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**COVID-19 PANDEMIC IN BANGLADESH:
ECONOMIC IMPACTS AND POLICY IMPLICATIONS**

Benuka Ferdousi



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COVID-19 PANDEMIC IN BANGLADESH: ECONOMIC IMPACTS AND POLICY IMPLICATIONS

Benuka Ferdousi

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ABSTRACT

Like other countries, Bangladesh went for a countrywide lockdown for two months to contain the spread of the Covid-19 pandemic. The ramification of the pandemic was manifold. It significantly contracted economic activities and created pressure on the economy of the country. This paper aims to identify the impacts of Covid-19 pandemic on the Bangladesh economy with a view to suggest policy recommendations for both short and medium terms. The paper finds that sub-sectors in agriculture, industry and service that comprise 60 per cent of the country's Gross Domestic Product (GDP) and 48.6 per cent of the country's employment have been affected severely in the short run. In the medium term, situation of sectors involving 44 per cent of GDP and 33 per cent of employed people are likely to remain uncertain. The paper considers the stimulus packages declared by the government to be timely although some sectors appear to benefit more from the stimulus packages compared to others. The paper calls for balance between Readymade Garments (RMG) and non-RMG industries as well as between manufacturing and service sector based on their contribution to GDP and employment. It proposes four policy guidelines for the short run which include: giving priority to saving people from the pandemic and hunger over growth, emphasizing on boosting domestic demand, re-prioritization of different sectors with more priority on sectors, such as health, agriculture and social safety net and harmonization of measures. For the medium term, it emphasizes on rebuilding health sector, revising food policy, support to agricultural sector, skill development and diversification of export of goods and services.

Keywords: Covid-19, Industry, Export, RMGs, Health, Social Safety Net

ACRONYMS

ACCORD	Accord on Fire and Building Safety in Bangladesh
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
API	Active Pharmaceutical Ingredients
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDFA	Bangladesh Dairy Farmers Association
BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BIDS	Bangladesh Institute of Development Studies
BIGD	BRAC Institute of Governance and Development
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BPICC	Bangladesh Poultry Industries Central Council
BRAC	Building Resources Across Communities
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSMA	Bangladesh Steel Manufacturers Association
CETP	Central Effluent Treatment Plant
CGWR	Center for Global Workers' Rights
CMSME	Cottage, Micro, Small and Medium Enterprises
CPD	Centre for Policy Dialogue
CRR	Cash Reserve Ratio
DAE	Department of Agriculture Extension
DAM	Department of Agricultural Marketing
DGHS	Directorate General of Health Services
EDF	Export Development Fund
EPB	Export Promotion Bureau
EU	European Union
FBCCI	Federation of Bangladesh Chambers of Commerce and Industries
FDI	Foreign Direct Investment
FFP	Food Friendly Program
FTA	Free Trade Agreement
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GoB	Government of Bangladesh
GR	Gratuitous Relief
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute

ILO	International Labour Organization
IMF	International Monetary Fund
IsDB	Islamic Development Bank
LDC	Least Developed Countries
LWG	Leather Working Group
MFA	Multi Fiber Agreement
MFS	Mobile Finance System
MoF	Ministry of Finance
MoHFW	Ministry of Health and Family Welfare
MSME	Micro, Small and Medium Enterprises
NID	National Identity Card
OMS	Open Market Sales
OOP	Out-of-pocket
PPRC	Power and Participatory Research Centre
QR	Quick Response
R&D	Research and Development
RMG	Readymade Garments
SANEM	South Asian Network on Economic Modeling
SME	Small and Medium Enterprises
TRIPS	Trade Related Intellectual Property Rights
UN	United Nations
USAID	United States Agency for International Development
VAT	Value Added Tax
VGD	Vulnerable Group Development
VGf	Vulnerable Group Feeding
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

Chapter 1

Introduction

Covid-19 pandemic has been identified as the greatest challenge to the humanity since World War II. Being detected first in China in December 2019 and then spreading gradually to every continent except Antarctica, the pandemic gave the world an unfamiliar look—around one third of world's population were under lockdown as of 25 March 2020¹ leaving hundreds of great cities deserted including those which were once known as “cities that never sleep”. On one hand the countries became overwhelmed in testing and treating patients giving rise to a humanitarian crisis, on the other hand in their bid to slow the spread of the disease they limited travel and cancelled large gatherings including sports and concerts and even schools.

The pandemic, the death toll of which reached to 1,201,973 as of 31 October 2020, is more than a health crisis. With worldwide closure of shops, restaurants, factories and offices, halt to all types of travels and transport and the resultant loss of jobs and income everywhere, the pandemic has had devastating social, economic and political impacts and will perhaps leave deep scars even in the coming days.

There are apprehensions that the pandemic may cause the worst recession since the Great Depression of 1930.² As of June 2020, the International Monetary Fund (IMF) predicts the global economy to contract by 3 per cent in 2020,³ the World Trade Organization (WTO) forecasts the global trade to shrink by 13-20 per cent while the International Labour Organization (ILO) estimates a reduction of global jobs equivalent to about 195 million full-time workers.⁴

Bangladesh identified its first case of Covid-19 on 08 March 2020. As of 31 October, the country had 407,684 identified cases and death toll due to Covid-19 was 5923. Following other countries, Bangladesh enacted lockdown all over the country on 25 March 2020 in its bid to contain the spread of the disease. The lockdown was gradually loosened and was finally lifted on 31 May 2020. Since the onset of the pandemic, the country is trying to cope with the emerging situation with a number of steps in all frontiers—from health to economy to law-and-order situation. A number of packages have been declared by the government to mitigate the impacts of Covid-19

¹ *The Daily Mail*, 25 March 2020, available at <https://www.google.com/search?q=two+third+of+world+population+is+under+lockdown&oq=two+third+of+world+population+is+under+lockdown&aqs=chrome..69i57l3859j0j7&sourceid=chrome&ie=UTF-8>, accessed on 15 April 2020.

² “I.M.F. Predicts Worst Downturn Since the Great Depression”, *The New York Times*, 14 April 2020, available at <https://www.nytimes.com/2020/04/14/us/politics/coronavirus-economy-recession-depression.html>, accessed on 15 April 2020.

³ International Monetary Fund (IMF), *World Economic Outlook: The Great Lockdown*, Washington, DC: IMF, April 2020, p. vii, available at <https://www.imf.org/en/Publications/WEO>, accessed on 15 April 2020.

⁴ Finance Division, *Budget Speech 2020-21*, Dhaka: Ministry of Finance, Government of Bangladesh, 2020, p. 3.

pandemic on people's lives and livelihoods as well as on the health sector and national economy.

In this context, this paper aims to identify the impacts of Covid-19 pandemic on the economy of Bangladesh with a view to suggest some policy options. In so doing, it will attempt to answer the following research questions: which sectors of Bangladesh economy are more likely to be affected by the pandemic, to what extent, and through which channels? Which section of the people will suffer more? How effective the declared packages would be in mitigating the impacts? What else the government can do in the short and medium terms?

The paper is organized as follows. Following introduction, chapter 2 provides a brief review of the country's economy with a view to point out the sectors important for economic growth and sustainability. Chapter 3 attempts to assess the probable impact of Covid-19 pandemic on Bangladesh economy.⁵ Chapter 4 attempts to make an assessment of the packages declared by the government so far while chapter 5 tries to find out what else can be done to better mitigate the impacts of the pandemic on the country's economy in the short run. Chapter 6 provides some recommendations for the medium run. Chapter 7 concludes the paper.

⁵ It covers the development up to 31 October 2020. As exchange rate of BDT, the rate of 24 April 2020 (1 USD = 84.68 BDT) has been used as it was the time when the country started to feel the hit of the pandemic and the stimulus packages were declared.

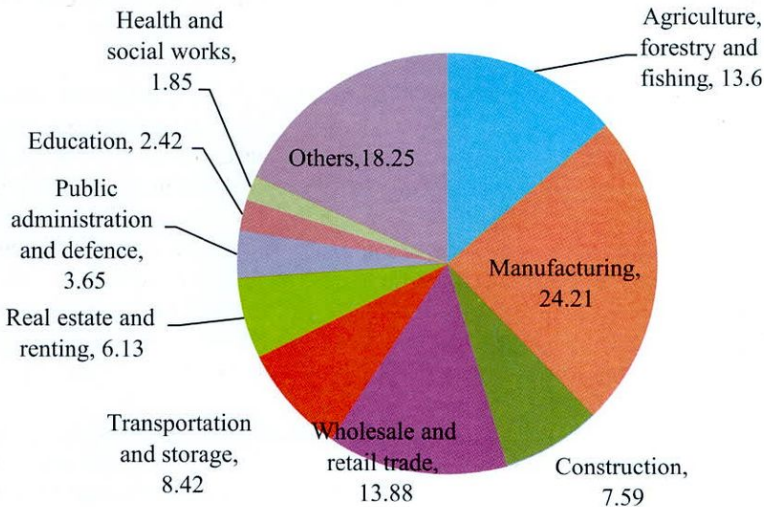
Chapter 2

A Brief Review of Bangladesh Economy

Bangladesh is currently the 35th largest economy⁶ and the eighth largest population of the world. The economy of Bangladesh grew at an average rate of 6.5 per cent annually over the period Fiscal Year (FY) 2009 to 2018. It graduated from the United Nations (UN) list of Least Developed Countries (LDC) in 2018 and aspires to be a middle-income country by 2041. In FY 2018-19, Bangladesh economy grew by record 8.15 per cent and the country expected to grow at 8.2 per cent in FY 2019-20. The Covid-19 pandemic posed a great challenge in achieving this target.

Sectors that are important for Bangladesh both for GDP and employment generation are: agriculture, manufacturing, construction, wholesale and retail trade and transportation. These sectors jointly account for 66.2 per cent of GDP and 83.4 per cent of employment.

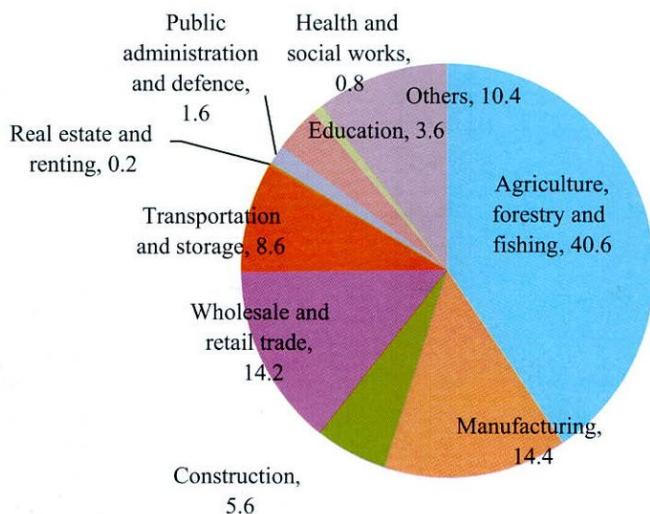
Figure 2.1: Composition of GDP, Bangladesh, 2018-19⁷



⁶ International Monetary Fund (IMF), *World Economic Outlook Database*, October 2020. available at www.imf.org, accessed on 15 November 2020.

⁷ Finance Division, *Bangladesh Economic Review 2019*, Dhaka: Ministry of Finance, Government of Bangladesh, 2019, p. 18.

Figure 2.2: Composition of Employed Population Aged 15 or above, Bangladesh, 2016-17⁸



For Bangladesh, five major industries in terms of value added and employment creation are RMG, textile, food product, basic metal (rod and still industries) and non-metallic mineral product (cement, ceramic and glass). These five industries account for 82 per cent of gross value added and 88 per cent of employment in manufacturing sector. Among these five industries, RMG and textile have 84 per cent share in the country's export earnings. With 3 per cent share in export, food-product stands out as the third largest export item. Basic metal (rod and steel industries) and non-metallic mineral product (cement, ceramic and glass), with 21 per cent and 12 per cent share in manufacturing product and employment respectively, mainly meets up the domestic demand originating mostly from government construction projects and real estate sector.

Up to 2010, the top 5 industries in terms of contribution to total manufacturing growth were: RMG, pharmaceuticals, *bidi* (tobacco products), publication and printing and re-rolling mills.⁹ Later, depending on government expenditure and Foreign Direct Investment (FDI) inflow, cement industry became one of the top industries while relying on export, industries like food products and electronic and electrical equipment flourished surpassing pharmaceuticals and tobacco products.

⁸ Bangladesh Bureau of Statistics (BBS), *Labour Force Survey Bangladesh 2016-17*, Dhaka: Ministry of Planning, Government of Bangladesh, 2018, p. 50-51.

⁹ N. C. Nath, "Manufacturing Sector of Bangladesh: Growth, Structure and Strategies for Future Development", paper presented at Biennial Conference on *Global Economy and Vision 2021* on 12-14 July 2012.

Table 2.1: Distribution of Export by Industry, Bangladesh, 2018-19¹⁰

Industry	% Share in Total Export 2018-19
RMG (woven)	42.2
RMG (knitwear)	41.7
Frozen food and agricultural products	3.2
Jute and jute goods	2
Leather and footwear	1
Engineering products	0.8
Chemical products	0.5
Pharmaceuticals	0.3
Others	8.3
Total	100

There are also some other industries which, despite their small share in manufacturing production and employment, play significant role in meeting up domestic demand. Examples include pharmaceuticals, footwear and plastic products. Light engineering industries (producing light machines and equipment, bicycle, motor vehicle parts, etc.) and industries producing electrical and electronic equipment also have significant contribution in the domestic economy and promising future of export despite their present small share in manufacturing production and employment.

Despite various efforts for diversification, export of the country is still heavily dependent on RMG. As observed in Seventh Five Year Plan, the country has long been trying to diversify the export basket but in reality, share of RMG rather increased.¹¹ Sectors that were identified by the Seventh Five Year Plan as having promising future for export despite their present small share are: agro products and agro processing, footwear and leather goods¹², pharmaceuticals,¹³ light engineering (including bicycle and motor vehicle parts)¹⁴, software and Information and Communication Technology (ICT) products, shipbuilding and ceramic and decoration goods.

¹⁰ Ministry of Finance (MoF), Government of Bangladesh (GoB), *Bangladesh Economic Review 2019*, op cit., pp. 81-82.

¹¹ General Economic Division (GED), *7th Five Year Plan FY 2016-2020: Accelerating Growth, Empowering Citizens*, Dhaka: Ministry of Planning, Government of Bangladesh 2015, p. 174.

¹² For prospects and challenges of Leather and Footwear Industry of Bangladesh, see, Asian Development Bank (ADB), ADB Brief No. 102, *Developing the Leather Industry in Bangladesh*, Manila: ADB, 2018; Emerging Credit Rating Limited, *Leather Industry of Bangladesh: A new hope for export diversification*, 2016; EBL Securities Ltd., *Bangladesh Tannery and Footwear Industry Review*, 2019.

¹³ For prospects and challenges of pharmaceutical industry of Bangladesh, see, Md. Nazim Uddin Bhuiyan, Md. Abdul Hakim and Md. Fakhru Alam, "Competitiveness and Global Prospects of Pharmaceutical Industry of Bangladesh: An Overview", *The Cost and Management*, Vol. 47, No. 5, September-October 2019; EBL Securities Ltd., *Pharmaceutical Industry of Bangladesh: The Multi Billion Dollar Industry*, July 2019; "Pushing Pharmaceutical Export Frontier", *The Financial Express*, 18 February 2019.

¹⁴ For contribution, prospects and challenges of light engineering industry see, Nazneen Ahmed and Zaid Bakht, *Light Engineering Industry in Bangladesh: A Case Study*, Dhaka: Bangladesh Institute of Development Studies (BIDS), 2010; K Siddique-e-Rabbani, *Economic Policy Paper on Light Engineering & Electronics Enterprise in Bangladesh*, Dhaka: DCCI-CIPE, 2005; Farid Ahmed, "Light Engineering Product: From Local Workshop to Export Basket", *The Business Standard*, 27 January 2020; "Pressing Issues of Light Engineering", *The Financial Express*, 01 January 2020.

Chapter 3

Covid-19 Pandemic: Economic Impacts

To halt the transmission of Covid-19, Bangladesh government declared country-wide lockdown (general holidays), which came into effect on 26 March 2020 and was extended several times up to 31 May 2020. As a densely populated country Bangladesh had no option but to impose this lockdown, although it took a heavy toll on the country's economy. All economic activities came to a standstill for about two months which had serious consequences for the economy. The pandemic affected the economy mainly through three channels: i) contraction of economic activity; ii) disruption of supply chain - both domestic and external, and iii) fall in domestic and external demand.

