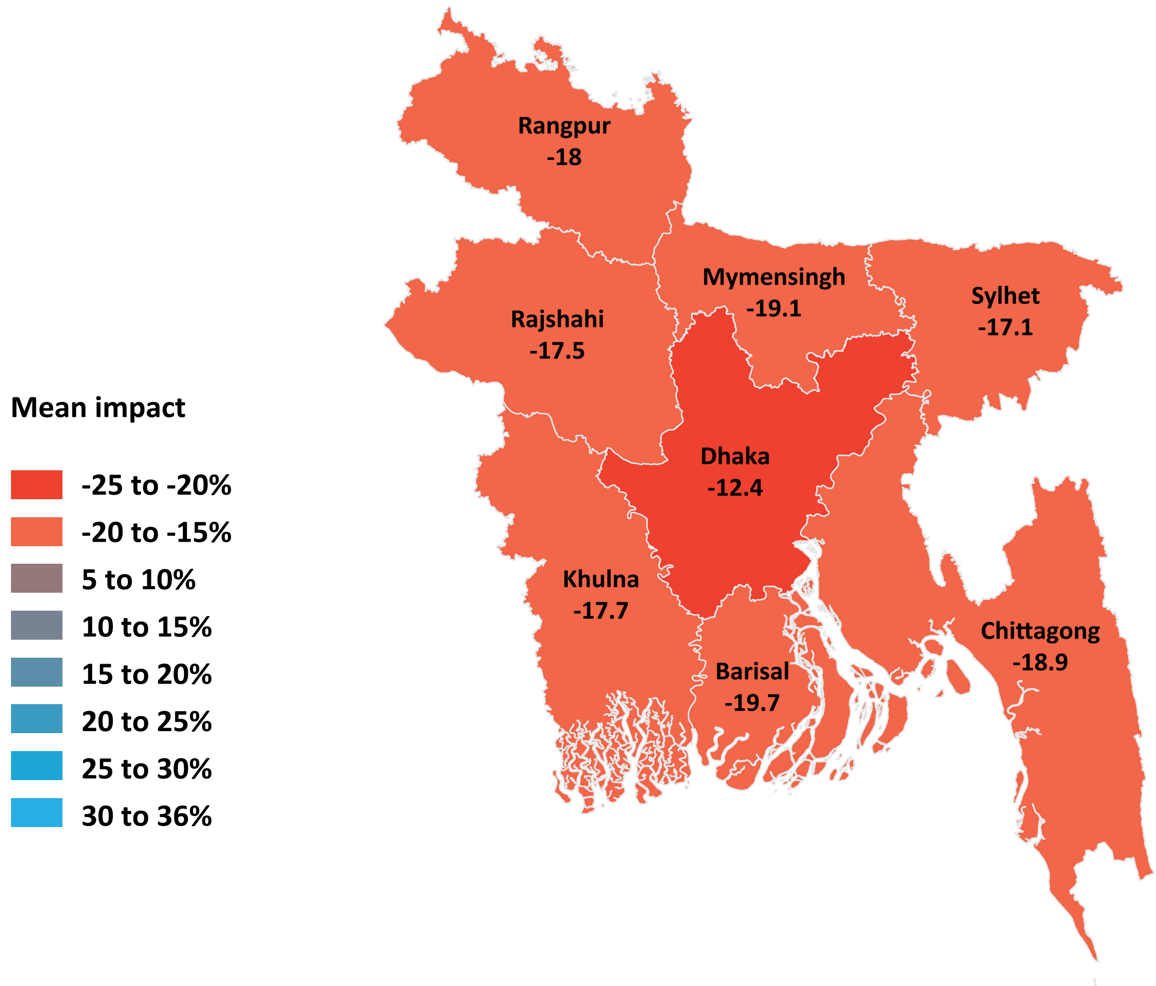
Source: own calculations based on 2016 HIES.

The economic impacts of the COVID-19 crisis will be felt across all regions of Bangladesh. Urban areas are particularly vulnerable to the worst effects of job and income loss, with those residing in urban areas experiencing an average income loss of 23 per cent. This vulnerability is compounded by the fact that, in the recent study by PPRC-BIGD, those living in urban areas were reported to have the fewest savings to cushion their consumption during the income shock.[50] Urban areas currently receive the lowest protection under existing social security system.[51] However, those in rural areas will still experience significant income losses, with an average per capita income loss only 6 percentage points less than those living in urban areas (17 per cent reduction overall). As in urban areas, this is likely to represent a large shock to household welfare, especially considering that those in rural areas tend to already be living on low incomes. Dramatic reductions in income are likely to threaten the welfare and food security of those in the rural regions of Bangladesh. Figure 4-6 shows the mean reduction in welfare as a direct result of the COVID-19 crisis, across the Divisions of Bangladesh. Overall, all Districts will experience an average reduction in per capita welfare of at least 17 per cent. The Dhaka and Barisal Divisions will be the hardest hit, with residents of these Divisions experiencing an average reduction in income of 21 and 20 per cent respectively.

50 PPRC-BIGD (2020).

51 UNICEF Bangladesh (2020).

Figure 4-6: Mean reduction in welfare as a result of COVID-19 crisis, across Divisions



Source: own calculations based on 2016 HIES.

4.5 Impacts on family and child wellbeing

Dramatic losses of income among children and young adults will impact on the welfare of all families. As a result of the income shock, families may have to resort to negative coping strategies, such as reducing their food consumption or purchasing foods of lower nutritional value. Indeed, in the PPRC-BIGD study, respondents reported that, on average, they only had enough food stocks, savings and available income to feed their family for between 8-14 days, with the fewest savings reported in urban areas.[52] Seventy per cent of respondents to a Needs Assessment Working Group (NAWG) study indicated they were not able to provide a varied diet to children between 6 and 23 months.[53]

The reduction in nutritious foods will have detrimental impacts on child health. For example, international evidence has linked low consumption of iron-rich foods to poor cognitive development in children. Across six separate studies of iron deficiency in low-income countries, all found that infants with iron deficiency anaemia showed mental scores of between 6-15 points lower than their non-iron-deficient peers.[54] In Bangladesh, even prior to the crisis, nearly

52 PPRC-BIGD (2020).

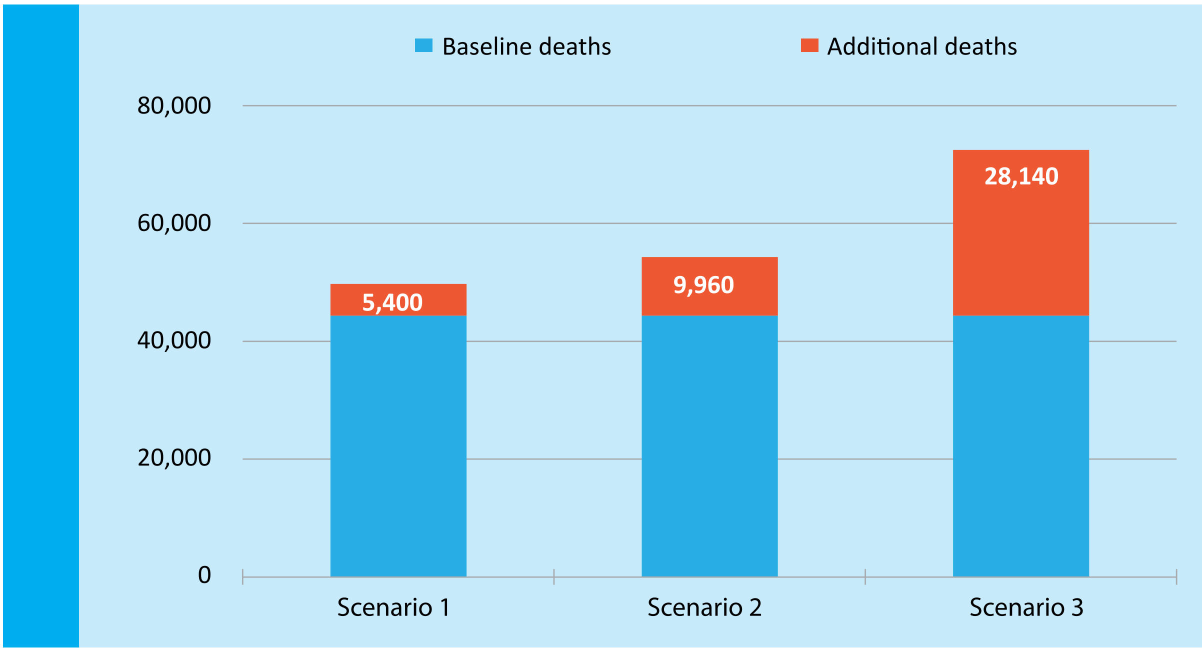
53 NAWG (2020a).

54 Walker et al. (2007).

half (45 per cent) of all children aged 6-23 months were reported as not having access to iron-rich foods in the previous 24 hours. Further, prior to the crisis 28 per cent of children under the age of 5 were stunted, and this may deteriorate further.[55] If children suffer from stunting during their first few years of life, research indicates that they may never fully recover and will experience, on average, a 26 per cent reduction in lifetime earnings.[56] In addition, recent reports from around the world indicate that as a result of the pandemic, children are experiencing sleep disruptions, with children with pre-existing psychopathologies most at risk.[57]

As a result of the crisis, Roberton *et al* (2020) estimate that between 5,400 and 28,140 *additional* children under age five may die over 6 months.[58] This is equivalent to a relative increase in national under-five mortality rate of 12 per cent to 63 per cent. Indeed, decreased access to food and disruption of the health system will affect the coverage of Maternal Newborn and Child Health (MNCH) interventions and exacerbate childhood wasting. As such, without an adequate intervention that reaches all families, children in Bangladesh will be among those who pay the highest costs of the COVID-19 crisis.

Figure 4-7: Baseline and additional number of under-five deaths over six months under different scenarios of health system disruptions and wasting[59]



Source: Roberton et al

It is also likely that such a shock to incomes will trigger an increase in domestic and gendered violence. Forty-two per cent of respondents in the study by NAWG indicated that beatings by parents had increased and 50 per cent identified that the safety and security of girls was an issue in the lockdown. Studies have found the causes of domestic violence to be intimately linked to precarity around incomes and employment.[60] Money pressures can exacerbate gendered

55 MICS (2019).

56 Richter (2019).

57 Becker and Gregory (2020); Marsh (2020)

58 Roberton et al. (2020).

59 Roberton et al modelled three scenarios in which the coverage of essential maternal and child health interventions is reduced by 9·8–51·9% and the prevalence of wasting is increased by 10–50%. The scenarios are hypothetical but are based on the supply-side and demand-side effects of the pandemic. They used the Lives Saved Tool to estimate the additional maternal and under-5 child deaths under each scenario.

60 Staggs and Riger (2005).

tensions within relationships and economic dependence on male partners can make it difficult for women to remove themselves and their children from abusive environments, which will be further exacerbated by the curfew measures introduced to control the spread of the virus. This will have severe negative impacts on child wellbeing and development.

4.6 Impacts on women

The loss of income when shared across households is similar between women and men, at 19 per cent. However, the analysis estimates a higher average income loss for those living in a male-headed household (19 per cent) than those living in a female-headed household (16 per cent). This may be because female-headed households had less income to lose before the crisis.

The analysis estimated slightly higher income loss for women employed in agriculture (14 per cent) than for men employed in agriculture (12 per cent). It also estimated higher income loss for unemployed women (21 per cent) than unemployed men (19 per cent). Across other labour market categories, it was relatively even.

However, the gender differences are likely to be greater than estimated by the model and sex-disaggregated data needs to be treated with caution. In the modelling, the labour market was segmented by broad economic sector and Monte Carlo techniques were used to simulate job losses due to COVID-19. Due to data constraints, it was not feasible to explicitly incorporate any potential differences between males and females in terms of their probability of losing their job.

In reality, anecdotal evidence does suggest that women may have been more likely than males to be made redundant or experience income loss. As described earlier, the ready-made garment sector – where female workers account for roughly 85 per cent of the total workforce– has been disproportionately impacted by the global economic impacts of COVID-19.[61] Women also tend to be more likely to be employed in the informal economy and be exposed to precarious work practices, meaning they are less likely to be protected by formal unemployment benefits and may be more exposed to dismissal without pay. Again, as indicated earlier, instances of unfair dismissal and poor enforcement of basic employment rights during COVID-19 have been documented among women workers in the garment industry.[62]

4.7 Impacts on national social cohesion

Economic challenges are likely to significantly heighten the risk of social unrest in Bangladesh. As the IMF (2020b) have warned in their global analysis, widespread job and income loss is likely to lead to social unrest and could result in political instability if national Governments do not significantly increase their investments in their populations. As argued in Section 3, a large population of young women and men are likely to face rising levels of unemployment and a level of investment in public services that is already low makes this risk particularly acute in Bangladesh.

Similarly, an increase in urban-rural migration may place further stress on rural economies. They may be unable to absorb the influx of additional labour, which may push wages lower. A potential rise in unemployment and reduction in wages risks exacerbating social tensions. Further, a rapid increase in urban-rural migration is likely to put pressure on the food security of rural areas, since agricultural production may struggle to keep pace with demand. This may further place pressure on national social cohesion, if it results in higher food insecurity nationally.

61 War on Want (2011).

62 The Guardian (2020b).

5 The Government's fiscal response to date

While the Government has recognised the need to protect families and provide the economy with a fiscal stimulus, the response to date has not been large enough to meet the scale of the crisis. Overall, the Government's proposed emergency social security measures cost just 0.16 per cent of 2019 GDP in total, which is not enough to meet the scale of the fiscal response required to stimulate the economy or to protect families. High income countries are spending much more, with the fiscal response across the Group of Seven major economies averaging 5.9 per cent of GDP (and this has increased since this figure was calculated).[63] In effect, high-income countries are doing 'whatever it takes' to rescue their economies and citizens, an approach endorsed by the IMF.[64] The opinion of Martin Ravallion – a former World Bank Chief Economist – offers some guidance for a minimum level of response: "As a rough rule of thumb……..I think that a near-term fiscal injection of transfers less than 2% of GDP should be judged as inadequate."[65] At least two low and middle-income countries are approaching this level of investment: Mongolia is planning to spend 1.6 per cent of GDP and Timor-Leste 2 per cent of GDP.

The measures announced by the Government include both expansions of current social security programmes and a one-off emergency scheme. The one-off payment is of BDT 2,500 (US$ 26) and is expected to be given to 5 million poor households who have suffered the loss of a breadwinner, at a cost of around BDT 12.5 billion (US$ 145 million). These families were to be chosen by the Government from the families currently receiving the Government's broader relief assistance. However, at the time of writing, it has been reported that only 2.4 million individuals have benefited from the transfers so far, suggesting that roughly 0.6 million households have been reached.[66] The Government also increased the value of the monthly stipend in primary schools. In June 2020, children in pre-primary schools received an increase in the value of their stipends of BDT 25 per month (from BDT50 to BDT75) while children in primary schools received an increase of BDT50 per month (from BDT100 to BDT150), plus a one-off payment of BDT1,000 for their school dress, bags, shoes. A total of 14 million children received the monthly primary school stipend. The total cost of this support was around BDT130 billion (US$ 1.5 billion). In addition, the Government's Budget Speech for 2020-21 in June 2020 announced that the Old Age Allowance would be rolled out to 500,000 additional beneficiaries, the Allowance for Widowed, Deserted and Destitute Women would be rolled out to an additional 350,000 beneficiaries and the Allowance for the Financially Insolvent Disabled would be expanded to reach an additional 300,000 beneficiaries, at a cost of 0.03% of 2019 GDP in total. Details of the social security measures announced by the Government as part of their emergency COVID-19 response are set out in Table 5-1 below. Altogether, if all the transfers are delivered, they would reach around 20.1 million individuals (assuming that the household transfer is received by one person).

63 IMF (2020a).

64 Fouad et al (2020)

65 Ravallion (2020).

66 Financial Express (2020). It is possible that the paper is referring to 2.4 million families.

Table 5-1: Social security measures announced as part of Government's emergency COVID-19 response

	Number of recipients of transfers	Value of transfer (BDT.)	Value of transfer (US$)	Value of transfer (% GDP per capita)[67]	Duration of support	Cost of emergency transfer (BDT. billions)	Annual cost of emergency transfer (% GDP)
Primary Education Stipends[68]	14 million children[69]	25 (top-up)	0.29	0.17%	12 months	0.84	0.01%
		50 (top-up)	0.58	0.37%	12 months	6.72	0.02%
Primary Education Stipends[70]	14 million children	1,000	11.84	2.42%	One-time payment	14	0.05%
Direct transfers to poor working people[71]	5 million households	2,500	29.60	1.52%[72]	One-time payment	12.5	0.05%
Old Age Allowance[73]	500,000 recipients	500	5.92	3.64%	12 months	3.0	0.01%
Allowance for Widowed, Deserted and Destitute Women	350,000 recipients	500	5.92	3.64%	12 months	2.1	0.01%
Expansion of Allowance for Financially Insolvent Disabled	255,000 recipients	700	8.29	5.10%	12 months	2.1	0.01%
Total	**20,105,000[74]**					**34.95**	**0.16%**

67 For the one-off payments, we assume that the transfers will be used over a period of 3 months. Therefore, we have divided the value by three to calculate the monthly per capita value. For the monthly payments that are permanent, this is calculated by multiplying the monthly transfer value by 12 calculating this as a percentage of annual GDP per capita.

68 UNICEF communications.

69 14 million children currently receiving the Primary Education Stipend receive the top-up of either BDT 25 of BDT 50 in total. There is no information on how many of these children receive the differential top-up rates. The annual costs of the top-ups have been calculated by assuming that 20 per cent of the children receive the BDT 25 rate for pre-primary and 80 per cent receive the BDT 50 rate for primary.

70 Transfer divided over 3 months.

71 Gentilini (2020). Transfer divided over 3 months

72 The per capita value of this one-off household transfer was calculated by dividing the household transfer by the average household size (4) as reported in the HIES (2016).

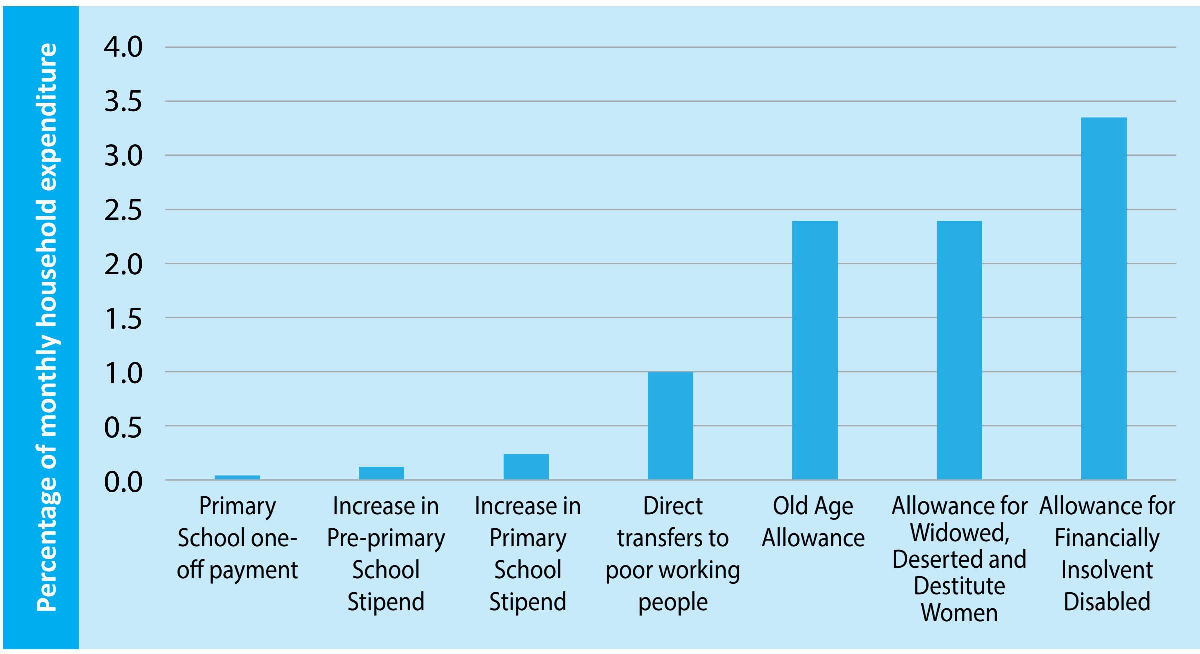
73 Government of Bangladesh (2020). Budget Brief.

74 This is the total number of transfers made. Since the PESP top-ups and extra one-off payment go to the same beneficiaries, these transfers are not counted twice.

The current response is a good start but more needs to be done since the crisis is affecting the majority of households in the country. Even if the one-off payment reached 5 million households, this would comprise only 12.5 per cent of households in total and the small one-off payment to recipients of the Primary School Stipend will reach just 29 per cent of all households. The other transfers for older people, people with disabilities and widows also have low coverage and are restricted to only 100 upazilas.

The value of the transfers offered are also very low and may be insufficient to mitigate the impacts of the COVID-19 crisis among recipient households. Figure 5-1 shows the share of pre-COVID expenditure provided by the Government's proposed emergency social security schemes. The one-off transfer to 5 million poor households suffering the loss of a breadwinner represents 12 per cent of the average monthly household expenditure and, on an annualized basis, 1 per cent.[75] The value of two 'top-up' transfers provided for the Primary School Stipend result represents just 0.1 per cent and 0.2 per cent of Bangladesh's average monthly household expenditure, respectively. The monthly transfers provided by the Old Age Allowance and Allowance for Widowed, Deserted and Destitute Women (BDT500) and the Allowance for the Financially Insolvent Disabled (BDT700) – which have been horizontally expanded to include more beneficiaries – are larger than the other emergency programmes but are still small, equivalent to 2.4 and 3.3 per cent of Bangladesh's average monthly total household expenditure, respectively. While likely to represent a welcome boost to incomes, the transfers are unlikely to boost national household consumption enough to stimulate the economy since coverage is low.

Figure 5-1: Annualised value of Government's proposed emergency social security schemes as a percentage of average total household expenditure in the without-COVID-19 scenario in 2020



Source: own calculations based on 2016 HIES.

Therefore, the current response, while a positive start, is likely not yet large enough to respond to the COVID-19 crisis, in addition to the challenges caused by flooding. It is unlikely to provide an effective fiscal response and adequately protect households. The Government should, therefore, consider scaling up its response to promote a more rapid economic recovery and essential income support to families.

75 The average monthly total household expenditure in Bangladesh in the without-COVID-19 scenario is estimated to be BDT 20,900. The annualized value of the one-off transfers is obtained by dividing the transfer by 12.