3.1 Impact on Production

3.1.1 Impact on Agriculture

Agriculture accounts for 13.6 per cent of GDP and 5.28 per cent of export of Bangladesh. Moreover, 40.6 per cent of the country's labour force is engaged in agriculture. Within agriculture, crops and horticulture, animal farming and fishing have been more or less affected by the Covid-19 pandemic.

Crops and horticulture

Crops and horticulture have the largest sub-sector of Bangladesh agriculture. Despite its declining share in GDP and low growth rate, it is the sector which cushions the country at the time of calamity and saves the people from the worst crisis – food crisis. At the time of Covid-19 pandemic too, Bangladesh is looking to this sector to avoid food crisis.

Covid-19 pandemic hit Bangladesh at the time of harvest of *rabi* crops. The most important *rabi* crop of Bangladesh is High Yielding Variety (HYV) *boro* rice which constitutes 40 per cent of total production of rice, the staple food of Bangladesh. Although the pandemic could not affect the production process of *boro* rice, there was apprehension that the lockdown might affect its harvest by disrupting the supply of agricultural labour particularly in low-lying *haor* area which is characterized by frequent flash flood. However, with concerted effort of various ministries, special arrangements were made for harvesting paddy in *haor* areas and the loss could be avoided.

At the onset of lockdown, panic buying of people along with procurement of large quantities of relief materials by government and non-government entities shot up the price of some selected items like coarse rice, lentil and potato by an amount as high as 30-50 per cent. The price hike mainly benefitted the wholesalers and retailers as the

products were not in the hands of farmers then.¹⁵ Price of these items became stable by the middle of May when the rushed demand dried up and new harvest compelled the wholesalers to get rid of the old stock.

Among the farmers, vegetables growers were the most hit by Covid-19. Lack of purchasing power in the lower middle income and low-income households and disruption in supply channel reduced demand for vegetables drastically. One can have an idea about the extent of drop in demand for vegetables from the fact that during summer (April-August) usually 8,000-8,500 tonnes of vegetables are supplied to Dhaka city daily, during the lockdown the amount dropped to just 200-300 tonnes.¹⁶ Similar was the situation in other districts. Mahasthan haat of Bogura, a popular vegetables market of Northern Bangladesh, from where vegetables are supplied to different parts of the country including Dhaka, Chattogram and Khulna, saw no buyer from other districts during the first three weeks of April.¹⁷

Drastic fall in demand in turn pulled down the price of vegetables to almost a throwaway level. According to Department of Agricultural Marketing (DAM) officials, during the lockdown, farmers in 26 districts, who produce vegetables commercially, witnessed massive losses as they had to sell their products at 25-50 per cent of production costs due to low demand.¹⁸

Animal farming

Animal farming in Bangladesh has attained great success in the last decade: over the period FY 2009-10 to FY 2018-19, production of egg more than tripled, production of milk quadrupled and meat production increased by six times. As a result, Bangladesh has achieved self-sufficiency in egg and meat while 65 per cent of demand for milk is met locally.¹⁹ Although the contribution of this sub-sector in export is not notable, it plays a very significant role in meeting the nutritional demand of the country.

Animal farming has been hardly hit by Covid-19 pandemic. There are 350,000 cattle farms in Bangladesh, a great majority of which are run by marginal or small farmers in an attempt to supplement their income from crop cultivation. The farms sell more than 80 per cent of their daily produce to local sweetshops, tea-stalls and hotel-restaurants.²⁰ Lockdown closed this market of dairy farms. Government and private milk brands which

¹⁵ BRAC, *Covid-19 Pandemic: Agricultural market failures and implications for food security*, May 2020, p. 6, available at [http://www.brac.net/images/news/2020/24.05.20-Report-Agri-Market-Failure-\(Draft\).pdf](http://www.brac.net/images/news/2020/24.05.20-Report-Agri-Market-Failure-(Draft).pdf), accessed on 08 June 2020.

¹⁶ Ibid.

¹⁷ "Vegetable growers in north count loss as shutdown limits transportation", *The Business Standard*, 19 April 2020.

¹⁸ "Vegetable growers in dire straits", *The Financial Express*, 18 April 2020.

¹⁹ "Enough meat and egg for all now", *The Daily Star*, 19 April 2020.

²⁰ "Local Milk Industry: A Revolution in White", *Dhaka Tribune*, 13 October 2019.

buy 10 per cent of the milk produced also cut their purchase amidst the pandemic. Lack of milk powder producing factories in the country added to their crisis.

According to Bangladesh Dairy Farmers Association (BDFA), due to lockdown more than half of the daily production of milk worth USD6.7 million remained unsold every day.²¹ Maintenance cost of the farm which, in standard practice, is more than USD2.4 per day for a cow yielding 10 litre of milk²², added burden to these farms. At the end of March BDFA apprehended that if the pandemic situation continues, about 50 per cent farm would find it difficult to survive.²³ Situation, however, began to settle down in June and by the end of June, BDFA estimates that the pandemic has caused a loss of USD472.4 million for the sector.²⁴

The impact of the pandemic was equally severe for the poultry sub-sector. Closure of hotel and restaurants, prohibition on wedding and other ceremonies involving mass gathering during the lockdown and low purchasing power caused by economic slowdown led to drastic fall in demand for poultry which in turn created downward pressure on price. According to Bangladesh Poultry Industries Central Council (BPICC), production cost of egg and chicken is 6.5 US cent (BDT5.5)/piece and USD1.12 (BDT95)/kg respectively while in the corona-affected market, they were being sold at 5 US cent (BDT4.20)/piece and 0.7USD (BDT60)/kg, respectively. Still, 60 per cent of egg and 70 per cent of chicken remained unsold. The production cost of pullet is USD0.4 per piece but it was being sold for 1.2-3.6 US cent per piece; still 93 per cent remained unsold.²⁵ In their study, Building Resources Across Communities (BRAC) also found that while price of chicken fell by 12 per cent and 7.5 per cent at wholesale and retail level respectively, at farmer's level it dropped by as high as 44 per cent.²⁶ Sale of poultry feed also declined by 70 per cent.²⁷

As of 30 April 2020, poultry sector of Bangladesh, comprising around 0.1 million farms, lost USD419 million as per the estimate of BPICC. Moreover, faced with massive losses, about 50 per cent of poultry farms and 32 per cent of egg producing farms were shut down by May 2020; as a result, broiler and chick production dropped by more than two third and half respectively.²⁸

²¹ "Corona Virus: Dairy Farms seek govt's immediate support", *Dhaka Tribune*, 25 March 2020.

²² "Dairy Farms hit hard by coronavirus lockdown in Bangladesh", *bdnews24.com*, 13 April 2020.

²³ "Corona Virus: Dairy Farms seek govt's immediate support", *Dhaka Tribune*, op cit.

²⁴ "Dairy farmers suffer Tk 4,000cr loss for Covid-19", *The Daily Star*, 26 June 2020.

²⁵ "Poultry Industry Hit Hard", *The Independent*, 19 April 2020; "Poultry industry estimates losses of Tk 11.50b, seeks govt intervention", *The Financial Express*, 01 April 2020.

²⁶ BRAC, *Covid-19 Pandemic: Agricultural market failures and implications for food security*, op cit., p. 9-10.

²⁷ "Poultry Industry Hit Hard", *The Independent*, op cit.

²⁸ "Poultry production falls alarmingly", *The Business Standard*, 13 May 2020.

Fishery

Fish accounts for almost 60 per cent of intake of animal protein in Bangladesh and over the last three decades, fish production increased over five times, according to the Department of Fisheries. Like meat and egg, the country is now self-sufficient in fish too. A study of International Food Policy Research Institute (IFPRI) found that aquaculture has enabled over two million Bangladeshis to escape poverty during the period 2000-2010. The study identified higher use of farm produced seed fish and floating formulated feed and higher application of chemicals and labour as the causes of growth of this sub-sector.²⁹ At present, of the total fish production, 56 per cent comes from closed-water farms, 28 per cent comes from inland capture and the rest 16 per cent from marine sources.³⁰

Covid-19 pandemic had mixed impact on fish production of Bangladesh. The pandemic led lockdown helped to reduce the pollution of Halda river, the largest natural breeding ground for carp fish. Fish egg collectors hope of a good yield this year but at the same time, they worry that the pandemic might make the sale of fish egg (*roe*) difficult. In fact, hatcheries producing fish eggs are already facing this challenge. In case of Hilsa too, the yield is expected to rise this year due to cancellation of *Pahela Baishakh* (Bengali new year) festival, there was a fall in the catch of Hilsa, which constitutes 12 per cent of the country's total fish production. But whether the fishermen could reap benefit from this delayed catch, would depend on future demand of the market. As of June 2020, disruption in supply channel and reduced demand resulted from the economic slowdown was affecting the fish sale adversely.³¹ According to a study, the pandemic has reduced fish prices by about 20 per cent while the income of the fishermen has almost halved as customers were switching from high value to low value fishes.³² Export of fish also declined by 66 and 46 per cent in April and May, respectively. Fish export, however, revived in June 2020 reaching to 57 million in September 2020.³³

3.1.2 Impact on Manufacturing

The major industries in Bangladesh in terms of share in GDP and employment are: RMG and textile, food products, basic metal (rod and steel) and non-metallic mineral products (cement, ceramic and glass). Other promising industries include pharmaceuticals, leather and footwear and light engineering industry. Impacts of Covid-19 pandemic on these industries are discussed below.

²⁹ "Aquaculture helped over 2m people escape poverty in a decade", *Dhaka Tribune*, 27 October 2019.

³⁰ "Self sufficient in fish, meat", *The Daily Star*, 11 February 2018.

³¹ "Even cheaper Hilsa pulls few customers", *The Business Standard*, 01 April 2020; "More scared of hunger than corona virus" *Prothom Alo*, 11 April 2020.

³² LightCastle, *How has the Covid-19 Pandemic Impacted the Fisheries Sector*, available at <https://www.lightcastlebd.com/insights/2020/06/30/how-has-the-covid-19-pandemic-impacted-the-fisheries-sector>, accessed on 30 June 2020.

³³ Export Promotion Bureau, available at http://epb.gov.bd/site/view/epb_export_data/, accessed on 09 October 2020.

RMGs

RMG, which account for 35 per cent of manufacturing GDP, 55 per cent of manufacturing employment and 84 per cent of goods export of Bangladesh, has been facing a number of challenges over the past few years. On one hand economic downturn in major destination of the country's RMG namely the United States (US), Germany, the United Kingdom (UK) and Italy, created downward pressure on demand; on the other hand factors like gas crisis and devaluation of Euro increased the production cost and price cut by the US and EU buyers further reduced the profit margin.³⁴ According to Bangladesh Garments Manufacturers and Exporters Association (BGMEA), in the last two years, production cost in RMG sector went up by 17 per cent. But what was more concerning for the country's RMG sector was that it was losing ground to its competitors. A variety of factors including deficiency in skilled manpower from worker to management level, need for efficiency, lack of product diversification, compliance issue and currency devaluation by some competitor countries etc. have eroded the competitiveness of Bangladesh's RMG sector which led the buyers to move to other RMG sources, such as Vietnam, India or Pakistan.³⁵

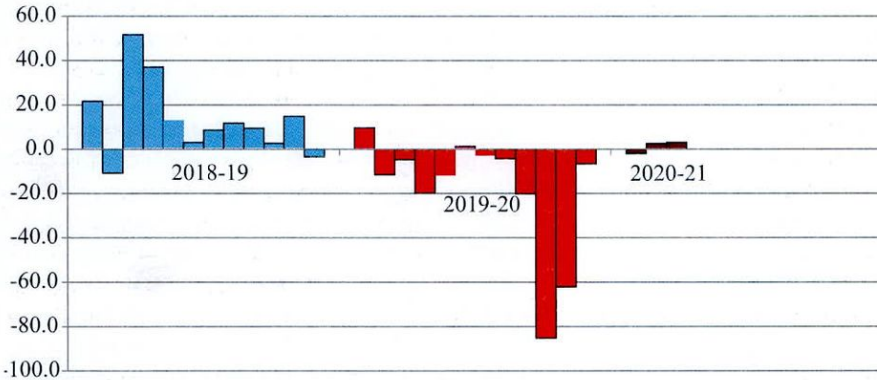
As a result of the factors mentioned above, export performance of Bangladesh's RMG sector was deteriorating. Month-to-month growth rate of RMG export started slowing down in the 2nd quarter of FY 2018-19 and from the beginning of FY 2019-20, it started to register negative growth rate. In November 2019, the BGMEA president informed that a total of 60 factories, which were members of the association, have been closed over the period January 2019 to October 2019 and some 29,594 workers have lost their jobs.³⁶

³⁴ "Global economic slowdown and its impact on Bangladesh RMG sector", *Textile Today*, 05 May 2020.

³⁵ Mohammed Ziaul Haider, "Competitiveness of the Bangladesh Ready-Made Garment Industry in Major International Markets", *Asia-Pacific Trade and Investment Review*, Vol. 3, No.1, June 2007; Md Ridwanul Huq, "Sustaining RMG industry growth", *The Financial Express*, 20 April 2020; Md. Nurul Alam, "3 ways to tackle challenges of Bangladesh RMG sector", *Textile Today*, 05, 28 December 2019.

³⁶ "RMG exports face major setback as more factories shutter", *Dhaka Tribune*, 28 November 2019.

Figure 3.1: Month-to-month Growth Rate of RMG Export, Bangladesh, FY 2018-19 to FY 2020-21³⁷



The Covid-19 pandemic made the situation worse for the RMG sector. Initially, after the Covid-19 outbreak in China in January, it was assumed that it might give Bangladesh's RMG sector an opportunity to revive, as most of the global brands were planning to shift their export orders from China to other RMG manufacturing countries like Bangladesh, Vietnam, India, Indonesia and Cambodia. But this hope faded away soon when the pandemic shifted from China to the developed western countries and major destinations of Bangladesh's RMG including the US, the UK and the EU started to feel the hardest hit by Covid-19. Amidst nationwide lockdown and closure of shops, some of the world's largest brands and retailers started to cancel orders using *force majeure* clauses³⁸.

At the end of March, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) reported that some key retailers had already cancelled order worth USD1.4 billion and suspended additional order worth USD1.8 billion. This includes order worth nearly USD1.3 billion that were already in production or had been completed. If orders for April-December are also considered, the amount of cancelled order stands at USD1.7 billion. Thus, by April 2020 the RMG sector was set to lose more than USD3 billion due to the pandemic.³⁹

³⁷ Export Promotion Bureau, available at http://epb.gov.bd/site/view/epb_export_data/, accessed on 09 October 2020.

³⁸ Force majeure refers to a clause that is included in contracts to remove liability for natural and unavoidable catastrophes that interrupt the expected course of events and prevent participants from fulfilling obligations. Source: Investopedia, available at <https://www.investopedia.com/terms/f/forcemajeure.asp>, accessed on 28 April 2020.