6 An alternative fiscal stimulus to support all children, people with disabilities and older persons

There is a growing international consensus that low- and middle-income countries should introduce universal social security transfers as part of their emergency response to COVID-19. The IMF (2020c) has proposed the use of universal transfers, such as lifecycle social security schemes, in South Asia; the Global Director of Social Protection at the World Bank argues that countries need to consider universal social security entitlements that reach those on middle incomes;[76] and, the United Nations (2020) has called for universal social security – which is not only a right expressly recognised in many human rights instruments, but an integral part of the SDG Agenda – as a response. This section, therefore, proposes an alternative stimulus package for Bangladesh, one which is offered on a universal basis and will reach the vast majority of citizens either directly or indirectly.

A feasible option for Bangladesh would be to establish a system of emergency, lifecycle universal transfers for all children, older people and people with disabilities over a period of six months. This would be an administratively simple and effective means of providing support to the vast majority of households across Bangladesh. Table 6-1 outlines the details of three potential options for an emergency package of lifecycle transfers, with the total costs of the Options ranging from one to two per cent of GDP. Under Option 1, families would receive BDT400 per child per month (provided to the caregiver) while older people and people with disabilities would be given BDT1,500 per month. The cost would be 0.17 per cent of annual GDP per month, or around BDT286 billion (1 per cent of GDP) over six months. Under Option 2, families would receive BDT600 per child per month (provided to the caregiver) while older people and people with disabilities would be given BDT2,250 per month. The cost would be 0.25 per cent of annual GDP per month, or around BDT429 billion (1.5 per cent of GDP) over six months. Under Option 3, families would receive BDT800 per child per month (provided to the caregiver) while older people and people with disabilities would be given BDT3,000 per month. The cost would be 0.33 per cent of annual GDP per month, or around BDT571 billion (2 per cent of GDP) over six months.

76 Rutkowski (2020).

Table 6-1: Alternative proposal of three options for an inclusive lifecycle approach

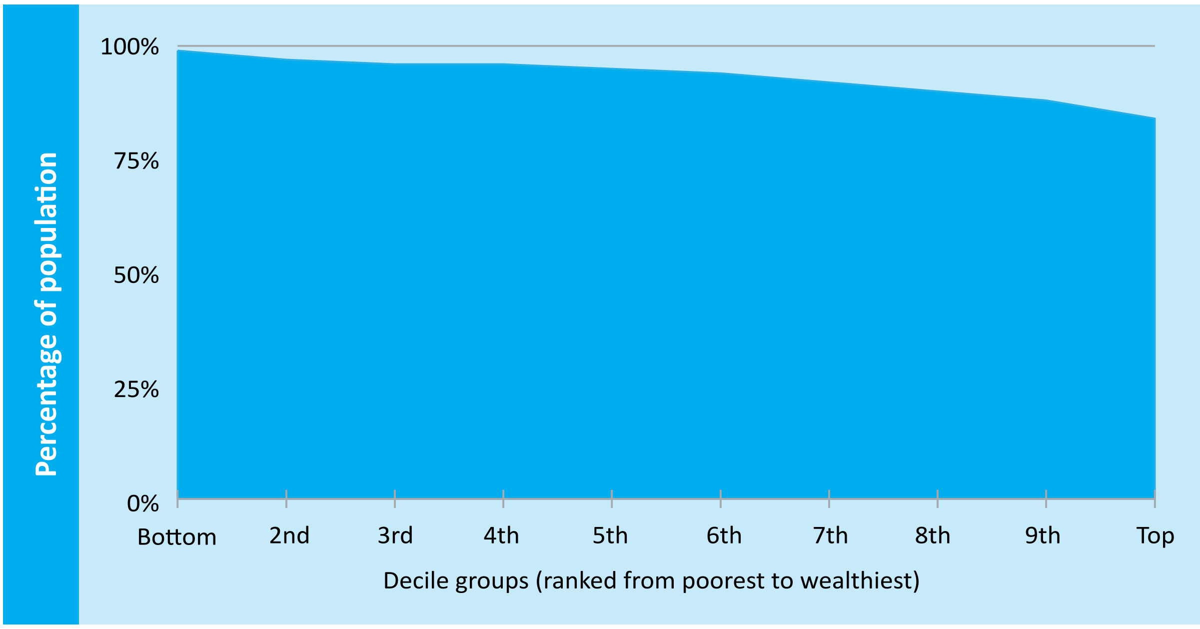
Scheme	Age of eligibility	Transfer value (BDT) per month	Overall Cost (BDT)	Cost (% of 2019 GDP)
Option 1				
Child benefit	0-17 years	400	127 billion	0.45%
Disability benefit	0-59 years	1,500	41 billion	0.15%
Old age pension	60+ years	1,500	118 billion	0.4%
Total			286 billion	1.0%
Option 2				
Child benefit	0-17 years	600	190 billion	0.7%
Disability benefit	0-59 years	2,250	62 billion	0.2%
Old age pension	60+ years	2,250	177 billion	0.6%
Total			429 billion	1.5%
Option 3				
Child benefit	0-17 years	800	253 billion	0.90%
Disability benefit	0-59 years	3000	82 billion	0.30%
Old age pension	60+ years	3000	236 billion	0.80%
Total			571 billion	2.00%

The following sections examine the effectiveness of the proposed Options for lifecycle support focusing predominantly on Option 3 which – in line with Ravallion's suggestion that the appropriate size required of a fiscal stimulus to be able to protect the economy should be set at a minimum 2 per cent – would provide the most cost-effective investment.

6.1 Coverage of the proposed emergency lifecycle schemes

The proposed schemes would reach 94 per cent of the population, either directly or indirectly as members of recipient households. Figure 6-1 shows that the coverage of the emergency lifecycle schemes would be high across the welfare distribution and highest among the poorest. Importantly, a lifecycle approach would perform much better than the current system in reaching households on middle and high incomes, many of whom have been badly hit by the crisis. The lifecycle schemes would ensure support to all children, older people, persons with disabilities and single parent households. The households missing out would be those comprising only working age adults without disabilities, who are likely to be less vulnerable.

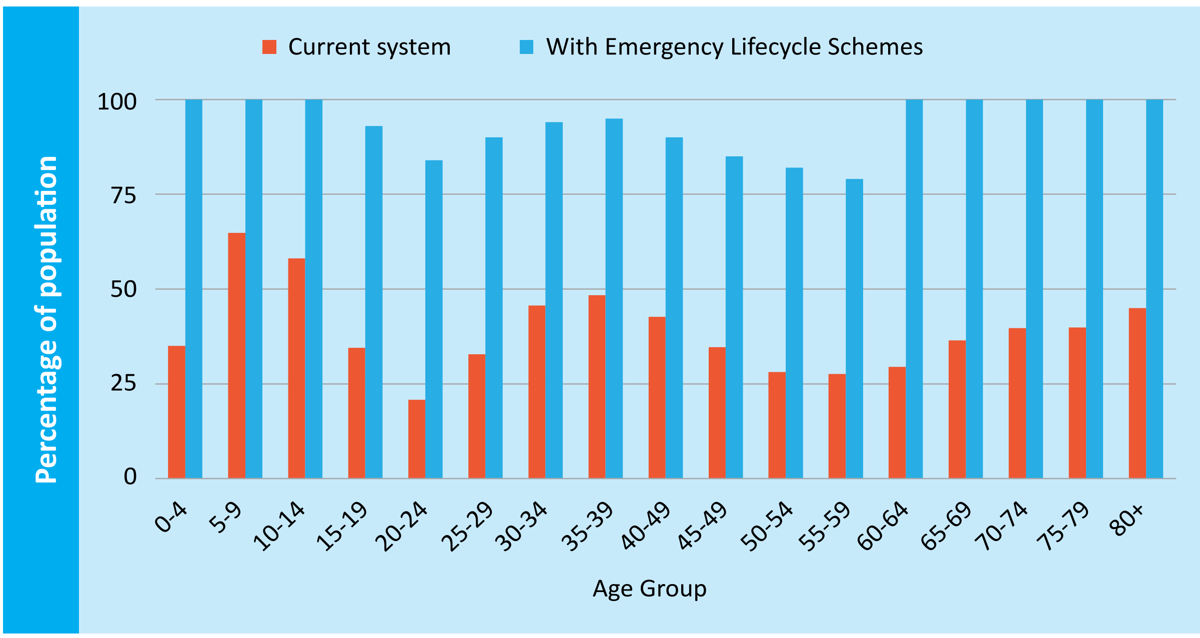
Figure 6-1: Coverage of the population as direct or indirect recipients under the proposed emergency lifecycle schemes, across the wealth distribution



Source: own calculations based on 2016 HIES.

Under the proposed lifecycle measures, the more vulnerable categories of the population will be prioritised, since universal coverage will be reached among children, older persons and persons with disabilities. Figure 6-2 shows the proportion of the population across five-year age groups who would benefit from the universal emergency lifecycle support. All children and older people would benefit while coverage would also be high across those of working age, who would mainly be indirect recipients (apart from those with a disability). Coverage can be compared to the low coverage across all age groups under the current social security system. In addition, under the proposed lifecycle schemes, all people with a severe disability would also be reached.

Figure 6-2: Coverage of emergency lifecycle transfers and existing system across age groups

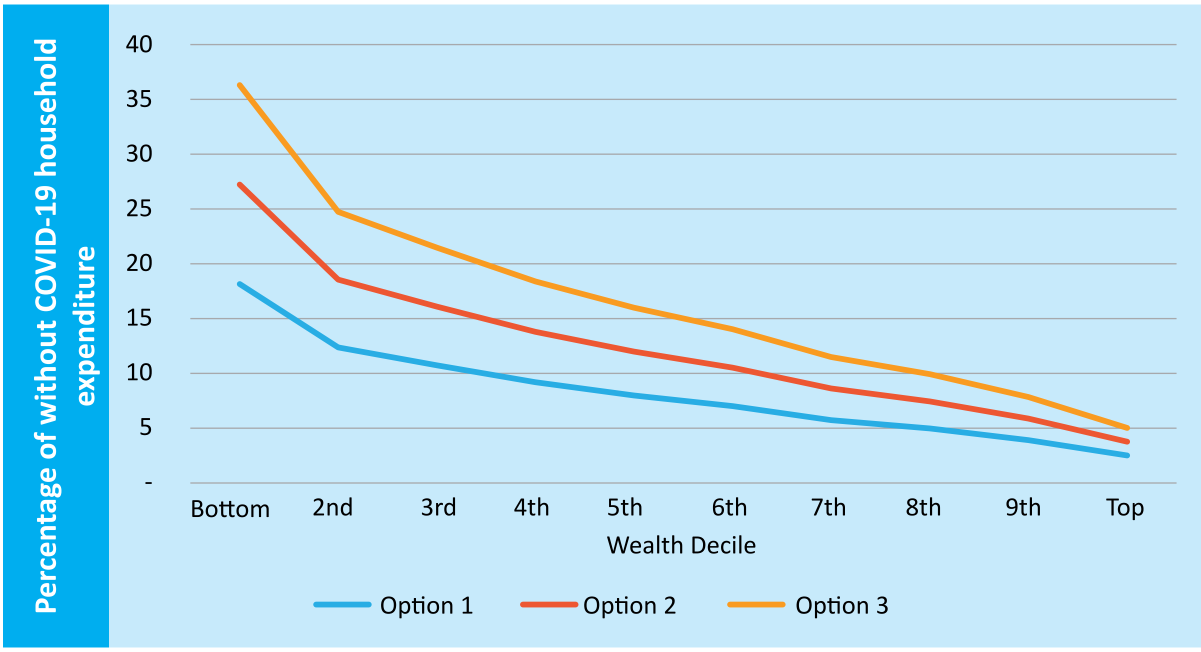


Source: own calculations based on 2016 HIES.

6.2 Value of the proposed emergency lifecycle schemes

Overall, the average value of the transfer received by households with eligible members would be BDT 1,282 per month under Option 1, BDT 1,922 under Option 2 and BDT 2,563 under Option 3. This would represent around 9, 13 and 17 per cent of the average household's pre-COVID-19 crisis expenditures respectively. As such, Option 3 would provide transfers that represent a far greater share of 'without COVID-19' expenditure than the other options, making it more effective at stimulating spending to protect the economy and the welfare of households. Importantly, the transfers would adapt to the size of households so that larger households and those with more children, older people and people with disabilities would receive higher overall transfers. As Figure 6-3 shows, with the 2 per cent of GDP option, those in the poorest decile of the population would receive more than 35 per cent of their pre-COVID-19 expenditures while those on middle incomes, most of whom will have suffered badly during the crisis, would nonetheless still receive an important contribution of 15 per cent.

Figure 6-3: Share of pre-COVID-19 expenditure that would be provided by the emergency, lifecycle social security schemes



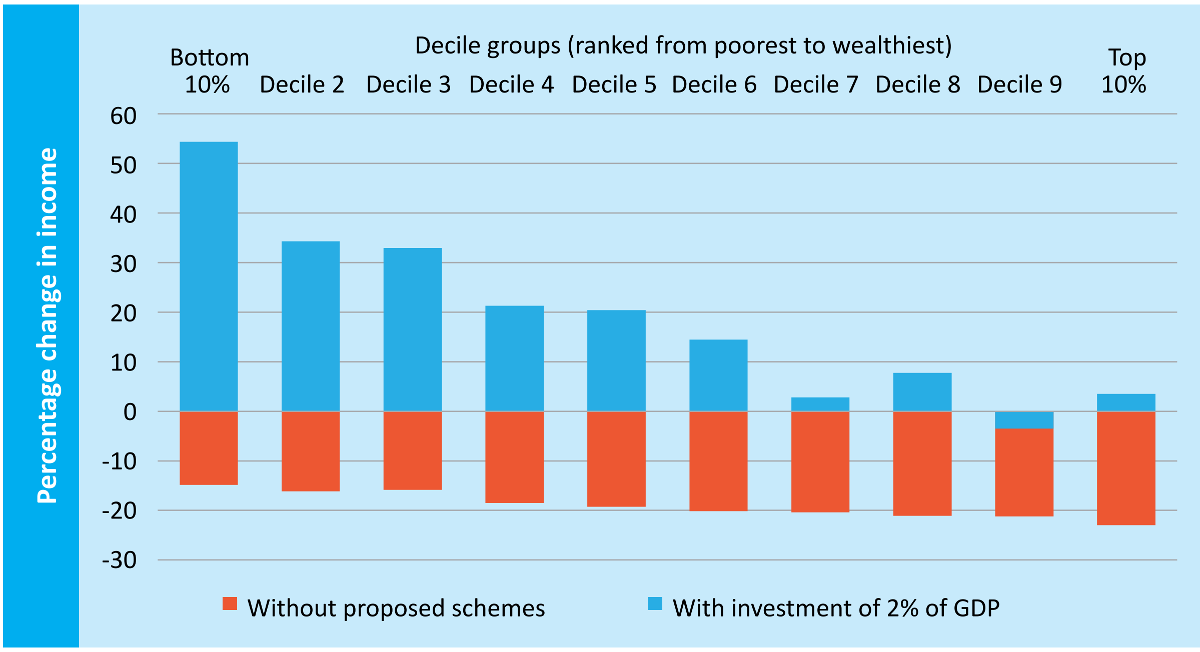
Source: own calculations based on 2016 HIES.

6.3 Impacts of the proposed emergency lifecycle schemes on household incomes

The impacts of the proposed emergency lifecycle schemes on incomes would be significant. On average, investing 2 per cent of GDP will provide average incomes that are 19 per cent higher than the incomes households would have received if the COVID-19 crisis had not happened (from this point referred to as the 'without COVID-19' scenario). Therefore, on average, households will experience an overall increase in income of 50 per cent compared to their post-crisis income, a very significant – and, likely, very popular – impact. In contrast, an investment of 1.5 per cent of GDP over 6 months will result in an increase of 32 per cent while an investment of 1 per cent of GDP would deliver no change. This section will describe in greater detail the likely impacts of emergency lifecycle social security provided at the level of 2 per cent of GDP, while the results for support at a cost of 1.5 per cent and 1 per cent of GDP are set out in Annex 2.

The proposed option for investing 2 per cent of GDP in emergency lifecycle schemes would have significant impacts on the incomes of households right across the welfare distribution but would especially benefit the poorest households. Figure 6-4 examines the likely impacts of the schemes on household incomes across the welfare distribution compared to the incomes that households are likely to have as a result of COVID-19. The baseline, at zero on the Y axis, is the 'without COVID-19' scenario. Households in all welfare deciles, apart from the 9th decile, would, on average, enjoy higher incomes than they would have done without the COVID-19 crisis (and those in the 9th decile would almost reach their 'without COVID-19' position). Among the poorest 20 per cent of households, incomes would be 44 per cent higher than they would have been without the COVID-19 crisis. This would mitigate the 15 per cent income loss caused by the COVID-19 economic crisis and leave households in a far more resilient position than they would have been without the COVID-19 crisis when they would have been trying to survive on very low incomes. It would also help mitigate the impacts of the recent floods, which have not been taken into account here.

Figure 6-4: Percentage change in household per capita income compared to what it would have been without the COVID-19 crisis, without investment and with investment of 2 per cent of GDP, by decile

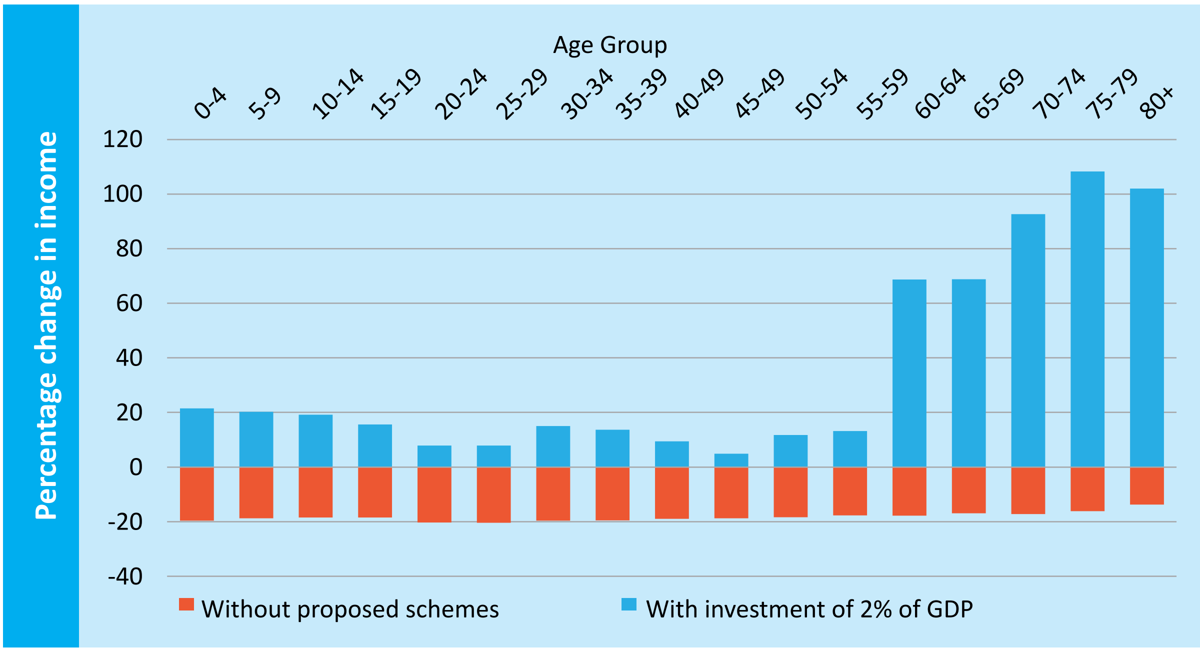


Source: own calculations based on 2016 HIES.

Among those on middle incomes in Deciles 3 to 8, the stimulus package will increase incomes by 17 per cent on average, compared to the baseline 'without COVID-19' scenario, fully mitigating the 19 per cent reduction in incomes that they are currently experiencing due to the COVID-19 crisis. However, the stimulus package would have the smallest relative impact on the richest members of society, although it would still leave them in a slightly more advantageous position than they would have been without the crisis. It is, therefore, very pro-poor in its impact.

The proposed stimulus package would significantly increase incomes across all age groups, as shown by Figure 6-5. Among those aged 60 years and above, the stimulus package would result in average incomes that are 88 per cent higher than they would have been without the COVID-19 crisis. Since older persons are among the most vulnerable to the virus, this significant boost in income would provide them with the income security to help increase their resilience to the virus.

Figure 6-5: Percentage change in household per capita income compared to what it would have been without the COVID-19 crisis, without investment and with investment of 2 per cent of GDP, by age



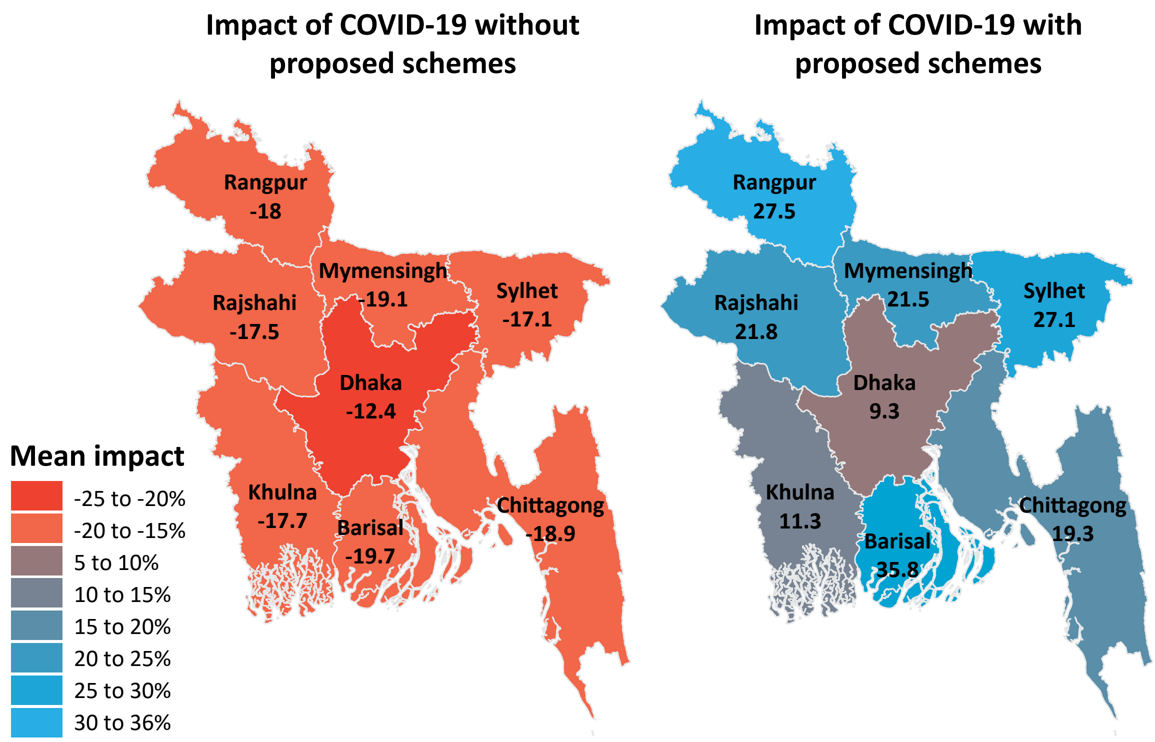
Source: own calculations based on 2016 HIES

Children and working age adults would also experience a significant income boost that would leave them better off than they would have been without the crisis. Children under 15 years would have incomes that are, on average, 20 per cent higher than their incomes without the crisis, fully mitigating the 19 per cent average loss in incomes that they are likely to have experienced as a result of the COVID-19 crisis. The average incomes of working age adults (20-59 years old) could increase by 10 per cent compared to if COVID-19 had not happened. Crucially, this boost in income would enable families to enhance the quality of the food they consume, reducing the likelihood that children will bear the long-term cost of the economic crisis by compromising their nutritional health. This will protect the welfare and development of children and, in the long term, provide important gains in human capital for Bangladesh.