³⁹ "Primark and Matalan among retailers allegedly cancelling £2.4bn orders in 'catastrophic' move for Bangladesh", The Guardian, 2 April 2020, available at <https://www.theguardian.com/global-development/2020/apr/02/fashion-brands-cancellations-of-24bn-orders-catastrophic-for-bangladesh>, accessed on 28 April 2020; "Bangladesh Garment Makers Say \$3 Billion in Orders Lost Due to Coronavirus", TIME, 30 March 2020, available at <https://>

The cancellation and suspension of orders have had repercussions for RMG backward linkage industry too which supply yarn, fabrics, RMG accessories, etc. Thanks to this backward linkage industry that the domestic value added of RMG has grown from 32 per cent in FY 1992 to 60 per cent in FY 2019 and in the process USD20 billion is saved each year.⁴⁰ Of the cancelled and suspended ones, order amounted to USD1.3 billion were already in production or were already completed which means that manufacturers have already incurred costs and remained indebted to all other suppliers from whom they have sourced the raw materials. Cancellation/suspension of order at this stage implies that not only the RMG manufacturers, the backward linkage industries have also been affected. In April 2020, BGMEA and BKMEA estimated that the industry was set to lose USD6 billion in export revenue in that fiscal year. Moreover, they warned that if such cancellation and suspension practice continue, this will pose an existential threat to small and even some medium sized farms.⁴¹

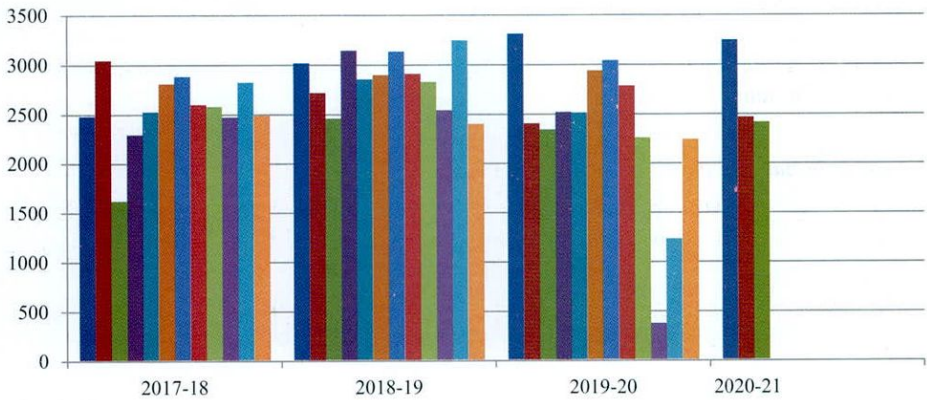
Due to cancellation and suspension of order, RMG export from Bangladesh nosedived to mere USD375 million in April 2020 which means 85 per cent fall on month-to-month basis. In May, export earnings of RMG barely exceeded USD1 billion level which is 62 per cent lower than that of corresponding month of the previous year. In July, RMG export crossed USD3 billion level but it created little room for complacency as a significant part of July's export was due to reinstated order that was cancelled or postponed earlier. Export figures for August and September 2020 show sign of recovery but as can be seen from Figure 3.2, export earnings of the RMG sector in FY 2020-21 is still far away from the level of FY 2018-19. Moreover, uncertainty prevails about the sustainability of recovery as well as about the future growth of the country's RMG sector.

time.com/5812406/bangladesh-garment-manufacturing-coronavirus-losses/, accessed on 28 April 2020.

⁴⁰ Zaidi Sattar, "Deemed exports: Import substitution par excellence", 30 June 2020, available at <http://www.pri-bd.org/economy/deemed-exports-import-substitution-par-excellence/>, accessed on 13 July 2020.

⁴¹ "RMG export order cancellation, suspension race near to \$1.5b", *New Age*, 22 March 2020; "Garment exporter Bangladesh faces \$6b hit", *Prothom Alo*, 02 April 2020, available at <https://en.prothomalo.com/business/local/garment-exporter-bangladesh-faces-6b-hit-as-top-retailers-cancel>, accessed on 17 April 2020.

Figure 3.2: RMG Export from Bangladesh (USD Million) by Month, FY 2017-18 to FY 2020-21⁴²



Amidst worldwide lockdown, fashion brands cancelled or postponed a huge amount of order. Even after lockdown was lifted, with uncertain business environment ahead, they kept dilly dallying in receiving the ordered products and paying for them even though many of them endorsed the Call of Action initiated by ILO.⁴³ By May 2020, 58 per cent of Bangladesh's cancelled orders were reinstated. But many of those who reinstated orders either demanded discount or asked the suppliers to stock until the next season. Not only Bangladesh, suppliers of other countries are also going through similar problems. In a survey conducted by Center for Global Workers' Rights (CGWR) on apparel suppliers of 15 countries, it was found that suppliers are being asked by the brands to accept price lower by 12 per cent than before and they have to wait an average of 77 days for payment compared with 43 days before the pandemic.⁴⁴ Being on the weaker side of negotiation, suppliers have little to do. In the words of a supplier, "There isn't much room to negotiate with brands. They tell us that if we don't agree to their price, they can go to other suppliers." In the CGWR study, the respondent suppliers from Cambodia, Ethiopia, India, Mexico and Vietnam reported that they have already started laying off their workers and if order reductions continue, they might have to reduce their workforce even by one third.⁴⁵ Unfortunately, there is strong apprehension that orders will decline in volume in the coming days.

⁴² Export Promotion Bureau, available at http://epb.gov.bd/site/view/epb_export_data/, accessed on 07 October 2020.

⁴³ International Labour Organization, "COVID-19: Action in the Global Garment Industry", available at https://www.ilo.org/global/topics/coronavirus/sectoral/WCMS_742343/lang-en/index.htm, accessed on 13 October 2020.

⁴⁴ "Fashion victims: Garment workers risk losing jobs during crisis", *ALJAZEERA*, 16 October 2020, available at <https://www.aljazeera.com/economy/2020/10/16/fashion-victims-garment-workers-risk-losing-jobs-during-crisis>, accessed on 20 October 2020.

⁴⁵ Ibid.

To summarize, the pandemic has created further pressure on suppliers of RMG products. Bangladeshi garment producers, who are already under pressure due to competition, will now face even fierce competition as the fashion brands' attempt to shift the burden of the pandemic to the suppliers is likely to strengthen the "race to the bottom" among the suppliers.

Basic Metal and Non-metal Mineral Products

These two important sub-sectors account for 30 per cent of manufacture value added and about 12 per cent of manufacture employment. Steel, cement, glass and ceramic are the major industries under these two sub-sectors. As these industries are complementary in nature, impact of the pandemic on these industries will be considered jointly following a brief review of growth pattern and driving force of specific industries.

Steel

In Bangladesh, there is no integrated steel mill based on blast furnace-basic oxygen-furnace method. Here steel mills process scrap using electric arc and induction furnace and thus add value by transforming them into finished steels. Nevertheless, in the last decade Bangladesh's steel industry made good progress and achieved transition from non-graded to graded and specialized steels in several items. With local production of high quality graded steels, the country is now self-reliant in steel production and for large infrastructural projects, it does not have to depend on imported steel anymore.⁴⁶ For example, Rooppur Nuclear Power Plant and the Padma Bridge are being constructed solely with locally manufactured steel.⁴⁷ However, it can be noted here that nearly 80 per cent of melting scrap, raw material for the steel, is imported from the developed world including Europe, the US, Australia and Japan.⁴⁸

With undertaking of several mega projects by the government, such as Rooppur Nuclear Power Plant, Padma Bridge, Metro Rail Project, etc., steel industry experienced a boom in recent years. In 2018, the industry achieved growth rate of as high as 37.5 per cent. At present government projects account for 35 to 40 per cent of the total steel consumption in Bangladesh, up from 15 per cent a decade ago.⁴⁹ Rapid urbanization along with faster economic development are also contributing to the growth of this industry by increasing private industrial and individual level demand for real estate.

Cement

The nature, growth pattern and driving force of Bangladesh's cement industry are similar to that of steel industry. Depending on import from Thailand, Indonesia,

⁴⁶ EBL Securities Ltd, *Bangladesh Steel Industry: A Comprehensive Review*, 2019, pp. 2-3

⁴⁷ "Bangladesh Steel Industry booming on mega projects", *The Daily Star*, 30 April 2019.

⁴⁸ "Steel rod sector witnesses growth" *The Financial Express*, 25 February 2019.

⁴⁹ "Steel Industry booming on mega projects", *The Daily Star*, op cit.

Malaysia, China and India for about 80 per cent of raw material (cement clinker), cement industry of Bangladesh has achieved capacity almost twice of domestic demand.⁵⁰ Bangladesh has started exporting cement to India and Myanmar and the country is now looking to Sri Lanka and some South African countries for export.⁵¹

Cement is a complementary product for steel and hence growth of the former is concurrent to that of the latter and the underlying driving forces are also same—mega government projects, rapid urbanization and infrastructure development in Dhaka and other major urban areas. In 2018, cement industry saw a 12 per cent rise in sale.

Glass

Glass industry of Bangladesh began to flourish a decade ago when growth of high-rise building and resultant growth in demand for quality glass encouraged some entrepreneurs to invest in this industry. At present, after meeting 95 per cent local demand, Bangladesh also exports glass to neighbouring India, Nepal, Bhutan and Sri Lanka. Although silica, the primary raw material of glass is available in Bangladesh, secondary raw materials (dolomite, limestone etc.) have to be imported from India, Nepal and Bhutan. In the last three years, building boom in Bangladesh further provided impetus to growth of this industry.⁵²

Ceramic

Ceramic is another flourishing industry of Bangladesh which experienced 200 per cent growth in production in the last five years. This growth momentum was the result of growth in real estate sector and change in living standard.⁵³ Three main products of ceramic industry are tiles, tableware and sanitary ware. Bangladesh can now meet 77 per cent demand of tiles and 97 per cent demand of tableware locally.⁵⁴ The country now exports tableware to more than 50 countries and is looking to export of tiles and sanitary ware.⁵⁵ Low labour cost, good quality and a rich source of Liquefied Natural Gas (LNG) required for the production of ceramics gives Bangladesh an edge over traditional manufacturers across the globe and helped the industry to grow despite the fact that 95 per cent of the raw material for this industry has to be imported from China, India, Spain and Turkey.⁵⁶

⁵⁰ EBL Securities Ltd., *Cement Industry of Bangladesh*, September 2017, p. 2.

⁵¹ Emerging Credit Rating Ltd., *Cement Industry of Bangladesh*, pp. 2-3.

⁵² “Local demand for fancy glass curbs exports”, *The Daily Star*, 11 August 2010; “Glass industry meets 95pc local demand”, *The Daily Star*, 26 June 2008.

⁵³ “An overview of Bangladesh’s Ceramic Industry”, *The Daily Star*, 30 November 2017.

⁵⁴ “Tiles manufacturing industry expands over the years”, *The Financial Express*, 25 February 2019; “An overview of Bangladesh’s Ceramic Industry”, *The Daily Star*, op cit.

⁵⁵ “By 2024, the ceramic industry will be the third-largest export sector in Bangladesh”, *The Business Standard*, 06 December 2019.

⁵⁶ Nusrat Jahan, “Ceramic Industry of Bangladesh: A Perspective from Porter’s Five Forces Model”, *Journal of Business and Technology*, Vol. V, Issue 2, July-December 2010; “Tiles manufacturing industry expands over the years”, *The Financial Express*, op cit.

Impact of the Pandemic

Among the industries described above, two industries namely steel and cement are related to construction and their recent spectacular growth is heavily dependent on government infrastructure development projects including the mega construction projects like Padma Bridge and Metro Rail. Lockdown at global and international level slowed the pace of the mega projects.⁵⁷ Shutdown or slowdown of most of the government and non-government projects along with stagnation in private construction during the two months long lockdown, dealt a heavy blow to steel, cement and ceramic industries.

According to Bangladesh Steel Manufacturers Association (BSMA), during lockdown production and sales of the country's steel industry reduced to below 40 per cent against the expectation.⁵⁸ Bangladesh Bureau of Statistics (BBS) also found the production of rod to reduce to 56,000 ton for the period April to June of 2020 which was over 100,000 ton in the corresponding period of the previous year.⁵⁹ Steel production started to pick-up in the following months mainly due to resumption of the government projects. In private sector, increase in construction in rural areas as a result of increased remittance inflow and the return of expatriates with their savings also helped the recovery of construction sector along with the complementary industries like steel and cement. Although the industry insiders are hopeful about recovery by 6-12 months,⁶⁰ uncertainty remains in private sector demand.

Similar was the case with cement industry. Sale of cement collapsed to 30 per cent of the pre-COVID level in April. Situation improved marginally in the following months with sales level reaching 40 per cent and 50 per cent of the pre-Covid level in May and June, respectively.⁶¹ Due to the pandemic led decline, growth rate of cement industry is expected to fall to 3-6 per cent in FY 2019-20 as compared to 10-12 per cent before.⁶² Like steel, cement industry also started to recover since June 2020.

Steel, cement, glass and ceramic—all four industries heavily depend on import for raw materials which make these sectors susceptible to disruption in supply of raw material. The case of steel can be mentioned here. As mentioned before, 90 per cent of scrap metal, the raw material of steel industry are imported from the US, Canada, Italy, the UK and Australia. All these countries went under lockdown resulting in drying up of

⁵⁷ *Prothom Alo*, 19 April 2020, available at <https://www.prothomalo.com/bangladesh/article/1651698/>, accessed on 07 May 2020.

⁵⁸ “Steelmakers place 8-point demand ahead of national budget to recover COVID-19 losses”, *UNB*, 08 June 2020.

⁵⁹ *Prothom Alo*, 18 October 2020.

⁶⁰ IDLC Monthly Business Review, available at <https://idlc.com/mbr/article.php?id=339>, accessed on 05 October 2020.

⁶¹ *LightCastle*, *Bangladesh Cement Industry: Optimistic Despite Challenges*, 14 October 2020, available at <https://www.lightcastlebd.com/insights/2020/10/14/bangladesh-cement-industry-optimistic-despite-challenges>, accessed on 20 October 2020.

⁶² *Ibid*.

the supply of raw materials and consequent shut down of melting plants one after another in Bangladesh in March.⁶³ Not only scrap metal, steel manufacturers were also unable to import capital machinery from China in the period of lockdown there. Situation was more or less similar for other two industries.

Pharmaceuticals

Pharmaceutical industry of Bangladesh began to evolve in early 1980s. After four decades of its journey, the sector is now meeting 98 per cent of local demand beating the multinational companies who once dominated the domestic market. Although at present export sales contribute only 4.3 per cent of pharmaceuticals market, Bangladesh's pharmaceutical industry is believed to have significant potentials to become an important global manufacturer of pharmaceuticals after China, India, Brazil and Russia.⁶⁴

Despite the success, one major drawback of Bangladesh's pharmaceutical industry is lack of a strong backward linkage industry including the Active Pharmaceutical Ingredients (API) which is now being imported from China and India. Recently, however, initiative has been taken to set the country's first API industry in Munshiganj. Lack of adequate testing facilities, especially absence of a bio-equivalence centre is considered as another major impediment to the growth of pharmaceutical export.

Impact of the pandemic on domestic market of pharmaceutical industry was mixed. At the outset of the pandemic, due to unpreparedness of the healthcare sector and high level of public concern about the disease, healthcare system for non-Covid diseases was highly disrupted which in turn reduced demand for general medicine. This led to a 20-30 per cent fall in the sale of all pharmaceutical companies in the month of April and the companies feared for further fall in May.⁶⁵ Later on, with better adaptation with the pandemic, the course of the pharmaceutical sector of the country changed and for the period April-June 2020, the sector registered 25 per cent growth.⁶⁶

The country's pharmaceuticals export had a good start in FY 2019-20 but in the second half of the fiscal year, it experienced a gradual decline. In April and May 2020, the month-to-month growth rate of pharmaceuticals export declined by about one third resulting in a growth rate of 4.5 per cent for FY 2019-20 compared to 16 per cent in FY 2017-18 and 26 per cent in FY 2018-19. Export, however, rebounded in June 2020.

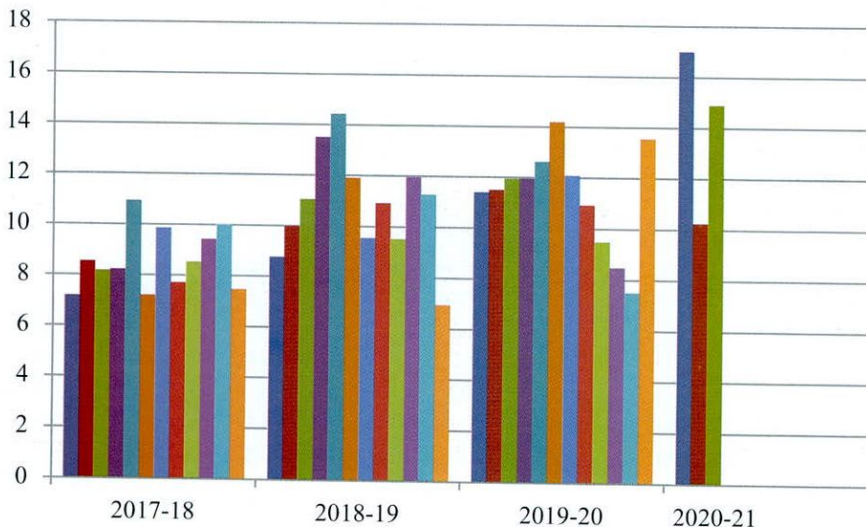
⁶³ "The owes of the construction sector and its ancilliary industries", *Dhaka Tribune*, 21 April 2020.

⁶⁴ Md. Nazim Uddin Bhuiyan, Md. Abdul Hakim and Md. FakhruAlam, op cit.

⁶⁵ "A virus that even eats into pharma sector", *The Business Standard*, op.cit.

⁶⁶ *Prothom Alo*, 18 October 2020.

Figure 3.3: Pharmaceuticals Export from Bangladesh (USD Million) by Month, FY 2017-18 to FY 2020-21⁶⁷



Critical dependence on China and India for about 70 per cent of the raw materials appeared as a risk at the time of pandemic. The pandemic halted import of pharmaceutical raw materials from China while in the first week of March, India restricted export of 13 APIs and their formulations to ensure that there would be no shortage in their domestic market. However, after China recovered from the pandemic, supply from there eased and later India also lifted the ban. If there is further hiccup in the supply or API, it may cause shortage or raise price of raw material for Bangladesh's pharmaceutical industries.⁶⁸

Leather and Leather Products

With its high reputation for good quality of leather, Bangladesh's leather and footwear industry is considered to be a promising industry for diversifying manufacture and export base as well as for achieving sustainable growth in export. The industry has strong backward linkage with mostly locally sourced raw material allowing as high as 80 per cent domestic value addition. In Seventh Five Year Plan of Bangladesh, annual export of leather and footwear industry was supposed to grow at the rate of 9 to 16 per cent. But due to compliance issue and the crisis created during relocation of leather industries to Savar Leather Industrial Park in 2017, export of leather and leather goods (except footwear) declined in the following years. In FY 2017-18 and FY 2018-19,

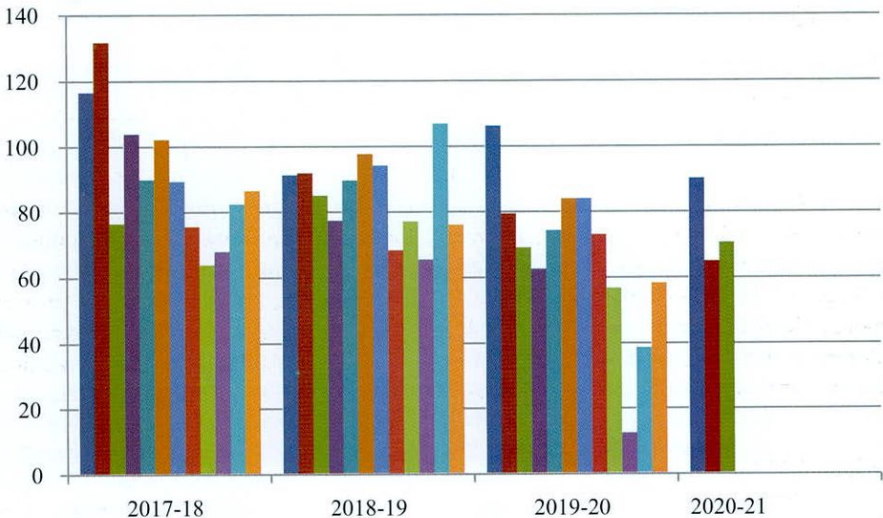
⁶⁷ Export Promotion Bureau, available at http://epb.gov.bd/site/view/epb_export_data/-, accessed on 07 October 2020.

⁶⁸ "Pharma industry braces for raw material crisis", *The Business Standard*, 11 March 2020.

export from leather and leather goods further declined by 12 per cent and 6 per cent respectively.⁶⁹

Amidst pandemic led lockdown throughout countries, the declining trend of leather and leather goods export further strengthened. Like in other industries, April and May of 2020 saw the sharpest fall in export—81 and 64 per cent respectively, leading to a 21 per cent decline in year-on-year growth rate for FY 2019-20. With uncertain future of global business ahead, it is most likely that Covid-19 pandemic would delay the recovery of leather and leather goods sector, if it recovers at all. Given that local market consumes only 20-25 per cent of the country's leather production, it is a serious concern for the industry.

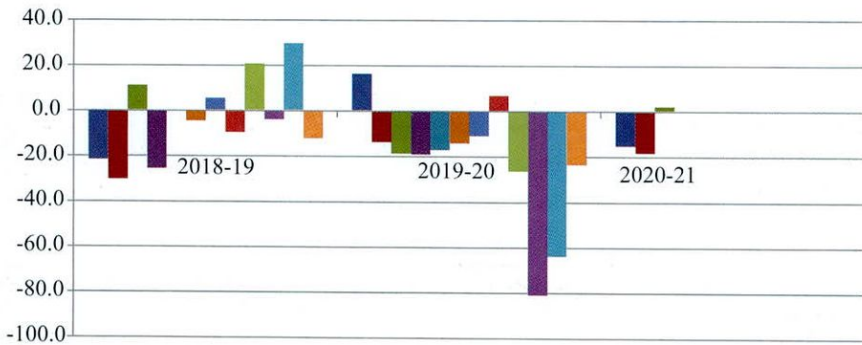
Figure 3.4: Export of Leather and Leather Products from Bangladesh (USD Million) by Month, FY 2017-18 to FY 2020-21⁷⁰



⁶⁹ “Export Earnings to leather industry continue to fall”, *Dhaka Tribune*, 6 July 2019.

⁷⁰ Export Promotion Bureau of Bangladesh, available at http://epb.gov.bd/site/view/epb_export_data/, accessed on 07 October 2020.

Figure 3.5: Month-to-month Growth Rate of Leather and Leather Product Export, Bangladesh, FY 2018-19 to FY 2020-21⁷¹



3.1.3 Impact on Service

Construction and Real Estate

In recent years, construction has been one of the driving forces of Bangladesh economy. Continued urbanization and rising government expenditure in infrastructure development have been the driving force of this sector. Especially the ongoing mega projects of government gave a boost to construction in recent years.

In Bangladesh, for several reasons, construction work usually gains highest speed in the last quarter of fiscal year. Unfortunately, the Covid-19 pandemic hit the country in the last quarter of FY 2019-20 stalling construction works throughout the country. Five out of ten public mega projects were halted during the lockdown while the rest were slowed down.⁷² The sector however started to rebound by June thanks to resumption of government projects and continued remittance inflow to the rural areas.⁷³ Situation was comparatively difficult for the real estate sector. Even though the government lifted lockdown at the end of May, till June 2020, 50-60 per cent projects remained stalled.⁷⁴

For both construction and real estate sector, concern remains about the future of private sector demand. In urban area, future private demand for these two sectors will depend on the revival of businesses, the extent and speed of which is still uncertain. In rural area, future of demand for construction seems to be bleak amidst the uncertainty over the future of overseas employment and

⁷¹ Ibid.

⁷² Prothom Alo, 19 April 2020.

⁷³ "Cement industry rebounds", *The Business Standard*, 25 September 2020.

⁷⁴ "As construction industry hibernates, workers struggle to survive", *The Business Standard*, 07 July 2020.

remittance inflow. Thus, construction and real estate sector remain to be in risk at least partially.

Trade

Trade was severely hit by the lockdown which was imposed all over the country to check the mass transmission of Covid-19. Except those dealing with foods, medicine and essentials, all the shops and markets were mostly closed. Even businesses which were out of the scope of lockdown suffered from drastic fall in demand induced by fall in income and fear of pandemic. The stagnation in trade continued even after lifting of lockdown.⁷⁵

The pandemic came as a heavy blow for the trade sector which involve around 5.7 million traders and 12 million employees as they missed the business of *Pahela Baishakh* and *Eid-ul-Fitr*, the two occasions when their annual sales peak. Even though shopping centres were open during *Eid-ul-Adha*, businesses could not make even 10 per cent of the previous year's profit, according to the president of Bangladesh Shop Owners Association.⁷⁶

A survey carried out by the International Finance Corporation (IFC) and the World Bank between June and August 2020 found that fashion and clothing businesses witnessed a 65 per cent decline in their sales and over one third of them had to close their businesses.⁷⁷ During the survey, 49 per cent of micro firms and 40 per cent of small firms reported that they did not have adequate liquidity to sustain for the next three months.⁷⁸ The figures are suggestive of a dire situation of trade sector in particular and Micro, Small and Medium Enterprises (MSMEs) in general. Experts draw attention to the fact that thousands of micro, small and medium traders had to spend from their capital to run their families during the pandemic time. If they are not supported with credit, businesses of great many would not see the light again.

Transport

Another sector hard hit by the pandemic was transport. During the lockdown all vehicles were barred from running except those engaged in transport of foods, drugs and other essential commodities. Due to lockdown practice worldwide, export and import activities also reduced significantly. Mass transport was banned; with reduced export import activity, commodity transport also reduced significantly. After the lockdown was lifted at the end of May 2020, the government restricted the number of passengers of mass transport to half of capacity to ensure social distancing

⁷⁵ For example, as of mid-August, 20 per cent of shops remained closed in Khulna. See, "Pandemic leaves 20,000 people jobless in Khulna city alone", *The Financial Express*, 14 August 2020.

⁷⁶ "Pandemic pushes BD small businesses to the brink", *The Financial Express*, 08 August 2020.

⁷⁷ "Covid-19 impact: Micro, small, medium enterprises in dire straits", *Dhaka Tribune*, 20 October 2020.

⁷⁸ "37pc employees in small businesses lost jobs: survey", *The Daily Star*, 21 October 2020.

but amidst the pandemic situation, the vehicles found it difficult to fill up even half of the seats.

There are 40,000 vehicles in Dhaka only including bus, truck and three-wheelers, which employ around 1,50,000 workers.⁷⁹ In total, the sector involves 4 million workers and 1 million stakeholders. According to Bangladesh Road Transport Owners' Association, during the lockdown, the sector lost USD59 million per day.⁸⁰ Civil Aviation authority also reported a loss of USD63.7 million in the first eight months of 2020. Even after the lift of lockdown at home and abroad, the number of passengers remains to be 40 per cent of pre-pandemic time.⁸¹

Hotel and Tourism

Hotel and tourism sector was also severely affected by the pandemic. Even before the onset of the Covid-19 pandemic in Bangladesh, hotel and tourism sector was feeling the chill of the pandemic. In February, when Covid-19 was spreading in China, Bangladesh saw a fall by 40-45 per cent in its tourism and hospitality sector with growing cancellation of tours by foreign tourists. Tour Operators Association of Bangladesh (TOAB) forecasts that the tourism sector of Bangladesh, which includes tour operators, travel agents, hotels, motels, resorts, etc., would incur a loss of around USD67.3 million due to the outbreak of Covid-19⁸² while according to Pacific Asia Travel Association (PATA) Bangladesh Chapter, the loss will reach to USD2.12 billion if domestic tourism is included.⁸³

Table 3 summarizes the impact of Covid-19 pandemic on Bangladesh Economy. In agriculture, animal farming was hit most severely. In manufacture, all major industries have been affected badly which include RMG, steel, cement, ceramic, glass, pharmaceuticals and leather industries. All major services sectors such as construction, wholesale and retail trade, transport, restaurant, hotel and tourism also faced similar consequence. In total, the severely affected sub-sectors in agriculture, industry and service comprise 60 per cent of the country's GDP and 48.6 per cent of the country's employment. The short run impact of the pandemic is thus quite obvious.

RMG and textile which jointly account for 12 per cent of GDP and 10 per cent of employed people seems to take time to return to track, if they return at all. The future of animal farming, cement and steel industries, construction, trade, transport, hotel and restaurant, comprising another 32 per cent of GDP and 23 per cent of employed person would also remain uncertain. Thus, in the medium run too, economic sectors involving 44 per cent of GDP and 33 per cent of employed people are likely to continue to suffer.

⁷⁹ "Coronavirus: Transport workers unable to bear shutdown impacts", *UNB*, 18 April 2020.

⁸⁰ "50 lakh truck, bus workers lose their way", *The Business Standard*, 18 April 2020.

⁸¹ *Prothom Alo*, 25 October 2020.

⁸² "Tourism sector to lose Tk5,700cr because of Covid-19: Toab", *The Business Standard*, 06 April 2020.

⁸³ *Prothom Alo*, 27 September 2020.

Table 3.1: Summary of Impact of Covid-19 Pandemic on Bangladesh Economy

Sector	% Share in GDP at Constant Price, 2018-19	% Share in Employed Population Aged 15 and Above	Probable Magnitude of Impact during Pandemic	Probable Magnitude of Impact after Pandemic
I. Agriculture, forestry and fishing	13.61	40.6		
a) Crops and horticulture	7.05		<p>Mild-moderate (Vegetables farmers of 26 districts had to sell their products at 25-50 per cent of the production costs during lockdown)</p> <p>Channel:</p> <ul style="list-style-type: none"> • Lack of movement of labour • Disruption in supply channel (particularly for fruits and vegetables) 	<p>Mild</p> <p>Channel</p> <ul style="list-style-type: none"> • Loss of farm and non-farm income of producers during pandemic • Reduced demand level due to reduced income level in general
b) Animal farming	1.47		<p>Severe</p> <p>Dairy: Loss of USD472.4 million by the end of June (Source: Bangladesh Dairy Farmers' Association)</p> <p>Poultry: USD419 million as of 30 April (Source: Bangladesh Poultry Industries Central Council)</p> <p>Channel:</p> <ul style="list-style-type: none"> • Closure of restaurants and sweet-shops (Dairy) • Disruption in supply channel (Poultry) • Reduced demand (poultry) 	<p>Moderate</p> <p>Channel</p> <ul style="list-style-type: none"> • Reduced income of producers caused by loss during pandemic • Reduced demand level due to reduced income level in general

Sector	% Share in GDP at Constant Price, 2018-19	% Share in Employed Population Aged 15 and Above	Probable Magnitude of Impact during Pandemic	Probable Magnitude of Impact after Pandemic
c) forest and related service	1.58			
d) Fishing	3.5		Moderate Channel: <ul style="list-style-type: none"> • Disrupted supply channel • Reduced demand and price due to economic slowdown 	Moderate Channel <ul style="list-style-type: none"> • Reduced income of producers caused by loss during pandemic • Reduced demand level due to reduced income level in general
2. Mining and Quarrying	1.77	0.2		
3. Manufacturing	24.21	14.4		
a) RMG	8.61876	7.9344	Severe USD3 billion order cancelled or suspended Channel: <ul style="list-style-type: none"> • Lockdown at destination country • Lockdown at home 	Severe Channel: <ul style="list-style-type: none"> • Loss of producers incurred during the pandemic • Loss of buyers incurred during the pandemic • Reduced demand at destination country • Disruption in production and supply channel at home. • Buyers change source due to pandemic situation in Bangladesh • Loss in competitiveness
b) Textile	3.53466	2.3184		

Sector	% Share in GDP at Constant Price, 2018-19	% Share in Employed Population Aged 15 and Above	Probable Magnitude of Impact during Pandemic	Probable Magnitude of Impact after Pandemic
c) Basic metal (steel industry)	3.36519	0.3456	<p>Severe</p> <p>Production almost halved during the period April-June (Source: Bangladesh Bureau of Statistics)</p> <p>Channel:</p> <ul style="list-style-type: none"> • Halt in construction due to lockdown at home. • Disruption in supply of raw material from abroad due to lockdown at source country. 	<p>Moderate-severe</p> <p>Channel:</p> <ul style="list-style-type: none"> • Halt/slow pace in government projects. • Reduced private demand for construction due to economic slowdown caused by pandemic.
e) Non-metallic mineral products (cement, ceramic, glass, etc.)	1.71891	1.3536	<p>Severe</p> <p>Cement: Daily sale reduced by 75% during lockdown (Source: Bangladesh Cement Manufacturers Association)</p> <p>Channel:</p> <ul style="list-style-type: none"> • Halt in construction due to lockdown at home. 	<p>Moderate-severe</p> <p>Channel:</p> <ul style="list-style-type: none"> • Halt/slow pace in government projects. • Reduced private demand for construction due to economic slowdown caused by pandemic.
f) Computer, electronic and optical products and electrical equipment	0.79893	0.1728		

Sector	% Share in GDP at Constant Price, 2018-19	% Share in Employed Population Aged 15 and Above	Probable Magnitude of Impact during Pandemic	Probable Magnitude of Impact after Pandemic
g) Leather and footwear	0.33894	0.144	Severe Export fell by 81 and 64 per cent in April and May, respectively	
h) Pharmaceuticals	0.53262	0.2016	Mild Sales reduced by 20-30 per cent in April but recovered later on Channel: <ul style="list-style-type: none"> • Obstruction in patients' getting treatment. • Deferment of non-emergency treatment by patients themselves • Reduced household income • Disruption in supply of raw material 	Mild or moderate Channel: <ul style="list-style-type: none"> • Reduced household income • Disruption in supply of raw material
i) Others	2.61468	0.1584		
4. Electricity, gas and water supply	1.57	0.2		
5. Construction	7.59	5.6	Severe Till June 2020, 50-60 per cent projects remained stalled Channel: <ul style="list-style-type: none"> • Halt in private and public construction due to nationwide lockdown. • Production crisis in ancillary industries due to shortage of raw material 	Moderate-severe Channel: <ul style="list-style-type: none"> • Halt/slow pace in government projects. • Reduced private demand for construction due to economic slowdown caused by pandemic.