Persons with disabilities, who are among the most vulnerable to health and economic impacts of the crisis, would experience a significant increase in income as a result of the proposed lifecycle schemes. Among persons with disabilities, the schemes would deliver average incomes that are 123 per cent higher than they would have been without the crisis. This compares to the income loss of 15 per cent predicted for persons with disabilities as a result of the COVID-19 crisis.

The proposed two per cent of GDP stimulus package would, on average, mitigate all income loss caused by the crisis in both urban and rural regions of the country. The package would restore all income loss generated by the crisis in urban areas, effectively cushioning residents of urban areas who are set to experience the highest incomes losses of 23 per cent on average. In contrast, the urban population will experience an overall increase in their incomes of 2 per cent when compared to the 'without COVID-19' baseline scenario. Those in rural areas would experience the largest increase in incomes as a result of the package, with average per capita household incomes increasing to 26 per cent higher than they would have been without the crisis. As indicated by Figure 6-6, Barisal District would experience the largest increases in income, with the average per capita household income in this District increasing to 36 per cent higher than the 'without COVID-19' scenario. Even in Dhaka, the District hardest hit by the crisis with residents experiencing an average loss of income of 21 per cent, average incomes will rise to 9 per cent higher than they would have been without the crisis.

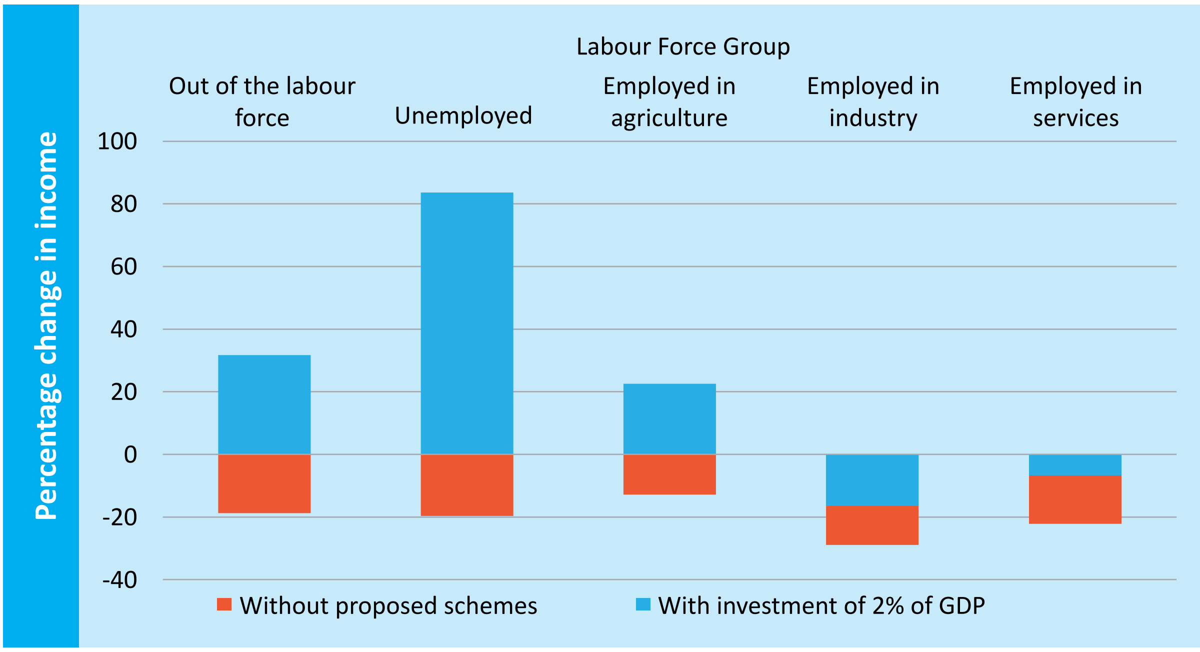
Figure 6-6: Impact of COVID-19 crisis on welfare with and without the social security stimulus package, across Divisions.



Source: own calculations based on 2016 HIES

The lifecycle schemes – using the 2 per cent of GDP option – would enhance incomes across all labour force groups. Figure 6-7 shows the simulated impact of the proposed stimulus package on incomes by labour force status. Some categories of the population would enjoy incomes that are higher than they would have been without the crisis: those of unemployed people will be 84 per cent higher, those outside of the labour force would be 32 per cent higher and among those working in agriculture, incomes would be 23 per cent higher. Among those working in industry – such as garment workers – and services, their average incomes would not be restored to level they would have been without the COVID-19 crisis, but they would nonetheless experience a significant and welcome boost. Nonetheless, the analysis indicates that, potentially, additional support should be given to those working in the garment industry – and, potentially, other sectors – if they have lost their jobs. In the longer-term, however, the Government should introduce unemployment insurance for those in formal employment, which would provide an important safety net and an automatic stabiliser in the event of a crisis.

Figure 6-7: Percentage change in household per capita income compared to what it would have been without the COVID-19 crisis, without investment and with investment of 2 per cent of GDP, by labor force status

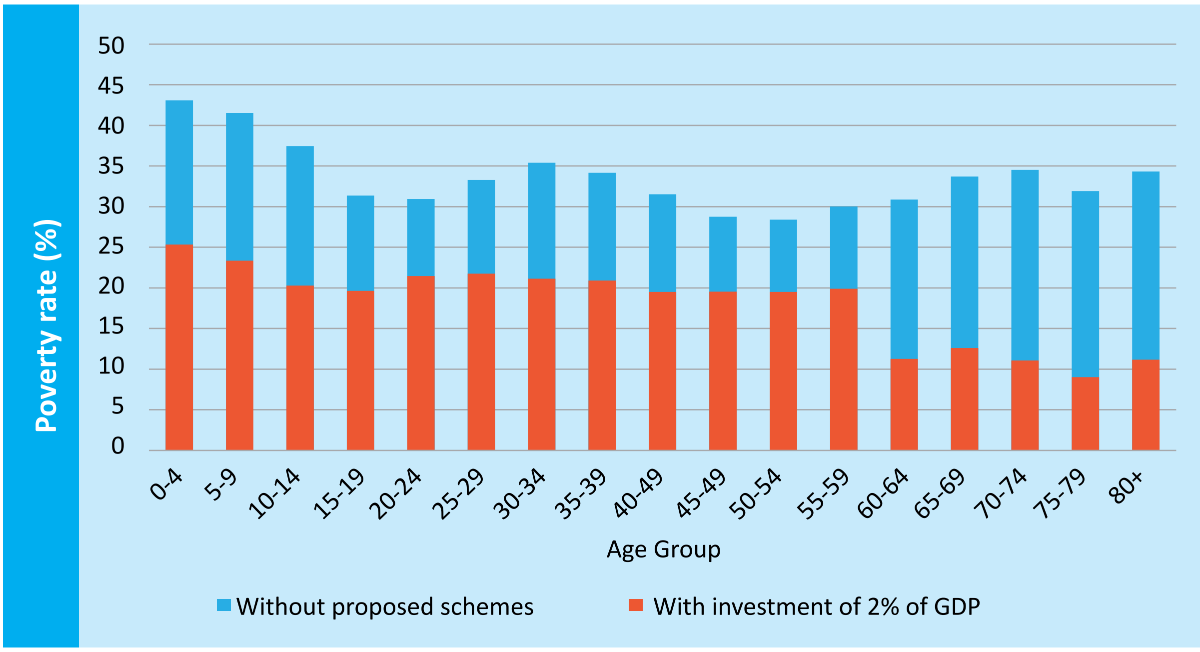


Source: own calculations based on 2016 HIES

6.4 Impacts of the proposed universal lifecycle schemes on the national poverty rate

While the national poverty rate is, as indicated earlier, expected to rise to 34 per cent as a result of COVID-19 crisis, by investing in emergency social security transfers for six months at a cost of 2 per cent of GDP, the poverty rate across 2020 would fall to 20.4 per cent (compared to 19 per cent in the 'without COVID-19' scenario). As Figure 6-8 shows, implementing the proposed stimulus package will significantly reduce the poverty rate across all age groups, but especially among children and older persons. The national poverty rate among children under 15 years of age would fall to 23 per cent from 41 per cent, almost halving the post-crisis child poverty rate. Among older persons aged 60 years and above, the national poverty would fall to just 11 per cent compared to the post-crisis poverty rate of 33 per cent among older persons as a result of the crisis without the package. Further, among young people aged 15-24 years and working age adults aged 20-59, the poverty rate would fall to 21 per cent and 20 per cent respectively, a significant decrease from the poverty rates of 31 per cent and 30 per cent that are likely to have resulted from the crisis.

Figure 6-8: Estimated share of population below national poverty line, by 5-year age groups, without and with proposed social security package[77]



Source: own calculations based on 2016 HIES.

The proposed lifecycle schemes will drastically reduce poverty among persons with disabilities. While the poverty rate among persons with disabilities is predicted to climb to 33 per cent as a result of the COVID-19 crisis – compared to 20 per cent if the crisis had not happened – this would fall to 10 per cent as a result of the 2 per cent of GDP lifecycle schemes package.

6.5 Impacts on employment of the universal, lifecycle transfers

As indicated earlier, across all employment sectors in Bangladesh, 7.2 million jobs are likely to have been lost due to the COVID-19 crisis. It is critically important that these jobs are restored yet, due to the downturn in the global economy, it is not sufficient to rely on exports to drive employment. Jobs need to be created by greater household spending within Bangladesh, so that markets are maintained for entrepreneurs, both large and small. An injection of 2 per cent of GDP into the economy through social security transfers is likely to grow this market and the CGE analysis suggests that the proposed universal, lifecycle transfers will create around 2 million jobs. As external markets improve, hopefully this would complement the employment generation resulting from the social security transfers and restore most of the jobs that have been lost over a period of one to two years.