Sector	% Share in GDP at Constant Price, 2018-19	% Share in Employed Population Aged 15 and Above	Probable Magnitude of Impact during Pandemic	Probable Magnitude of Impact after Pandemic
6. Wholesale and retail trade	13.88	14.2	Severe 83 per cent farms incurred losses. Average revenue of farms dropped by 55 per cent Channel: Country wide lockdown	Moderate Channel <ul style="list-style-type: none"> Loss of income of business proprietors during pandemic Reduced demand level due to reduced income level in general
7. Hotel and restaurant	0.74	1.9	Severe USD2.12 billion (Pacific Asia Travel Association) Channel: <ul style="list-style-type: none"> Country wide lockdown World-wide lockdown 	Moderate Channel <ul style="list-style-type: none"> Reduced domestic demand due to reduced income level Reduced confidence of foreign tourists if pandemic cannot be controlled well in Bangladesh.
8. Transportation, storage and communication	10.98	8.9	Severe USD59 million per day during the period of lockdown (Bangladesh Road Transport Owners' Association) Channel: Country wide lockdown	Mild-moderate Channel <ul style="list-style-type: none"> Reduced export-import activity caused by economic slowdown abroad. Reduced demand level due to loss in business and reduction in production at local level.
a) Land transport	7	8.6		
b) Water transport	0.68			
c) Air transport	0.1			

Sector	% Share in GDP at Constant Price, 2018-19	% Share in Employed Population Aged 15 and Above	Probable Magnitude of Impact during Pandemic	Probable Magnitude of Impact after Pandemic
d) Support transport service, storage	0.63			
e) Post and telecommunication	2.56			
9. Financial intermediations	3.45	1.7		
10. Real estate, renting and business activities	6.13	0.2	no impact	Mild Channel: • Reduced demand in private housing due to reduced income level.
11. Public administration and defense	3.65	1.6	no impact	no impact
12. Education	2.42	3.6		
13. Health and social works	1.85	0.1		
14. Community, social and personal services	8.16	6.1	Severe Channel: Nation-wide lockdown	Moderate Channel: Reduced income level
Total	100	100		

3.2 Impact on External Sector

Export and Import

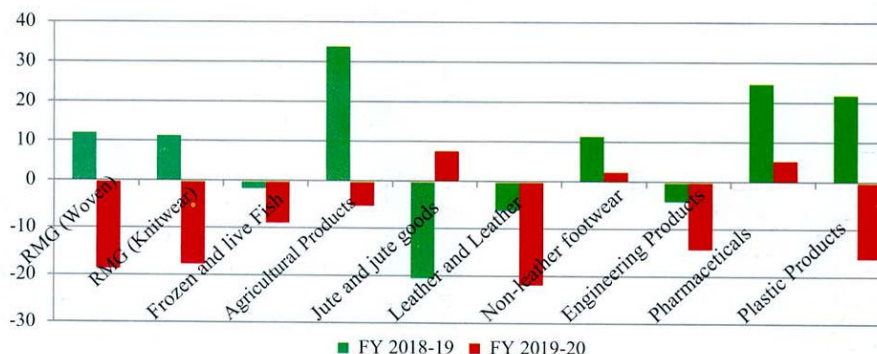
Amidst shrinking global trade caused by the pandemic, export was naturally expected to be hit hard. FY 2019-20 was a bad year for Bangladesh's export. With cancelled and deferred order worth USD3 billion, RMG export saw a steep decline in FY 2019-20, so did the total export.

Table 3.2: Yearly Growth Rate of Export by Product, Bangladesh, FY 2018-19 and FY 2019-20⁸⁴

Industry	% Share in Total Export 2018-19	% Growth in FY 2018-19	% Growth in FY 2019-20
RMG (woven)	42.2	11.79	-18.58
RMG (Knitwear)	41.7	11.19	-17.65
Frozen and live fish	1.2	-1.58	-8.84
Agricultural products	2.2	34.92	-5.16
Jute and jute goods	2.04	-20.41	8.1
Leather and leather products	2.5	-6.06	-21.79
Non-leather footwear	0.6	11.24	2.06
Engineering products	0.8	-4.12	-14.18
Pharmaceuticals	0.3	25.6	4.49
Plastic products	0.3	21.65	-16.09
Total Export		10.54	-16.9

⁸⁴ Export Promotion Bureau, op cit.

Figure 3.6: Yearly Growth Rate of Export by Product, Bangladesh, FY 2018-19 and FY 2019-20⁸⁵



A closer inspection, however, suggest that the country's export was facing a bad time well before the Covid-19 pandemic. Tables 3.2 and 3.3 show that in the very first quarter of FY 2019-20, RMG posted negative growth and the trend continued throughout the fiscal year. Two other major export items leather and leather footwear and engineering products registered negative growth in FY 2018-19 and the trend deteriorated in FY 2019-20. RMG and leather and leather goods export registered negative growth in 10 out of 12 months in FY 2019-20. The performance of frozen and live fish export was not much better. Though pharmaceuticals and agricultural products started the fiscal year with a positive growth rate at 26 and 35 per cent respectively, export performance of these products remained wavering throughout the year. Amidst the gloomy export scenario of FY 2019-20, only promising item was jute and jute goods, which saw negative growth in FY 2018-19 but revived significantly in the next year, posting positive growth rate in nine out of twelve months.

⁸⁵ Ibid.

Table 3.3: Month-to-month Growth Rate of Export by Product, Bangladesh, FY 2019-20⁸⁶

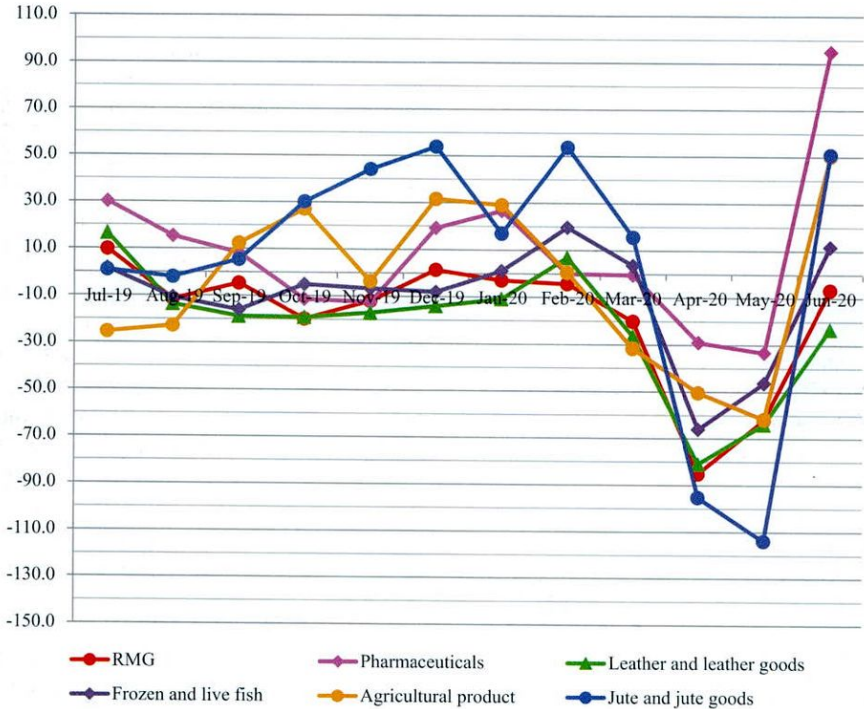
	RMG	Pharmaceuticals	Leather and Leather Goods	Frozen and Live Fish	Agricultural Product	Jute and Jute Goods	Total Export
July 2019	9.7	30.0	16.4	1.5	-25.4	0.8	8.5
August 2019	-11.5	15.2	-13.6	-10.8	-22.9	-2.1	-11.5
September 2019	-4.7	8.1	-18.8	-16.1	12.3	5.3	-7.3
October 2019	-19.8	-11.5	-19.1	-5.0	27.1	30.1	-17.2
November 2019	-12.0	-12.5	-17.1	-6.8	-3.6	44.1	-10.7
December 2019	1.3	19.1	-14.0	-8.0	31.5	53.8	2.9
January 2020	-3.0	26.6	-10.9	1.0	29.1	16.9	-1.7
February 2020	-4.3	0.0	6.9	19.6	0.5	53.7	-1.8
March 2020	-20.1	-0.4	-26.5	3.6	-31.7	15.5	-18.2
April 2020	-85.2	-29.0	-81.0	-66.1	-50.4	-95.3	-82.9
May 2020	-62.1	-33.4	-64.0	-46.3	-61.7	-113.9	-61.6
June 2020	-6.6	94.8	-23.4	11.7	50.3	50.8	-2.5

Following the plunge in the months of April and May, all export items more or less rebounded in June 2020, but this could bring little comfort for Bangladesh as its prime export item RMG is still far from the level in previous years due to uncertainty business environment in the face of a probable second wave of the pandemic.

One can notice that the three sectors that performed well prior to the pandemic, namely pharmaceuticals, agricultural products and jute and jute goods, led the post pandemic recovery of export. The over-all good performance of jute and jute goods prior to and during pandemic demands more attention to this sector in the post pandemic period. On the same account, pharmaceuticals and agricultural products also deserve attention. At the same time, the bad performances of other important export items prior to the pandemic should be inquired to find out their structural weaknesses and address them.

⁸⁶ Ibid.

Figure 3.7: Month-to-month Growth Rate of Export by Product, Bangladesh, FY 2019-20⁸⁷



Capital machineries constitute a significant part of Bangladesh's import. Being the producer of 50 per cent of manufacture goods, RMG sector is naturally the largest importer of capital machineries in the country. It is therefore not surprising that in the first nine months of FY 2019-20, when RMG export shrank by 7.12 per cent, import also fell by 4.4 per cent. Amidst the negative impacts of Covid-19 pandemic on the country's external sector, one zone of comfort was falling price of oil which helped to reduce import cost further and improve the balance of payment situation thereby.

⁸⁷ Ibid.

Overseas Employment

The pandemic is likely to have three major consequences for overseas employment of Bangladesh. First, oil is the life line of Middle East economy, the major source of Bangladesh's remittance. Price war between Saudi Arabia and Russia was already putting downward pressure on oil price. Covid-19 pandemic made the situation worse. Due to lockdown imposed by countries all over the world, global oil market faced unprecedented demand shock on one hand, and on the other hand, global storage capacity depleted rapidly creating further down-ward pressure on oil price.⁸⁸ Fall in oil price is likely to create pressure on the economies of the Middle East leading to loss of jobs and incomes of Bangladeshi expatriates.

Second, even before the corona pandemic, Bangladeshi migrants were being deported by some major destination countries, especially by Saudi Arabia, in their pursuit of replacing migrant workforce with local ones, a practice called "localization of jobs".⁸⁹ Covid-19 pandemic, through reduction in oil price and resultant economic slow-down, may strengthen the practice of "localization of jobs". Within first week of May 2020, a total of 29,000 Bangladeshi expatriates in the Middle East lost their jobs. Some apprehend that under the new situation, Saudi Arabia may deport as many as one million Bangladeshi migrant workers.⁹⁰ While there may be doubt about the magnitude of probable deportation from Saudi Arabia, in reality over the period 01 April-30 August, as many as 95,062 overseas Bangladeshi workers have returned to Bangladesh from 26 different countries after losing their jobs, according to the information from expatriate welfare desk at Hazrat Shahjalal International Airport.⁹¹

Third, the pandemic on one hand led to deportation or returning flow of expatriates, on the other hand it totally stopped the outflow of overseas employment due to the lockdown imposed in destination countries. During April-June 2020, none could leave for overseas employment while over the period July-August 2020, only 178 could leave.

Remittance

In FY 2019-20 remittance was the brightest among the country's macroeconomic indicators. Remittance inflow registered a rise from the beginning of 2019, in continuation of the rising trend in 2018, as a result of devaluation of Taka against US dollar. Remittance reached to USD1.75 billion in May 2019, the highest amount till then. To further

⁸⁸ "Oil prices fall to 17-year low as Saudi Arabia-Russia standoff continues, coronavirus hits demand", *CNBC News*, available at <https://www.cnbc.com/2020/03/30/oil-falls-amid-saudi-arabia-russia-price-war-coronavirus-hits-demand.html>, accessed on 14 April 2020; "Oil prices fall as coronavirus spreads outside China", *AP News*, available at <https://apnews.com/6449ec1c2eb460366853dd3e799dd877>, accessed on 15 October 2020.

⁸⁹ Benuka Ferdousi, "Localization of Jobs in the GCC Region: Implications for Bangladesh", *BIISS Journal*, Vol. 40, No.1, January 2018.

⁹⁰ "Bangladeshi migrants in KSA: 10 lakh face deportation", *The Daily Star*, 20 April 2020.

⁹¹ *Prothom Alo*, 31 August 2020.

encourage the expatriates to send money through the legal channel, the government announced 2 per cent incentives for remittance receipts in the national budget for FY 2019-20 which was enacted from August 2019. Responding to this incentive as well as to continued depreciation of Taka, remittance soared for four months in a row and at the end of the calendar year 2019, annual remittance reached 18.32 billion, the highest till then.

Growing trend of remittance continued in January 2020 but the pandemic put a brake thereafter. With onset of the pandemic, destination countries of Bangladeshi expatriates also went under lockdown which led to job loss or salary cut of migrant workers in a large scale. Remittance reduced to USD1,276 million in March and then further to USD1,092 million in April which was the lowest in 15 months. Interestingly, remittance started to rise thereafter reaching to a record high USD2,598 million in July. The following two months also saw remittance inflow of around USD2 billion.

Table 3.4: Overseas Employment and Remittance Inflow, Bangladesh, FY 2019-20 to FY 2020-21⁹²

Month	Number of Persons Left for Overseas Employment	Remittance (USD Million)
July 2019	55,307	1,597
August 2019	35,825	1,444
September 2019	56,742	1,476
October 2019	78,186	1,641
November 2019	62,339	1,555
December 2019	60,961	1,691
January 2020	69,988	1,638
February 2020	59,139	1,452
March 2020	52,091	1,276
April 2020	0	1,092
May 2020	0	1,504
June 2020	0	1,823
July 2020	5	2,598
August 2020	50	1,963
September 2020	123	2,151

The spectacular rise of remittance amidst complete cease in overseas employment associated with large scale returning flow and job losses and job cuts in destination countries has aroused curiosity. There can be several explanations of this peculiar situation. First, perhaps a good number of expatriate workers have lost jobs and are fearing deportation; hence they are remitting their total savings before returning for good. Second, perhaps the expatriates are remitting more money to support their left behind families at the time of economic crisis. Third, lockdown in origin and destination countries may have made informal transfer more difficult than before which have

⁹² Bangladesh Bank, *Economic Trend October 2020*, Dhaka: Bangladesh Bank, 2020, p. 83.

encouraged the expatriates to send money through legal channels and hence the count of remittance has increased. Without further investigation, there is no way to be sure about the exact reasons but so far, there is little possibility that the sudden rise in remittance will sustain and hence there is little room to be complacent about it.

3.3 Impact on Employment, Income and Poverty

All the major sub-sectors of Bangladesh economy, except crop agriculture have been severely affected by the pandemic. The pandemic hit the 350,000 dairy farms,⁹³ 70 per cent of which are run by smallholders⁹⁴; it hit the 0.1 million poultry farms, a significant part of which are small farms⁹⁵. Uncertainty looms large in the fate of 4 million RMG workers as global demand for fashion still remains to be uncertain. For another 11.5 million workers, the pandemic has already taken heavy toll in terms of loss of jobs and income and the future ahead is also not bright; uncertainty in recovery of domestic economy is going to affect their lives and livelihoods. They include 3.5 million workers in construction⁹⁶, 5 million in transport⁹⁷ and 3 million workers in hotel and restaurants⁹⁸. The fate of 12 million day-labourers is also conceivable. Thus, great majority of around 60 million employed persons of the country has gone and will go through great difficulties. The vulnerability of the country's labour force is added by the fact that about 85 per cent of the employment is informal by nature which makes the employees all the more vulnerable to any income shock faced by the employer.