6.6 Broader impacts on family wellbeing of the universal, lifecycle transfers

Overall, the emergency lifecycle transfers would guarantee families and vulnerable groups across Bangladesh a minimum level of monthly income which would translate into a range of other benefits. The health and wellbeing of the most vulnerable members of society – children, older people, people with disabilities and the sick – would be protected. The transfers will protect the nutritional security of families, enhancing the chances of children accessing a well-balanced diet which will help avoid the risk of stunting and micro-nutrient deficiency,

77 "Without" represents what the situation would have been in 2020 if there was no COVID-19.

thereby promoting their physical and cognitive development. The predicted increases in child mortality should also be addressed by the transfers. Further, the lifecycle transfers will likely protect the home environment for children, enabling them to gain the required stimulation and study conditions for their educational development. The risk of domestic violence which could have significant negative impacts on children should also reduce.[78] Therefore, the development of Bangladesh's human capital will avoid a significant set-back and will enable the country to get back on track with its impressive growth trajectory and strengthen the nations ambitions in longer-term by having a more high-skilled and competitive workforce.

6.7 Impacts on women of the universal, lifecycle transfers

The lifecycle transfers are estimated to have positive impacts on the incomes of women. The analysis estimates an average fall in income of 19 per cent as a result of the crisis for both men and women equally, although some women will be particularly affected. However, the analysis estimates that investing 2 per cent of GDP in the proposed lifecycle package is likely to result in an average increase in the income of women compared to a 'without-COVID-19' scenario (21 per cent) that is higher than the average increase in the income of men (17 per cent). Further, as shown in Figure 6-9, those in female-headed households are estimated to experience a larger boost to their incomes compared to a 'without-COVID-19' scenario (30 per cent) than those living in male-headed households (18 per cent).

Figure 6-9: Percentage change in household per capita income compared to what it would have been without the COVID-19 crisis, without investment and with investment of 2 per cent of GDP, by sex of household head

Source: own calculations based on 2016 HIES.

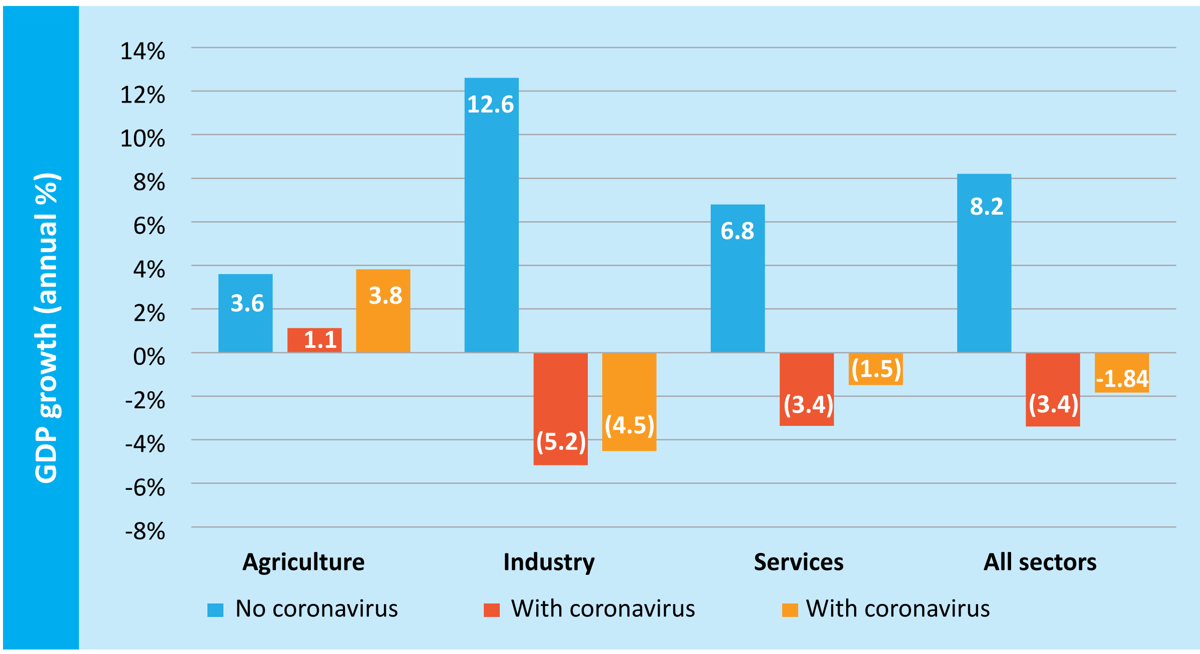
78 A number of studies have indicated that women may be less likely to be subjected to domestic violence, if they are recipients of a cash benefit. See Angelucci (2008); Handa et al. (2009); Hidrobo & Fernald (2013); Bastagli et al. (2016) and Baranov et al (2020). There is also good evidence that higher incomes and social security benefits reduce domestic violence. See WHO (2002).

6.8 Impacts of the proposed emergency lifecycle schemes on the national economy

As explained earlier, a key aim of injecting cash into the economy through social security is to encourage families to increase their spending so that national consumption is higher and contributes towards markets continuing to function. This rationale is being followed by countries across the globe as they seek to stimulate their economies, minimise the severity of the recessions they face and enable their economies to recover more quickly.[79]

The CGE analysis demonstrates that reductions in economic growth – and potentially a recession – could be minimised through the introduction of emergency social security transfers. Figure 6-9 shows the estimated percentage reduction in the Bangladesh economy in 2020 under three scenarios: 1) the counter-factual of 'without COVID-19'; 2) with COVID-19 but without the proposed lifecycle transfer stimulus; and, 3) with COVID-19 but also with the emergency lifecycle transfers at a cost of 2 per cent of GDP over six months, complementing the support already provided by the Government. The potential reduction in national GDP of 3.4 per cent could be mitigated through implementing the proposed lifecycle approach, reducing the severity of the recession to 1.8 per cent, almost a 50 per cent reduction. Figure 69 also shows how the different sectors of the economy would react to the injection of transfers: the agriculture sector would grow by slightly more than it would have done if COVID-19 had not happened, due to a greater market for food; the services sector would experience a recession of 1.5 per cent, a marked improvement on the predicted recession of 3.4 per cent resulting from COVID-19; while, the smallest improvement would be in the industrial sector, due to its reliance on exports.

Figure 6-10: GDP growth (annual %) under 'without COVID-19' and 'with COVID-19', with and without proposed intervention



Source: own calculations based on 2016 HIES

79 151 countries are using cash transfers to respond to COVID-19. See Gentilini et al (June 12, 2020)

7 Implementation arrangements

In recent years, the Government has begun to reform the operational systems of the country's social security schemes. Efforts have focused on strengthening management information systems (MISs) and the national system for making payments. However, according to the NSSS mid-term review, while some progress has been made, the reforms are not on track.[80] While work has begun on the MISs of some schemes, they are still not operational and there has been limited progress on the national Single Registry, which, if it had been in place, would have facilitated an emergency response. Further, while the Ministry of Finance has made some progress in establishing an electronic Government to Person (G2P) payment system, according to the mid-term review, it has, as yet, only been piloted and still needs to be rolled out nationally. Without an effective Single Registry and programme MISs, it will be challenging to implement G2P payments nationwide. The limited progress with the reforms has affected the effectiveness of the Government's COVID-19 emergency payments: for example, of the 5 million households that should have received a compensatory transfer, only half have been reached.

Therefore, it is imperative that the Government fast-tracks reforms to the operational delivery of the national social security system. Key areas to focus on include: establishing web-based, on-demand registration systems for applicants to schemes at local level, which enable the immediate uploading of information to the national MISs for each scheme; establishing high quality electronic MISs for each scheme that facilitate a fast, reliable and accurate flow of information within schemes; a G2P payment system that enables transfers to be paid on a monthly basis to recipients of all cash-based schemes; and, a Single Registry that facilitates the flow of information between schemes, and enables government to effectively monitor the national social security system.

The Government could use the introduction of lifecycle, emergency social security schemes as an opportunity to strengthen the system. Universal schemes have the advantage of simplicity since they require relatively limited information from applicants wishing to be enrolled. In contrast, the current poverty-targeted schemes are complex, requiring significant levels of information to be able to assess the eligibility of applicants. And, as discussed earlier, current targeting is inaccurate, with significant exclusion errors. International experience indicates that introducing alternative targeting mechanisms, such as proxy means tests, are unlikely to improve the accuracy of targeting.[81] Indeed, the slow development of the National Household Database (NHD), which by the time of the mid-term review had reached only 33 million households, demonstrates the significant challenges with poverty targeting and proxy means tests. Indeed, by the time the NHD is finalised, much of the information on households will be out-of-date and, of course, will not reflect the situation of households following the shock of COVID-19.

80 PRI (2019).

81 Kidd and Athias (2020).

If the Government chooses to move forward with the universal lifecycle schemes, it could use local Government officers to undertake the registration, However, to take forward the registration for the disability benefit, it will be necessary to evaluate the capacity of the current disability certification mechanism to assess a relatively large number of applicants for the disability benefit. If the current disability certification mechanism is not a viable option, it will be necessary to either rapidly develop an alternative mechanism or not move forward with the universal disability benefit as part of the package of emergency response.

To undertake registration for the lifecycle benefits, the Government should, as indicated above, introduce a web-based registration process. This would enable applicants to be registered via a tablet and mobile phone, with their information uploaded to an advanced electronic management information system, which could be set up within a relatively short period of time. The MIS would be able to handle both complaints and appeals from applicants and also produce a payment list.

It will be necessary for applicants to produce evidence of their legal existence to ensure that no-one can apply more than once. Birth certificates and identity cards should suffice and, in case individuals do not possess either, the Government could facilitate a process whereby applicants also apply for either of these documents at the same time as registering for the scheme. Alternatively, if this is not possible, a short-term alternative could be put in place, such as allowing individuals to demonstrate alternative evidence such as bank statements and health cards or they could be certified by local leaders. They would then be given three months to access a birth certificate or identity card, if they wish to continue receiving the transfer.

During the process of designing the delivery system for the universal lifecycle transfers, the Government should rapidly scale-up its electronic G2P payment system. Based on the Ministry of Finance's pilot initiatives, recipients should be given a range of options for accessing their transfers, including direct transfers to bank accounts, using Mobile Financial Services (MFS), and receiving payments through post offices.

8 Financing social security measures to address the impacts of COVID-19

The Government must address the question of financing if it is to increase its investment in social security to provide a stimulus package during the COVID-19 crisis. Funding a fiscal stimulus will not be easy. Nonetheless, doing so will be more cost-effective in the medium to long-term than failing to invest. If Bangladesh is to minimise the current recession and facilitate a rapid economic recovery, the nation cannot afford not to expand its fiscal response to the crisis. Potential financing options are set out in the following paragraphs

Quantitative easing – or, in other words, "creating new money" – over a short period of time could be attempted by the Government. The extent to which Bangladesh can do this will need to be carefully assessed since it may trigger a fall in the value of the Taka on the international exchange markets and provoke inflation that it is too high. However, the risk of higher inflation, initially, is minimal given the overall fall in prices of consumer goods as a result of COVID-19. Nonetheless, if it is adopted, careful macro-surveillance of its impacts would be required.

Re-allocating government spending from inefficient areas to the stimulus package should be a high priority. An examination of each budget item should be undertaken to determine whether it is delivering value for money in the current context. However, given the the limited size of government spending overall, this may produce relatively limited amounts. Nonetheless, it could be an opportunity to rationalize spending on the large number of relatively ineffective social security schemes and focus it on lifecycle schemes.