Out of 7.8 million enterprises of Bangladesh, 6.8 million (87 per cent) fall in the size category of cottage industry⁹⁹ and another 10 per cent fall in the category of small enterprises while only 12,000 (0.16 per cent) are medium or large¹⁰⁰ by size. Among the cottage and micro enterprises, 36 per cent are run by proprietors only while 83 per cent employ only one to five persons.¹⁰¹ These marginal sized enterprises are naturally vulnerable to income shocks. Moreover, the cottage category enterprises are heavily concentrated in sectors like wholesale and retail trade (45 per cent), transport (18 per cent) and hotel-restaurant (7 per cent)—all of which were hit hard by the lockdown

⁹³ "Corona Virus: Dairy Farms seek govt's immediate support", *Dhaka Tribune*, op cit.

⁹⁴ M.M. Uddin, M.N. Sultana, O.A. Ndambi, O. Alqaisi, T. Hemme and K.J. Peters, "Milk production trends and dairy development in Bangladesh", *Outlook on AGRICULTURE*, Vol. 40, No 3, September 2011, p. 263.

⁹⁵ "Poultry production falls alarmingly", *The Business Standard*, op cit.

⁹⁶ "The owes of the construction sector and its ancilliary industries", *Dhaka Tribune*, op cit.

⁹⁷ "50 lakh truck, bus workers lose their way", *The Business Standard*, 18 April 2020.

⁹⁸ "Workers' body concerned as hotels, restaurants keep cutting jobs", *The Business Standard*, 23 June 2020.

⁹⁹ SME Statistics, available at <http://smedata.smef.org.bd/index.php/report/summaryTable>, accessed on 15 May 2020.

¹⁰⁰ Cottage enterprises are the ones which have investment up to USD11800 (BDT1 million) except land and building, engage family labour and employ up to 15 persons. For small enterprises, required investment amount is between USD88,570 (BDT7.5 million) and USD1.77 million (BDT150 million) with employment of 30-100 persons. Medium enterprises are those which, along other characteristics, employ 100-250 persons and large enterprises are those which employ more than 250 persons.

¹⁰¹ Lisa Daniels, *National Private-Sector Survey of Enterprises in Bangladesh, 2003*, DFID, USAID, SDC and SIDA, October 2003, p. 4.

measures. All these facts are suggestive of a precarious situation created by the pandemic, particularly for the Cottage, Micro, Small and Medium Enterprises (CMSMEs).

From the above discussion, one may expect the pandemic to create havoc both for the enterprises and for the employees. A study of Bangladesh Institute of Development Studies (BIDS) titled “Covid-19 and SMEs: Understanding the Immediate Impact and Coping Strategies” on 375 enterprises over the period 26 April to 10 May, found that only 16 per cent of SMEs interviewed were open during the lockdown which reflects the all-out stagnation in economic activities during the lockdown. On average, revenue of the SMEs was 66 per cent lower in 2020 compared to 2019. Moreover, 76 per cent goods produced by the entrepreneurs interviewed remain unsold and SMEs interviewed could pay 55 per cent salary on average.¹⁰²

Another study titled “Covid-19 Business Pulse Survey: Impact of Covid-19 on MSMEs in Bangladesh” which was conducted by International Finance Corporation (IFC) and World Bank on 500 SMEs all over the country over the period June to August 2020 found that even after the lifting of lockdown, 21 per cent of the SMEs interviewed remained temporarily closed. The study also found that 94 per cent of the businesses interviewed had experienced sharp drops in sales and 83 per cent of firms were incurring losses.¹⁰³ Average revenue of the firms dropped by 52 per cent.¹⁰⁴ The findings of the surveys thus suggest that the pandemic affected the CMSMEs profoundly and amidst the pandemic situation, their shaky condition improved little even after the lockdown was lifted.

But it is not only the informal workers in CMSMEs who lost jobs and income due to the pandemic, employees of formal sectors also suffered. According to the president of BGMEA, as of September 2020, a total of 70000 RMG workers have been retrenched. Others, however, estimate the figure to be 0.15- 0.3 million.¹⁰⁵ According to a study of Bangladesh Institute of Labour Studies (BILS), 80 per cent of the RMG workers had no savings and 27 per cent of the workers had reduced their food expenses as monthly wages became irregular during the pandemic.¹⁰⁶

It is natural that the dire state of the businesses throughout the country would translate into mass sufferings in the form of loss of jobs and income. A BIDS study titled “Coping with COVID-19 and Individual Responses: Findings from a Large Online Survey” and conducted on 30,000 samples all over the country found that about 13 per

¹⁰² “13pc people lost jobs due to Covid-19 pandemic: BIDS survey”, *The Daily Star*, 25 June 2020; “Save SMEs save employment”, *The Business Standard*, 29 July 2020.

¹⁰³ 37pc employees in small businesses lost jobs: survey”, *The Daily Star*, 22 October 2020; “Covid-19 impact: Micro, small, medium enterprises in dire straits”, *Dhaka Tribune*, 20 October 2020.

¹⁰⁴ “76% MSMEs didn’t know about stimulus packages: Study”, *The Business Standard*, 22 October 2020.

¹⁰⁵ “70,000 RMG workers lose jobs since Covid-19 hit Bangladesh”, *The Financial Express*, 30 September 2020;

¹⁰⁶ “3.24 lakh RMG workers lose jobs amid virus outbreak”, *New Age*, 27 August 2020.

Table 3.5: Summary of Findings of Surveys on Impact of Covid-19 Pandemic on Employment and Income in Bangladesh

Study Title and Conducting Organization	Study period	Sample Area and Data Collection Method	Sample Size and Categories	Major Findings
BRAC Institute of Governance and Development (BIGD) and Power and Participatory Research Centre (PPRC) ¹⁰⁷	04 April – 12 April 2020	Rapid response survey	5,500	Impact on employment and income: 1. 71 per cent participants have become jobless due to the ongoing shutdown 1. The incomes of the participants who continued working during the closure dropped by 50-90 per cent
				Impact on poverty situation: 1. 98 per cent of the participants could afford three meals a day before the shutdown. Shutdown dragged that number to 73 per cent 2. At least 27 per cent of the poor participants were not getting three meals a day during the time of study 1. The poor participants reduced 40 per cent expenditure for food while participants vulnerable to poverty reduced 36 per cent in this segment
BRAC, DataSense, and Unnayan Shamanay ¹⁰⁸	15-18 May 2020	25 districts	962	Impact on employment and income: 1. 34.8 per cent households interviewed have at least one member who lost their job 2. Among the households interviewed, average family income loss between March and May hovers at around 74 per cent
Bangladesh Institute of Development Studies (BIDS) ¹⁰⁹	05-29 May	64 districts, online survey	30,000	Impact on employment and income: 1. About 13 per cent people have become unemployed in the country due to Covid-19 pandemic 2. 19.23 per cent of participants with income less than 59 USD reported that their income was reduced by 75 per cent relative to last month's income. 3. 23.31 per cent participants with income between 59-177 USD reported an income reduction by 50 per cent

¹⁰⁷ "Virus Shutdown Makes 71 per cent people jobless", The Business Standard, 16 April 2020¹⁰⁸ "Survey: Family income falls 74% between March and May", Dhaka Tribune, 01 June 2020.¹⁰⁹ "13pc people lost jobs due to Covid-19 pandemic: BIDS survey", The Daily Star, 25 June 2020.

International Finance Corporation (IFC) and World Bank ¹¹⁰	June – August 2020	All 8 divisions Telephone survey	500 MSMEs in 12 sectors (fashion, clothing, agriculture, fishing, mining, retail trade, wholesale trade, transport, food service, leather, plastic, information and communication)	Impact on employment and income: 1. Around 37 per cent of workers in the country's MSMEs have lost their jobs, either temporarily or permanently, while 70 per cent are now in vulnerable circumstances
Right to Food, Bangladesh ¹¹¹		37 districts covering all divisions Rapid response survey	834 low-income people (Driver, rickshaw puller, transport worker, small shopkeeper, roadside vendor, garbage collector, part-time housemaid, etc.)	Impact on employment and income: 1. The pandemic reduced the income of 98 per cent of the poor participants. 2. Income of the participants fell by 48.9 per cent. About 14 per cent of them have no income at all and 18.6 per cent were not getting any job.
				Impact on poverty situation: 1. During the study, 98.9 per cent of the participants were unable to afford three meals a day. In the pre-pandemic situation, 91.6 per cent of the respondents used to take three meals a day, and the remaining used to take two meals a day. 2. 5 per cent of the respondents lived on one meal a day during the countrywide shutdown in April and May.
Bangladesh Bureau of Statistics (BBS) ¹¹²	13-19 September	Throughout the country Telephone Survey	989 households	Impact on employment and income: 1. 68 per cent household faced financial problem due to the pandemic. 2. Over the period March-August 2020, households' average monthly income reduced by 20 per cent or USD47.

¹¹⁰ "37pc employees in small businesses lost jobs: survey", The Daily Star, 22 October 2020; "Covid-19 impact: Micro, small, medium enterprises in dire straits", Dhaka Tribune, 20 October 2020.

¹¹¹ "98.6pc poor severely affected by Covid-19", The Daily Star, 15 July 2020; "Covid-19: Decreased income has affected livelihood of 98.3% of the poor", The Business Standard, 16 July 2020; "87% poor in Bangladesh in serious food, nutrition crisis amid COVID-19 pandemic: survey", Bdnews24.com, 16 July 2020.

¹¹² Prothom Alo, 06 October 2020.

cent people have become unemployed in the country due to Covid-19 pandemic while a study of BRAC, DataSense and Unnayan Shamunnay titled "Covid-19 and National Budget 2020-2021: Rethinking Strategy for Bottom of the Pyramid" found that 34.8 per cent of their 962 sample households have at least one member who lost their job. On the other hand, the study of IFC and World Bank mentioned above found around 37 per cent of workers in the country's MSMEs to have lost their jobs, either temporarily or permanently, while job of 70 per cent of the existing workers were in vulnerable condition.

According to BBS survey, average household monthly income reduced by USD47.24 (BDT4000) or 20 per cent due to the pandemic. It is important to note that the poorer the household, the more severe was the impact of the pandemic. In the BIDS study titled "Coping with COVID-19 and Individual Responses: Findings from a Large Online Survey", households with income less than USD59 reported reduction of income by 75 per cent; for the households with income of USD59-177, the rate of reduction was 50 per cent. In a similar tone, a study of Right to Food titled "Impact of COVID-19 Crisis on Food and Nutrition of Low Income People" and conducted on 834 low income people found that 98 per cent of the poor population saw reduction in income, the extent of reduction being about 50 per cent as compared to 68 per cent of households who were found to have financial problem due to the pandemic situation in the BBS survey.

The above mentioned study of Right to Food found that during the study, 98.9 per cent of the respondents were unable to afford three meals a day while 91.6 per cent of the respondents used to take three meals a day in the pre-Covid situation. The situation was found to be direr in a study of BRAC which was conducted at the period of lockdown. According to the study, the percentage of people having 3 meals a day reduced from 91 per cent in pre-Covid situation to 73 per cent in pandemic situation. Moreover, 27 per cent of the poor had only one meal a day then.

The deep impact that the pandemic had on the economy of Bangladesh is likely to have repercussions not only in the short run but in the medium run too. Due to the pandemic situation, the economy did not revive immediately after the end of the lockdown. More importantly, the pandemic, causing huge loss to the businesses, has created existential threat for a great many of them. In the BIDS study titled “Covid-19 and SMEs: Understanding the Immediate Impact and Coping Strategies”, nearly 68 per cent of the SMEs interviewed were found to face a risk of business closure. In the IFC-World Bank study too, forty-nine per cent of micro firms reported that they did not have adequate liquidity to sustain themselves for the next three months, compared to 40 per cent and 33 per cent respectively of small and medium-sized firms.¹¹³ 33 per cent of the respondent firms said that they were unable to pay installments on existing loans. The survey shows most businesses are expecting a negative impact on sales and jobs over the next six months while 70 per cent of micro firms were not optimistic about their future sales prospects.¹¹⁴ As discussed before, similar uncertainty prevails in RMG, the single largest employment providing sector too. All these facts imply that the grim scenario of contracted income and elevated poverty is not going to change soon.

Many apprehend that in the aftermath of the pandemic, poverty situation of the country would deteriorate. Centre for Policy Dialogue (CPD) estimates an increase in national (upper) poverty rate from 24.3 per cent in 2016 to 35 per cent in 2020, and an increase in the income Gini coefficient from 0.48 in 2016 to 0.52 in 2020.¹¹⁵ South Asian Network on Economic Modeling (SANEM) also estimates that the pandemic and lockdown might pull down about 36 million people of Bangladesh below the poverty line raising the poverty rate to about 40 per cent which would make the poor population about 660 million.¹¹⁶ The rapid response survey of Power and Participation Research Centre (PPRC) and BRAC Institute of Governance and Development (BIGD) conducted in the second week of April estimates similar impact of the pandemic on poverty rate.¹¹⁷ There is thus wide apprehension that the country’s achievement of one decade in poverty reduction might fade away if proper and timely measures are not taken to mitigate the impacts of the pandemic.

Thus, the Covid-19 pandemic has had a profound impact on Bangladesh economy. Its impact is obvious on the country’s production and external sector; no less severe is its impact on employment and household income. Due to falling income of households and enterprises, Bangladesh is likely to see a decline in domestic demand creating downward pressure on GDP not only in the short run but in the medium run too. In expenditure method, consumption, with its 76 per cent share in GDP, is the largest

¹¹³ 37pc employees in small businesses lost jobs: survey”, *The Daily Star*, op cit.

¹¹⁴ Micro, small, medium enterprises in dire straits”, *Dhaka Tribune*, 20 October 2020.

¹¹⁵ Fahmida Khatun, “Dealing with Covid 19”, *Trade Insight*, Vol. 16, No. 1-2, 2020, p. 20.

¹¹⁶ “How hard will the poor be hit”, *The Daily Star*, 27 April 2020.

¹¹⁷ Hossain Zillur Rahman, “Future poverty policies must include ‘new poor’, public health issues”, *The Business Standard*, 03 May 2020.

component of Bangladesh's GDP while share of investment is 31 per cent.¹¹⁸ With probable income shock of households, falling or negative income or even closure of a large number of enterprises and declining trend in remittance inflow, domestic demand of the country may fall creating downward pressure on the country's GDP.

In recent years, public investment, revival of export growth and private consumption boosted by healthy remittance inflow have been the leading contributors of Bangladesh's GDP growth on demand side. On the production side most of the growth has come from manufacturing, especially large manufacturing (mainly concentrated to RMGs), services, and agricultural recovery (particularly in fisheries, dairy and poultry). All these components of growth are likely to be hit hard by the pandemic making the task of continuing the recent growth record impossible. The extent to which the growth rate will be affected will depend on the national and global response to the pandemic.

Moreover, the country's achievement of one decade in poverty reduction might fade away if proper and timely measures are not taken to mitigate the impacts of the pandemic. Therefore, in the measures intended to mitigate such impacts, the issue of addressing income losses of the households and numerous small entrepreneurs should receive no less priority than advancing production and export.

¹¹⁸ Finance Division, *Bangladesh Economic Review 2019*, Ministry of Finance, Government of Bangladesh op cit., p. 20

Chapter 4

Initiatives of the Government of Bangladesh: An Assessment

To mitigate the impact of Covid-19 pandemic on the economy, the government of Bangladesh has already declared stimulus packages worth more than USD11.8 billion. The measures are to be implemented in three phases: i) immediately (within the rest of the three months of FY 2019-20), ii) short term (in FY 2020-21) and iii) medium term (in next three fiscal years).

Key components of the government stimulus packages are:¹¹⁹

1. Expansion of government expenditure with special focus on creating employment.
2. Implementation of fiscal stimulus packages with a view to revive economic activities, preserve the jobs and keep up the competency of the entrepreneurs.
3. Expansion of Social Safety Net Programmes (SSNPs) with a view to expand the scope of the existing programmes to include more people living below the poverty line, especially the day labourers and workers engaged in informal sectors.
4. Monetary expansion without accelerating inflation.

4.1 Agriculture

4.1.a Measures Taken

For agricultural sector, the government of Bangladesh has declared two schemes:

1. *Special incentive refinance scheme of USD590.45 million (BDT5000 crore) for all working capital-intensive agriculture sectors except crop and grains:*¹²⁰ Under this scheme, fishery, poultry and dairy farm, and fruits and flower cultivators may take loan at 4 per cent interest rate for 18 months starting from September 2020. Initially the commercial banks will provide the loan; later they will be refinanced by Bangladesh Bank. Bangladesh Bank will charge interest of 1 per cent from banks, and banks will charge 4 per cent from customers. The loan will be repayable within 18 months including six-month grace period.

¹¹⁹ Prime Minister's address to the nation on 13 April 2020, available at https://pmo.gov.bd/sites/default/files/files/pmo.portal.gov.bd/pm_speech/f1463740_425e_40d5_9d1f_40185528839f/pm_addr_nation_130420.pdf, accessed on 12 May 2020.

¹²⁰ Bangladesh Bank, *ACD Circular No. 01*, 13 April 2020, available at <https://www.bb.org.bd/mediaroom/circulars/acd/apr132020acd01.pdf>, accessed on 27 April 2020.

2. *Agricultural credit scheme at 4 per cent subsidized interest rate for crops and grains:*¹²¹ This scheme involves agricultural credit for farmers at subsidized 4 per cent interest rate for cultivation of crops and grains such as rice, wheat, cash crop and tuber crops. Banks and financial institutions will disburse credit to farmers according to annual agricultural credit policy of Bangladesh Bank. They will be reimbursed by Bangladesh Bank with 5 per cent interest subsidy.

Besides the above two schemes, the government has taken a few other measures such as¹²²

- Allocation of extra USD101.56 million for purchase of extra 0.2 million metric ton of *boro* paddy with a view to ensure fairer price for the farmer;
- Allocation of USD23.62 million for purchase of machineries to deploy them as and when required by the farmers; example includes use of combined harvester in *haor* area to quickly harvest the paddy ahead of a probable flash flood.

In budget 2019-20, USD1.12 billion was already allocated as agriculture subsidy which was supposed to be used for fertiliser, irrigation, mechanization, marketing of products etc.

4.1.b *Assessment of Existing Measures and Suggestions*

Non-Crop Agricultural Loan

The stimulus packages of the government for the agriculture sector mainly involves providing credit to all the sub-sectors of agriculture—crop, poultry, dairy and fishery at low interest rate. Although both non-crop and crop agriculture will get the opportunity to borrow at 4 per cent interest rate, there is a difference between the two offers. In case of the USD590.45 million stimulus package for non-crop agriculture, although the loan will be disbursed by commercial banks, Bangladesh Bank will refinance them the whole amount. For crop loan, on the other hand, Bangladesh Bank will refinance the commercial banks only 5 per cent interest, not the whole amount lent by them. As a result, the commercial banks will lend non crop loan more liberally than crop loan. Given that non-crop sector, particularly animal farming sector had been affected more by the pandemic, this differentiation is not undesired. The amount- USD590.45 million also appears to be satisfactory to make up the losses of animal farming sector. The provision of six-month grace period is also a welcoming one.

¹²¹ Bangladesh Bank, available at <https://www.bb.org.bd/mediaroom/circulars/acd/apr272020acd02.pdf>, accessed on 27 April 2020.

¹²² Prime Minister's address to the nation on 13 April 2020, op cit.

Making the credit facility accessible to smallholders, who constitute the majority of farms, however, remains to be a challenge. One way to ensure their access might be to divide the package amount among various size groups as is the case with the USD2.36 billion package for the CMSMEs. Relevant department of the government should also extend help to the small farms so that they can follow the procedural rules without much difficulty.

Crop Loan

The agricultural credit scheme at 4 per cent subsidized interest rate for crops and grains apparently looks good, given that farmers take loan from NGOs at a much higher rate. However, the problem lies elsewhere. In Bangladesh, small farmers, who constitute 87 per cent of all farmers, turn less to banks for credit compared to their large counterparts. Therefore, in business-as-usual scenario, not much money is expected to be injected in crop sector through the agricultural credit scheme.

To make the crop loan scheme a success, a target-based plan can be made for the Department of Agricultural Extension (DAE) with the objective of encouraging farmers to take crop loan which will be implemented by the Sub Assistant Agriculture Officers (former Block Supervisors). A special assistance window can also be set up for a short period which will be dedicated for helping the farmers with the process of taking loan. Finally, the vegetable farmers can be given cash incentive to make up for the loss that they made during the lockdown period.

Public Procurement of Crop (Paddy/Rice)

In FY 2019-20, the government targeted to buy 0.95 million metric ton of grain—0.6 million metric ton paddy and 0.35million metric ton boiled rice in *aman* season,¹²³ but it could purchase only around half of the target.¹²⁴ For *boro*, initially the procurement target of the government was 0.6 million metric ton paddy and 1 million metric ton of boiled rice¹²⁵ but to tackle the pandemic situation, the government later raised the paddy procurement target by 0.2 million metric ton. For wheat, target for 2020 is 75,000 metric ton.¹²⁶

Failure in meeting the procurement target and more importantly failure to procure grains from farmers instead of millers are two major long-standing issues in

¹²³ DG Food Portal, available at https://dgfood.portal.gov.bd/sites/default/files/files/dgfood.portal.gov.bd/page/fcaded2c_ad10_4623_8969_af6e061bc77d/28fdcaaf62c14a011b811937306943d5.pdf; https://dgfood.portal.gov.bd/sites/default/files/files/dgfood.portal.gov.bd/page/fcaded2c_ad10_4623_8969_af6e061bc77d/2019-12-15-11-13-27d1a910bdaf7d215a6db0a4660b2e41.pdf, accessed on 17 May 2020.

¹²⁴ “Aman procurement target fails”, *The Business Standard*, 29 February 2020; “Govt set to miss aman procurement target”, *Dhaka Tribune*, 12 February 2020.

¹²⁵ DG Food Portal, op cit.

¹²⁶ Ibid.

Bangladesh agriculture. The procurement target for *boro* in FY 2019-20, which was higher than that of previous few years, was therefore considered by many as highly ambitious. Making the apprehension true, finally 27 per cent of targeted paddy and 76 per cent of rice could be procured. However, despite the conceivable failure in meeting the target, announcement of an ambitious procurement perhaps had served some purposes of the government such as reducing volatility in rice market, at least partially.¹²⁷

Mechanization Scheme

Out of the USD1.06 billion subsidy in the national budget for FY 2019-20, USD354.27 million was allocated for purchase of farm machinery by the farmers at subsidized price, the objective being to minimize labour costs for the production. In Bangladesh agriculture, the tasks of irrigation and tilling have already been almost fully mechanized thanks to a service rental mechanism through which the farmers enjoy the benefits of the machines without owning those by themselves. One major labour-intensive task that is yet to be mechanized is harvesting which constitutes about 25 per cent of rice production cost. Therefore, the government now thrives for introducing harvester in the country's agriculture.

Mechanization undoubtedly would contribute in increasing productivity, as did the power tillers and tractors in Bangladesh agriculture and the government initiative for encouraging further mechanization is a welcome step in deed. Yet, the post-pandemic period might not be a good time for introducing a new stage of mechanization. This is because, the tasks that are not yet done by machines such as sowing and harvesting are labour intensive and support the livelihood of a large number of agricultural labourers. Such employment creation would be even more crucial in post-pandemic period when other income opportunities would be limited than before.

Therefore, the government might postpone its plan of allocating USD354.27 million for purchasing farm machinery by the farmers at subsidized price at least by one year. This budget can rather be used for other benefits of the farmers such as

- input subsidy (as fertilizer or irrigation cost subsidy) or
- cash incentive

These will encourage them in cultivation which in turn will help strengthening food security in the coming days.

Among the alternative uses of the fund for mechanization, irrigation subsidy (particularly for *boro*) might be one of the more effective and less complicated options. While in best practice, irrigation subsidy should be paid based on cultivated area (including both owned and rented in land but excluding rented out land) instead of owned land, at present, in absence of such a list, the subsidy can be given based on owned

¹²⁷ "Boro procurement target falls flat", *The Independent*, 05 September 2020.

land. Subsidy based on owned land will also serve the purpose of supporting farmers because in Bangladesh, pure tenant is rare and overwhelming majority of the farmers have some land, at least a tiny plot of their own. Hence, if subsidy is distributed based on the document of land ownership, great majority of the farmers will benefit more or less.

To summarize, the measures taken to lessen the impact of the pandemic on the country's agriculture sector are broadly in right direction and satisfactory in amount. However, challenges remain in implementation of some measures notably crop loan and public procurement due to the presence of some structural limitations. Though these measures are highly desirable, their success will be limited as long as these structural issues are not addressed.

4.2 Industry and Service

4.2.a Measures Taken

The government has declared the following stimulus packages for industry and service sector:

1. *Financial stimulus package for export-oriented industries worth USD590.45 million (BDT5000 crore):*¹²⁸ This package offered loan to factories which export at least 80 per cent of their production at a low 2 per cent service charge for paying wages of their workers. Industries working in Export Processing Zone, Economic Zone and C-Type industries of High-Tech Park were eligible for this package. Loan from this package could be used for payment of salary of workers for 3 months. The package started in April 2020 and its duration was up to June 2020.
2. *Financial stimulus package for Covid-19 affected industry and service sector worth USD3.9 billion (BDT33000 crore):*¹²⁹ This package was originally of the size of USD3.5 billion; later it was augmented by USD0.4 billion more. Under this package large enterprises of industry and service sector affected by the pandemic can take loan at subsidized 4.5 per cent interest rate. The loan will be disbursed by the commercial banks. Bangladesh Bank will refinance them USD1.95 billion. Loan from this fund will be available at 9 per cent interest rate; 4.5 per cent will be paid by the borrower while the government will pay the rest 4.5 per cent interest as subsidy. Duration of this fund is 3 year and the borrower can take loan for maximum of 1 year.

¹²⁸ Bangladesh Bank, *BRPD Circular No. 14*, 08 April 2020, available at <https://www.bb.org.bd/mediaroom/circulars/brpd/apr082020brpd14.pdf>, accessed on 20 April 2020.

¹²⁹ Bangladesh Bank, *BRPD Circular No. 08*, 12 April 2020, available at <https://www.bb.org.bd/mediaroom/circulars/brpd/apr122020brpd8.pdf>, accessed on 20 April 2020.

3. *Financial stimulus package for covid-19 affected cottage, micro, small and medium enterprises (CMSMEs) worth USD2.36 billion (BDT20000 crore):*¹³⁰ Under this package Cottage, Micro, Small and Medium enterprises (CMSMEs) of industry and service sector can take loan at subsidized 4 per cent interest rate. The loan will be disbursed by the commercial banks. Bangladesh Bank will refinance them USD1.18 billion. Interest rate will be 9 per cent; 4 per cent will be paid by the borrower and the government will pay 5 per cent interest subsidy. Like the USD3.9 billion package, this fund also has a duration of 3 year and the borrower can take loan for maximum 1 year.
4. *Pre-shipment credit refinance scheme worth USD590.45 million (BDT5000 crore):*¹³¹ This credit facility is for export-oriented industries. Commercial banks will disburse the loan; Bangladesh Bank will later refinance it. Bangladesh Bank will charge interest of 3 per cent from banks while banks will charge 6 per cent from customers.
5. *Extended allocation of USD1.5 billion (BDT12,750 crore) under the Export Development Fund (EDF):* Under the back-to-back LC arrangement, the EDF of Bangladesh Bank was increased by USD1.5 billion - from USD3.5 billion to USD5 billion, to facilitate further import of raw materials. The interest rate has been determined at 2 per cent.

4.2.b Assessment of Existing Measures and Suggestions

Package for wage of workers in export-oriented industries

The decision of the government of Bangladesh to allocate USD590.45 million for wages of workers of export-oriented industries was a very prudent one. It had multiple positive effects.

- i. It encouraged the workers to stay home. Provided that export oriented RMG industry accounts for about half of manufacture employment, this significantly helped the government in effective implementation of the lockdown measures.
- ii. By providing the wages of workers, this scheme immensely helped the survival of concerned industries in the tough time of the pandemic.
- iii. As this USD590.45 million was paid as wages, it contributed significantly in helped to boost consumption of a significant part of manufacturing workers.

¹³⁰ Bangladesh Bank, *SMESPD Circular No. 01*, 13 April 2020, available at <https://www.bb.org.bd/mediaroom/circulars/smespd/apr132020smespd01.pdf>, accessed on 20 April 2020.

¹³¹ Bangladesh Bank, *SFD Circular No. 01*, 13 April 2020, available at <https://www.bb.org.bd/mediaroom/circulars/gbcrd/apr222020sfd01.pdf>, accessed on 25 April 2020.

- iv. In absence of this scheme, many export-oriented industries might have seen lay off which not only would have brought sufferings to the workers but also would have created further downward pressure on domestic consumption. The scheme helped to avoid these consequences at least for the early crucial months.

Unfortunately, some actions on the part of some RMG factory owners challenged the very objective of the government in providing the stimulus packages. For example, a good number of RMG factories made their workers to return to workplace to resume production after they left Dhaka and other cities in line with the government declaration of lockdown. Amidst halt in all types of public transport due to the lockdown and with no transport arranged for them, the workers had to return with inhuman difficulties. This incidence not only jeopardized the government's efforts in tackling Covid-19 pandemic, it also further tarnished the image of the country's RMG sector which is still struggling to heal the wounds of Rana Plaza incidence. Another unethical practice was laying off workers despite government support in wage payment. As of mid-April, 397 factories employing nearly one million workers were laid off.¹³² Such practice was jeopardizing the government's initiative to reduce suffering of the workers and to boost domestic demand. Therefore, the finance ministry issued a notice on 20 April that categorically said that the laid off garment units would not be eligible for the USD590.45 million fund meant for workers' wages of the clothing factories. This notice helped to pose a brake on such practice.

Thus, the USD590.45 million stimulus package for salary has played a significant role in protecting the workers of export-oriented industries (mainly apparel industry), at least in the early days of the pandemic. However, one major caveat regarding this fund is that although the fund was created for all export-oriented enterprises who export at least 80 per cent of their production, in reality, RMG enjoyed an overwhelming share of the pie. As will be discussed later, the apparel sector did not only enjoy vast share of the original USD590.45 million stimulus package; rather, they managed to bag USD649.5 million more to pay the wage of their workers.

Other packages for export-oriented industries

RMGs, textile and leather are the most export intensive industries of Bangladesh followed by computer and electrical equipment and food products (see Table 4.1). Most of Bangladesh's export items including RMG were passing a hard time even before the pandemic. The pandemic made the situation worse for them. As these export-oriented industries have a major share in manufacturing value added and employment and as they were affected profoundly by the pandemic, it was conceivable that the government would try its best to save them from the economic shocks of the pandemic.

¹³² "397 RMG factories laid off, ineligible for Tk5,000cr fund", *Dhaka Tribune*, 20 April 2020.

The government did in fact provided a heavy boost for the export-oriented industries. Of the total USD9.5 billion packages declared for industry and service sector, USD2.45 billion (which includes credit facility for payment of wages, Pre-Shipment Credit Refinance Scheme and extended EDF) or 26 per cent were solely dedicated to export-oriented industries.

There is good reason to believe that due to its sheer dominance in export, RMG would enjoy the lion's share in all packages intended for export-oriented industries. The case of USD590.45 million credit facility for payment of wages of export-oriented industries can be mentioned as an example. In June 2020, after the previous USD590.45 million was exhausted, BGMEA and BKMEA requested the government for further allocation for payment of wages. Upon their request, the government further allocated USD295.2 million at 2 per cent service charge. This extra USD295.2 million was provided to them from the USD3.5 billion package for large enterprises. Later in July, the trade bodies of the apparel sector further requested the government to allocate them USD354.3 million to pay their workers from the USD3.5 billion package meant for providing working capital to large industrial and service enterprises. Thenafter, the government extended the package for large enterprises from USD3.5 billion to USD3.9 billion with the extra amount going to the apparel industry owners to pay for their workers.¹³³ Thus, over and above the initial USD590.45 million stimulus package for wages, the apparel industry owners got access to USD649.5 million more to pay their workers.

As there is no industry-wise division in the packages for export-oriented enterprises, the RMG sector is likely to dominate in all these packages using its clout. A firm-level survey conducted by SANEM in July confirms the perception that compared to RMG, other export-oriented sectors are lagging behind in availing the stimulus packages.¹³⁴

¹³³ "Another Tk3,000cr for salary support of RMG when SMEs need more", *The Business Standard*, 23 July 2020.

¹³⁴ Selim Raihan, "Covid-19 and the challenges of trade for Bangladesh", *The Daily Star*, 06 September 2020.