There have been significant falls in the price of oil so the Government could examine whether eliminating the fuel subsidy – which tends to disproportionately benefit the wealthy[82] – is viable. If so, savings could be re-allocated to the emergency lifecycle schemes proposed in this paper, which would be more equitable and would potentially be a popular move. Indeed, the World Bank (2018) calculated that, if the Government were to remove the fuel subsidy (which accounted for 0.6 per cent of GDP in 2012) and invest the savings in a lump-sum transfer to households, it could increase Government revenues by 10.1 per cent.[83] Further, given the challenges of climate change, the Government may wish to move to a position of taxing fuel to create appropriate incentives to reduce its use and replace it with more sustainable forms of energy creation.

The Government could consider examining higher income taxes for the wealthiest members of society who are still in work. This would support the the National Board of Revenue's (NBR) recent drive to increase the efficiency of income tax collection by modernizing the digitised system, with the NBR recognising the value of income tax in driving equitable economic growth, stating: "Now, we don't have any alternative but to tap required internal resources to successfully implement Vision 2021 and elevate into a upper middle income country. Successful implementation of Sustainable Development Goals by 2030 also calls for gearing up collection of income tax."[84] Currently, the top rate of income tax is low, at only 30 per cent and gives significant room for increases. The vast majority of the population do not earn enough to be

82 del Granado *et al (2012).*

83 Timilsina (2018).

84 Ferdous (2020)/.

affected by income tax rises, which should be targeted at those who can afford to pay them who, due to their wealth, are unlikely to spend the income that would be taxed. Increasing income taxes on the wealthy is in line with proposals from both the IMF (2020d) and OECD (2020) which have argued that higher income taxes should be understood as 'solidarity surcharges.' Since income taxes would only affect those who still have jobs, it would be a means of asking those suffering the least from the crisis to help those suffering the most. Further, if income tax increases are used to invest in lifecycle benefits, the vast majority of the population is likely to end up as net beneficiaries. So, while increases in income tax may provoke a negative reaction among a small minority, this will be mitigated if, at the same time, the Government introduces a range of universal lifecycle benefits, as proposed in this paper. Indeed, across the majority of the population, it could well be a very popular move, as long as citizens can clearly see that they benefit in the form of a cash transfer.

A one-off wealth tax or permanent increase on the tax on property ownership should also be considered so that, as with income tax rises, those with the broadest shoulders are given the opportunity to support the majority of the population at a time of great need. Again, the IMF (2020d) and OECD (2020) have argued in favour of such taxes as 'solidarity surcharges.' If this helps maintain stability and reduce social unrest, those who pay the tax will find that it is money well-spent.

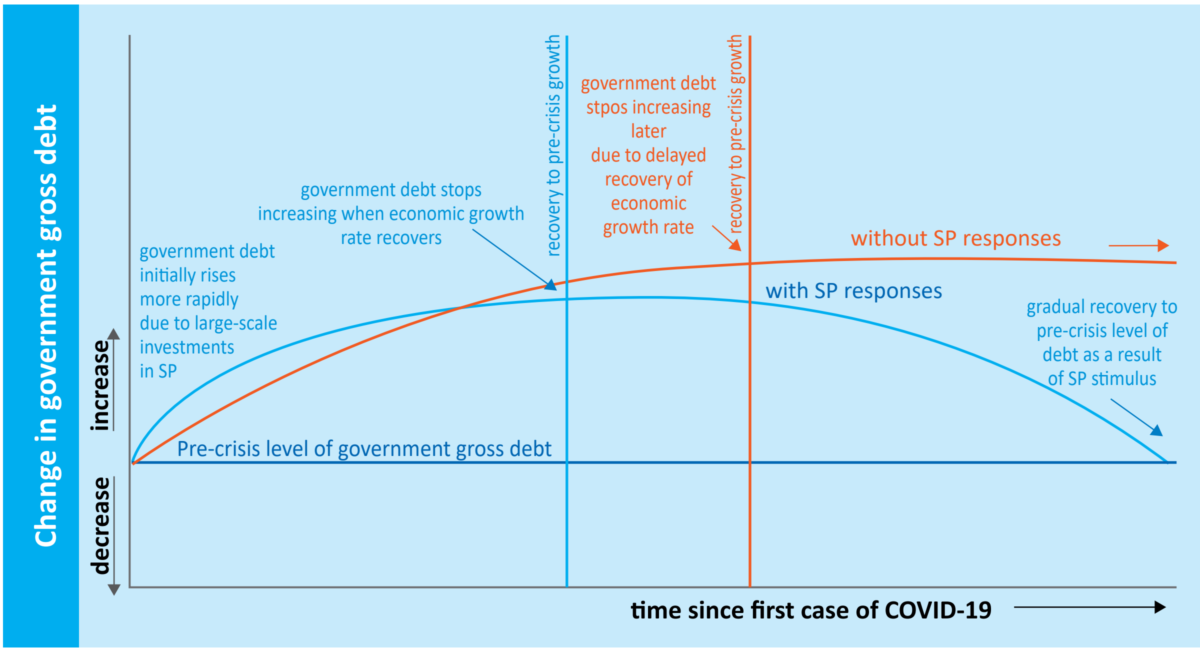
New tax revenue options should be explored, such as on the digital economy, inheritance taxes as well as expanding so-called 'sin taxes' on tobacco and alcohol. And, more needs to be done to stop illicit financial flows overseas while enhancing the capacity of the tax system to seek out hidden wealth.

The Government should seek a short-term debt moratorium followed by medium to long term debt restructuring/re-scheduling that would free fiscal space to invest in protecting the population through social security. As Nobel laureate economist Joseph Stiglitz argues, this should include a grace period for growth, lower interest rates, a change in the maturity and a reduction in the principal.[85] It would neither help Bangladesh nor its creditors if the country were forced to default on its debt.

In fact, the potential for taking on more loans should be examined, given the low rate of Government debt as a percentage of GDP. This should include examining options for further loans from international financial agencies such as the International Monetary Fund (beyond the Rapid Financing Instrument), Asian Development Bank, World Bank and bilateral donors should be examined. Even if this resulted in a higher Government gross debt, it could still make it easier for the country to repay its debts in the medium- to long-term, as indicated by Figure 8-1, as long as the funds are invested in a fiscal stimulus. In addition, Bangladesh should explore additional grants from donors, in particular from those countries that rely on Bangladesh's garment industry. The European Union, for example, has examined the possibility of covering the wages of garment industry workers who have lost their jobs.

85 Stiglitz (2020).

Figure 8-1: Potential changes in gross national debt as a result of COVID-19, with and without social security responses



Source: authors' elaboration

Due to the risk of falling into a deeper recession if a large enough investment is not made, the Government can likely not afford to underinvest in stimulus packages. Globally, Governments are realising that they cannot be complacent in accepting that there is no fiscal space for a stimulus, as inaction will result in significant harm to the national economy and to households. Further, by investing in a social security stimulus package, governments will be able to recover losses in government revenue more quickly. However, if a stimulus package enables the economy to recover more quickly, tax revenues will subsequently recover and place Government finances in a much stronger position.

A social security system offering high quality, universal lifecycle transfers is likely to be highly popular and should strengthen the national social contract, thereby encouraging citizens to pay higher taxes, in return for these higher quality services.[86] This was a key component of Europe's economic and social success, following the shock of the Second World War. By investing in high quality universal services, including social security, the social contract in Europe was strengthened and tax revenues increased significantly, which, in turn, enabled further investments in high quality public services, creating a virtuous circle of ever-improving public services and higher government revenues, alongside a successful economy. It may be no coincidence that Nepal is the only country in the Indian sub-continent to provide universal social security and also the only country in the region to have enjoyed a significant increase in government revenues, which have doubled in the past 20 years, despite Nepal also being the poorest country in the region.[87] If Bangladesh were to enjoy higher government revenues as a result of investing in universal social security and strengthening the social contract, this would make it even easier to pay off the gross national debt and, over time, further enhance the quality of all public services, with the nation creating its own virtuous circle.

86 See Kidd (2015) for a more in-depth explanation.

87 Nepal invests around 1.6 per cent of GDP in its tax-financed social security transfers, including universal benefits for older people, widows and people with disabilities. It is currently rolling-out a universal child benefit for young children. This compares with Bangladesh's investment in its core lifecycle social security schemes of 0.52 per cent of GDP. See Kidd et al (2020).

Indeed, Bangladesh should regard investing in universal emergency lifecycle transfers as the first step in building a modern, universal social security system. Following the initial high level of emergency investment over six months, the lifecycle schemes could be scaled-back but nonetheless continue as universal programmes. Bangladesh could aim at investing, in the 2021/22 fiscal year, one per cent of GDP in universal child, old age and disability benefits, with the aim of reaching 2 per cent of GDP by 2030. This would require, initially, a reduction in the transfer values and potentially a change in the ages of eligibility for the child and old age benefits (although the age of eligibility for the child benefit could grow over time). This continuing investment would further enable economic recovery in the long-term, as there would be a permanent increase in the level of fiscal stimulus.

9 Conclusion

The COVID-19 crisis has demonstrated the shortcomings of many low- and middle-income countries not investing in universal social security systems. It has meant that they have not had the schemes in place to be used to provide an immediate comprehensive response to the crisis. Mongolia is one country that has bucked the trend, in that it has been able to rapidly increase the transfer values of its tax-financed child, old age and disability benefits to provide a fiscal stimulus and protect the most vulnerable households, at a total cost of 1.6 per cent of GDP (on top of the 8 per cent of GDP that it spends normally on social security each year). Bangladesh's old-fashioned poor relief social security system has not been able to respond in the same way.

Yet, COVID-19 is setting back the Bangladesh economy, resulting in higher unemployment, poverty and deprivation. Families that include children, older people and persons with disabilities are particularly vulnerable and the gains that Bangladesh has made in the past 20 years may be lost. The risk of social unrest and political instability is likely to increase if the government is unable to respond effectively.

However, as suggested by the IMF, World Bank and United Nations, there is a solution. the Government could offer an emergency package of universal lifecycle benefits to children, older people and people with disabilities as part of a set of broader support mechanisms that also address unemployment, support businesses (particularly SMEs) and protect health. Due to the simplicity of their eligibility criteria, the lifecycle schemes would be relatively easy to implement. They would be opt-in so, if families do not need them, they could choose not to apply. They would also be fair, transparent and easily understood, and popular with the vast majority of the population.

Importantly, the universal, lifecycle transfers could help kickstart an economic recovery, ensuring that many businesses and entrepreneurs would find a market for their goods. By protecting family incomes, individuals, in particular children, could be more food-secure and well-nourished and less likely to suffer from ill-health. The risk of domestic violence would fall as stress levels in households would fall, while mental health of parents, children and other household members would be safeguarded. Human rights would be secured while, in the in the long-term, losses in human capital will be minimized. Bangladesh will be able to continue to strengthen its labour force, compete in international markets and move towards upper middle-income country status. Importantly, trust in government would be enhanced since citizens will be able to clearly see that the Government is caring for them in an inclusive, easily understood, non-controversial, popular and transparent manner.

As in all other countries, bold, ambitious and creative thinking is required at this moment of great crisis, which is made even more challenging by recent floods. It may be difficult to find funding for an effective fiscal stimulus but, if it can be be found, the benefits to the economy and families will be high. Establishing a fiscal stimulus based on universal, lifecycle transfers should be seriously considered as an option by the Government of Bangladesh as it assesses how to facilitate national economic recovery.

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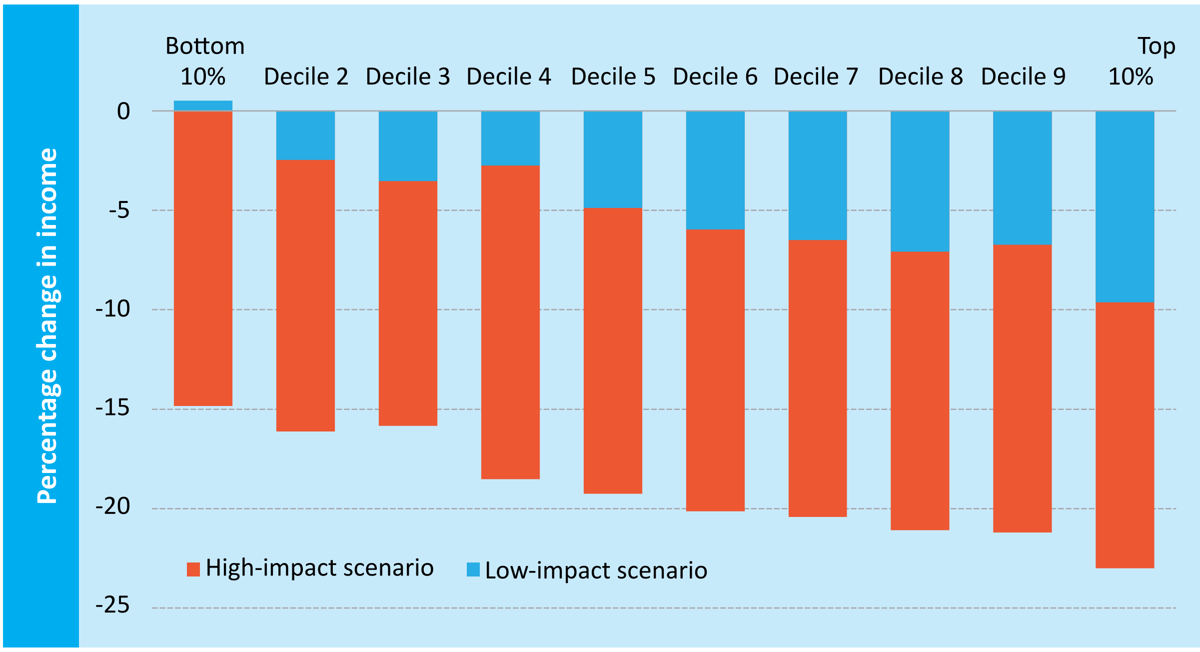
Annex Impacts of COVID-19 under a low-impact and high-impact scenario

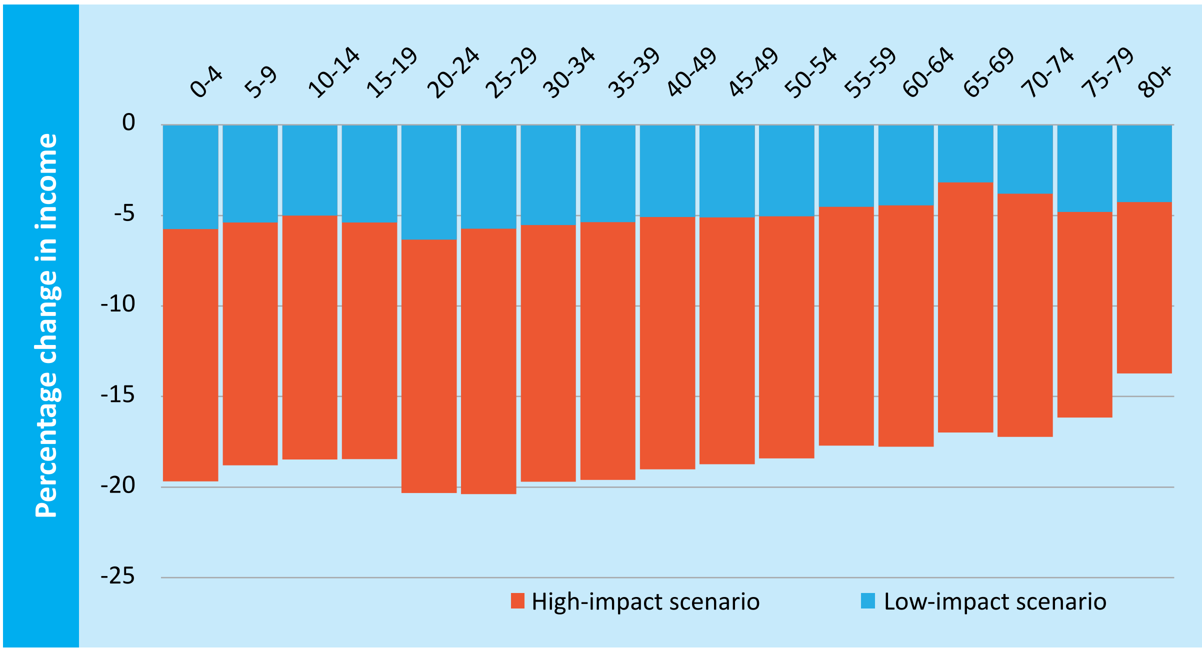
This annex outlines the impacts on incomes and poverty rates under both a low-impact and high-impact scenario. The methodology and assumptions underpinning these scenarios are presented in Section 2 of this paper.

Figure Annex 1: Average percentage change in household income per capita as a result of the COVID-19 crisis under low-impact and high-impact scenarios, by welfare decile



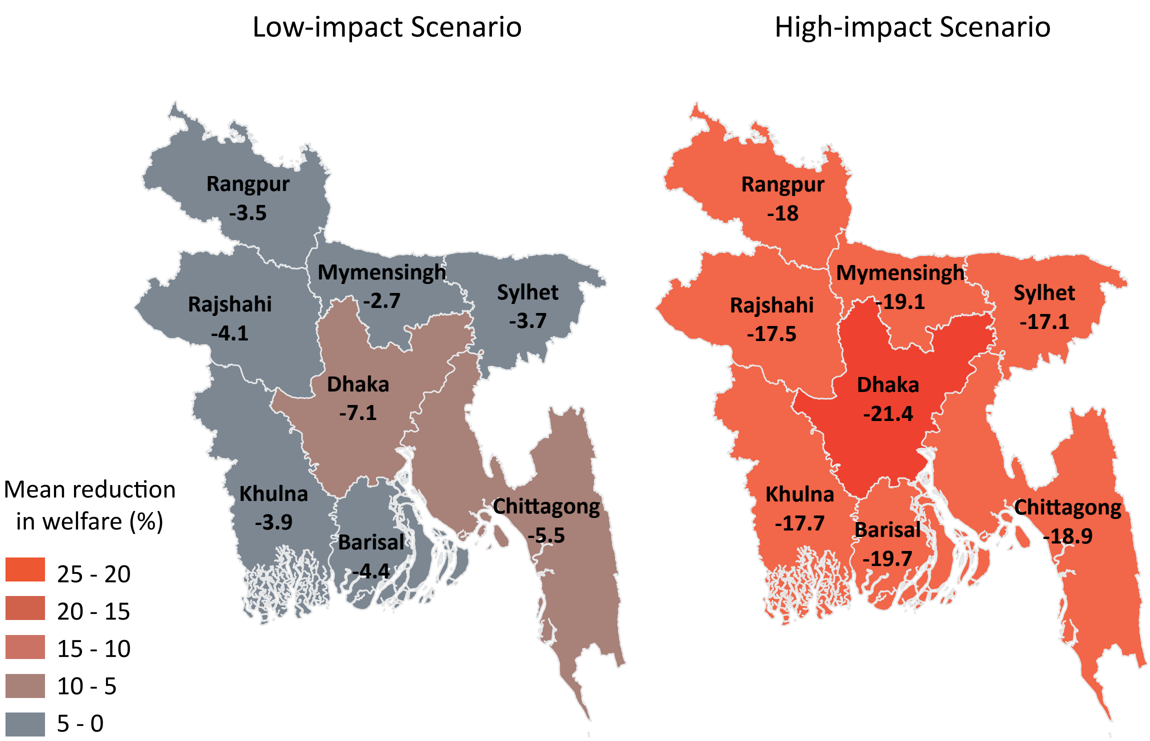
Source: own calculations based on 2016 HIES

Figure Annex 2: Average percentage change in household income per capita as a result of the COVID-19 crisis under low-impact and high-impact scenarios, by age



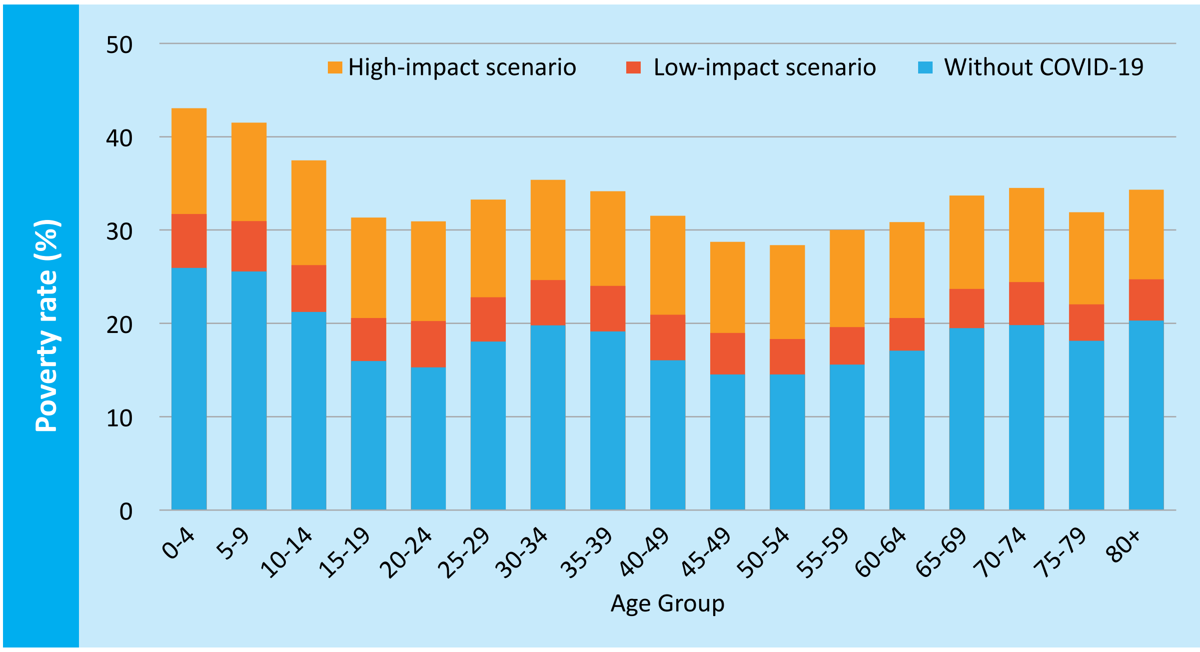
Source: own calculations based on 2016 HIES

Figure Annex 3: Average percentage change in household income per capita as a result of the COVID-19 crisis under low-impact and high-impact scenarios, across Divisions



Source: own calculations based on 2016 HIES

Figure Annex 4: Estimated share of population below national poverty line without COVID-19 and with COVID-19 under low-impact and high-impact scenarios, by age



Source: own calculations based on 2016 HIES

Social Policy, Evaluation, Analytics &
Research (SPEAR) Section
UNICEF Bangladesh
UNICEF House, Plot # E-30
Syed Mahbub Morshed Avenue
Sher-e-Bangla Nagar, Dhaka -1207
Bangladesh

Telephone: +880-2-9336701
Email: infobangladesh@unicef.org
Website: www.unicef.org.bd

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