Table 4.1: Various Industries of Bangladesh by Export Intensiveness and Share in Export, Manufacturing Output and Employment.¹³⁵

Industry	% Share of Export in Total Sale	% Share in Gross Value Added of Manufacture	% Share in Total Persons Engaged in Manufacture	% Share in Total Export
RMG	94	35.6	55.1	42.2
Textile	54	14.6	16.1	41.7
Leather and related product	73	1.4	1.5	1.0
Computer, electronic and optical products and electrical equipments	34	3.3	1.2	0.8
food product	14	11.1	5.6	3.2 (frozen food and agricultural product)

Note: All data except export is of FY 2011-12; data on export is of FY 2018-19.

Package for large enterprises

Apart from financial, health and educational institute, large enterprises of Bangladesh are mainly concentrated in manufacturing sector. Within manufacture, export oriented RMG account for 75 per cent of large enterprises (see Table 4.2). It, therefore, can be perceived that in the USD3.5 billion stimulus package too RMG will be the major beneficiary as there is no sector or industry-wise division in the package.

¹³⁵ BBS, *Survey of Manufacturing Industries 2012*, op cit., p. 19, 35, 36, 162-168; Ministry of Finance, GoB, *Bangladesh Economic Review 2019*, op cit., pp. 81-82.

Table 4.2: Share of Various Sectors and Industries in Large Enterprises and Large Manufacturing Enterprises, Bangladesh, 2012¹³⁶

Sector/ Sub-sector	Share in large enterprises		Industry	Number of large enterprises	Share in large manufacturing enterprises
Manufacture	59.5		RMG	2,752	75.6
Public administration	12.7		Textile	358	9.8
Financial institution	9.3		Non-metallic mineral product	173	4.8
Health	5.8		Food Products	105	2.9
Education	3.4		Basic Metal	50	1.4
Others	9.3		Pharmaceutical	37	1.0
			Chemical product	28	0.8
			Others	136	3.7

While emphasizing on RMG as source of 36 per cent of manufacturing GDP and 55 per cent of manufacturing employment, one cannot also over-look the importance of other industries or other sectors of the economy. In fact, although RMG overwhelmingly dominates the country's export, its share in total GDP and national total employment is not more than 12 per cent and 10 per cent respectively. Putting differently, while planning for mitigating the impact of the pandemic on the country's economy, it should not be forgotten that 88 per cent of national GDP and 90 per cent of national employment come from non-RMG sources.

Of the declared stimulus packages, most of USD590.45 million package for wages of export-oriented industries would go to RMG and another USD2.1 billion (allocated for EDF and pre-shipment credit refinance) will also mostly benefit RMG. In the USD3.9 billion package for large enterprises too, RMG will probably enjoy the lion's share. RMG owners' borrowing of USD649.5 million from this package in order to pay their workers, over and above their borrowing for working capital makes such apprehension stronger. Small and medium RMG enterprises can also take loan from USD2.36 billion package for CMSMEs. Of the total USD8.94 billion stimulus packages intended for industry and service together, RMG has ample opportunity to benefit from packages worth USD7.76 billion. The existing stimulus packages thus appear to be heavily tilted to RMG. Amidst the uncertain future of RMG in the coming days, such concentration of stimulus packages is better avoided.

¹³⁶ SME Statistics, available at <http://smedata.smef.org.bd/index.php/report/sectoral>, accessed on 26 April 2020; BBS, *Survey of Manufacturing Industries 2012*, op cit., p. 17.

Balance between RMG and non-RMG sector is important for another reason too. As mentioned before, share of export in Bangladesh's GDP is 14.8 per cent. Export depends on foreign demand and global economic uncertainty in post pandemic period has made its future uncertain at least in the short run. WTO estimates that due to the pandemic, global trade might shrink by as high as one third in the next year.¹³⁷ Therefore, in the short run, when immediate objective is to restore the economy on track, non-RMG sectors, particularly those which cater domestic demand and generate employment significantly, should get due importance. Also, too much concentration on RMG while coping with the pandemic impact would further reinforce the mono-centric character of the country's export.

Especially, diversion of fund from the USD3.9 billion package to pay the salary of RMG workers is a matter of concern. The package was originally intended for providing working capital to affected large enterprises; by reducing the available flow of working capital, such diversion will affect the overall health of the businesses of the country.¹³⁸ To achieve the targeted goals of the stimulus packages, the government should put a stop to such practices of the RMG sector. Also, for a better balance between RMG and non-RMG sectors, the government might consider industry-wise division in the stimulus packages.

Package for CMSMEs

In Bangladesh economy, CMSMEs play the leading role in generating employment. Although CMSMEs contributes only about one third of GDP, its share in total national employment is 86 per cent.

Unlike large enterprises, there is considerable variety in CMSMEs. Cottage industry is mainly concentrated in non-manufacturing sectors with about half of the enterprises belonging to trade sector, followed by transport and hotel and restaurant. Trade accounts for 62 per cent of small enterprises too. Forty two per cent of medium enterprises are in manufacturing sector while another 36 per cent are in service sectors like health, education, finance and public administration. These service sectors also account for 15 per cent of small enterprises. By definition, all the micro category enterprises belong to manufacturing sector.

¹³⁷ "Bracing for WTO prediction", *The Financial Express*, 13 April 2020.

¹³⁸ "Fund for RMG sector likely for 3 more months' wages", *New Age*, 16 July 2020; "Another Tk3,000cr for salary support of RMG when SMEs need more", *The Business Standard*, op cit.

Table 4.3: Share of Various Sectors in Cottage, Small and Medium Enterprises, Bangladesh¹³⁹

Industry name	% Share in total cottage enterprise	% Share in total small enterprise	% Share in total medium enterprise
Wholesale and retail trade	45	62	9
Transport	18	4	2
Manufacturing	11	4	42
Hotel and restaurant	7	2	1
Financial institution	0	3	5
Public administration	0	1	11
Health service	1	2	7
Education	2	9	13
Others	16	13	9

In the USD2.36 billion stimulus package for working capital of CMSMEs, share of manufacturing, service and trade sector is 50, 30 and 20 per cent, respectively. Cottage, micro and small enterprises will jointly receive 70 per cent of the fund, and the rest 30 per cent will go to medium enterprises. Fifteen per cent of the fund will have to be disbursed in rural areas and at least 5 per cent will have to be given to female entrepreneurs. Thus the USD2.36 billion stimulus package for working capital of CMSMEs is aimed at addressing various sections of the economy although it seems to give priority to manufacturing sector.

Cottage and small enterprises, which are dominated by non-manufacturing sector, account for 81 per cent of total persons employed in the economy while manufacture dominated micro and medium enterprises account for only 5 per cent.

Table 4.4: Characteristics of Different Size Categories of Enterprises, Bangladesh¹⁴⁰

Size of enterprise	Dominating sector/ sub-sector in corresponding size category	% Share in total persons employed
Cottage	Trade, transport, hotel and restaurant	54
Small	Trade, transport, education and health	27
Micro	Manufacture (100 per cent)	2
Medium	Manufacture, education and health	3
Large	Manufacture	14

The fact that in the USD2.36 billion stimulus package, priority is given to manufacturing over trade implies that more emphasis has been put on production rather

¹³⁹ SME Statistics, available at <http://smedata.smef.org.bd/index.php/report/econActivityByIndustry>, accessed on 26 April 2020.

¹⁴⁰ SME Statistics, available at <http://smedata.smef.org.bd/index.php/report/workerDistro>, accessed on 26 April 2020.

than supporting employment. But, if this package is intended to support the CMSMEs, it should have been the other way round—putting more emphasis on trade and service and focusing more on supporting employment rather than production. In this way, this package could have contributed more in boosting domestic demand. Last but not the least, the amount of USD2.36 billion seems to be inadequate for 7.8 million CMSMEs.

An examination of the existing stimulus packages of Bangladesh reveals that it focuses more on manufacturing sector. Out of USD8.94 billion stimulus packages declared for manufacturing and service sector, USD7.76 billion will benefit mainly the manufacturing sector although out of 7.8 million enterprises of Bangladesh, 6.9 million belongs to service sector. Bias in favour of manufacturing sector is reflected vividly in the USD2.36 billion for the CMSMEs. Out of 7.7 million cottage and small enterprises, about 90 per cent (6.9 million) are from service sector while service sector including trade receives only 50 per cent of the package money. Given that service sector provides employment more than twice as manufacturing does, service sector should receive higher share in the stimulus packages than at present.

Within the service sector the largest sub-sector is trade. Trade alone accounts for 46 per cent of Bangladesh's total cottage and small industries. As discussed in section three, the pandemic came as a heavy blow for the trade sector which involved around 5.7 million traders and 12 million employees as they missed the annual peaks of business due to the pandemic. Moreover, Experts draw attention to the fact that thousands of micro, small and medium traders had to use up their capital to run their families during the pandemic time and if they are not supplied with credit, businesses of great many would not see the light again. Impact of the pandemic was no less severe for other service sectors like transport, hotel and restaurant, saloons and beauty parlours, tailor shops and so on as the pandemic situation drastically reduced the demand for their services. Considering the huge losses of the service sector, the government might consider a new package dedicated for trade while the existing package, with enhanced budget might serve other service sub-sectors.

Another concern of CMSMEs is that a great many of them would find it difficult to comply with the procedures to get loan from the stimulus package. This is more so for the marginal enterprises that need the money most. To help the SMEs with the loan from the package, banks were supposed to set up a special monitoring cell at the head office and a separate help desk in each branch and the FBCCI was supposed to cooperate with banks in this regard.¹⁴¹ Such measures should be made effective and strengthened in the coming days.

At the same time government's SME related institutions can also take initiative to help the SMEs with getting loan. Already, the Bangladesh Small and Cottage Industries

¹⁴¹ Centre for Policy Dialogue (CPD), IRBD 2020, *A Rapid Assessment of Stimulus Packages and Relief Measures: Will the Target Groups Get the Benefits?*, 09 September 2020.

Corporation (BSCIC) and SME Foundation have sought USD130 million outside the announced USD2.36 billion package for disbursement of loans to the SMEs. According to these organizations, many micro-entrepreneurs cannot afford to borrow from banks while in many cases banks are preferring to continue with the old borrowers instead of giving loan to new borrowers. As a solution to the problem of banks' reluctance and fear over default by new borrowers, they proposed lending on cluster basis.¹⁴² The government might consider the proposals of BSCIC and SME Foundation as a way out of the implementation problem regarding the package of CMSMEs.

In conclusion it can be said that the stimulus packages declared by the government of Bangladesh for industry and service sectors were timely intervention aimed at injecting much desired liquidity in the sectors hit by the pandemic. An anatomy of the packages, however, suggests that some sectors, most notably the RMG sector might benefit disproportionately from the packages while others, particularly the small enterprises seem to be in a comparatively disadvantageous situation in reaping the benefit of the packages. Although the amount under the packages is not inadequate, there is need to reconsider the sectoral shares within the packages. In particular, to minimize the impact of the pandemic on the livelihoods of people as well as to boost domestic demand, labour-intensive and employment generating service sector enterprises, especially the small ones should receive more attention than at present even though their comparative share in GDP is less than others. Last but not the least, even though the stimulus packages are taken in right direction and are handsome in amount, their effectiveness would crucially depend on the way they are implemented.

4.3 Social Safety Net Measures

4.3.a Measures Taken

Shortly after the imposition of lockdown, with a view to provide food and income support to the poor and vulnerable section of the population during and after the pandemic, the government announced the following measures:¹⁴³

- Allocation of 0.5 million metric ton of rice and 0.1 million metric ton of wheat worth USD295.2 million to be distributed as food relief for low-income people.
- Allocation of 74 million metric ton rice to be supplied to low income urban people at subsidized 12 US cent (BDT10)/kg price; the government would provide subsidy of USD29.5 million for this purpose.
- Preparation of a list of the day labourer, rickshaw and van pullers, construction workers, newspaper hawkers and hotel workers who have lost their livelihood due to the lockdown. The government would pay these people cash support worth 7.6 billion though bank.

¹⁴² "SMEs are not getting incentive loans", *The Business Standard*, 16 July 2020.

¹⁴³ Prime Minister's address to the nation on 13 April 2020, op cit.

- Widening of scope of allowance for the aged, widower and destitute women to include 100 per cent of the eligible in the 100 most poverty stricken upazila. A total of USD96.24 million has been allocated for this purpose.
- Allocation of USD251.5 million on the occasion of Mujib Barsha (Mujib Year to observe the Birth Centenary of Bangabandhu Sheikh Mujibur Rahman) for building houses for homeless people.

Many of these programmes were included in the national budget of FY 2019-20; the pandemic added further importance to such programmes resulting in extension of some programmes and adding some new ones. With the extension, the amount allocated in SSNPs stood at USD0.8 billion.¹⁴⁴

Soon after, the government declared that it would issue ration cards for 5 million poor people in urban and rural areas allowing them to buy rice at subsidized price of 12 US cent (BDT10) per kg. These 5 million ration card holders will be in addition to the existing 5 million extreme poor who already have been enjoying the benefit. According to the government circular, the new ration card holders will include various lower-income groups such as day labourers, rickshaw-pullers, people from *hijra* (third gender) communities, industrial labourers and small traders like tea-stall owners. The government also instructed to form relief committees up to ward level to identify the distressed people.¹⁴⁵

Later, to rein in irregularities regarding the list of beneficiaries, the government decided to develop a new relief distribution system which would include Quick Response (QR) code embedded relief cards. Under this new relief distribution system, the government decided to combine the existing food and income support programmes by developing a database of nearly 12.5 million beneficiary families. The scheme which will give each recipient a smart QR code embedded card, will include existing 4.9 million families getting Gratuitous Relief (GR) from the disaster management ministry, 5 million beneficiary from the food ministry's Food Friendly Program (FFP), 1.25 million recipients from the special Open Market Sales (OMS) programme, 1.04 million beneficiaries of government's Vulnerable Group Development (VGD) programme run by women and children affairs ministry and the 0.3 million fishermen who get rice under the Vulnerable Group Feeding (VGF) programme for a certain period of the year.¹⁴⁶

Each of the 12.5 million beneficiaries will receive a QR code embedded smart code containing National Identity Card (NID) number or the birth certificate number and a mobile phone number of the beneficiary. The information will be verified by the a2i programme to avoid overlaps and misappropriation. The relief card holders will receive

¹⁴⁴ CPD, *A Rapid Assessment of Stimulus Packages and Relief Measures: Will the Target Groups Get the Benefits?*, op cit.

¹⁴⁵ "Ration cards for 5.0 million distressed people", *The Financial Express*, 23 April 2020.

¹⁴⁶ "Food Aid for The Poor: Smart cards for 1.25cr families", *The Daily Star*, 29 April 2020.

an aid package of essential items, such as rice, lentil, potatoes, onion, edible oil, and soap, on a monthly basis, through the local government bodies. However, among the relief card holders, those who have VGF or VGD cards, will not receive the rice, but will get other relief items. The same rule applies for the urban poor who will receive the ration card. Private organizations or individuals, interested to run their own relief initiatives, can also use this database once developed.¹⁴⁷ In total, 50 million people are expected to be benefitted from the cards. Initially the government planned to start distributing this smart ration card in May 2020 but later it delayed and the process is still going on.¹⁴⁸ However, as of July 2020, 5million poor people had been getting 30kg of rice at 12 US cent (BDT10) per kg under the government's ration card facilities for five months—March-April and September-November according to the Directorate of Food.¹⁴⁹

In May 2020, besides the food support programmes, the government launched a cash support programme of USD141.7 million for those engaged in informal sector such as daily labourer, mechanics, construction workers, rickshaw and cart pullers, street vendors and restaurant workers, newspaper hawkers and so on. Under this cash support programme, 5 million families whose breadwinners have become unemployed due to the pandemic, will be paid USD29.5 (BDT2,500) each directly through mobile financial services.¹⁵⁰ The list of beneficiaries was also prepared but inconsistencies were found in information relating to 2.8 million people,¹⁵¹ which further emphasizes the importance of creating the database the government is working for.

Besides these social safety net programmes, the government also announced a Refinance Scheme of USD354.3 million for low-income people, farmers and micro/marginal businesses under which they can take loan without any mortgage at maximum 9 per cent interest rate. The loan will be disbursed by commercial banks via micro finance institutions (NGOs) which will be later refinanced by Bangladesh Bank.

4.3.b Assessment of Existing Measures

As discussed in section 3.3, around 60 million people are going to need food or income support during and post pandemic period. Government's target population in the proposed smart card for food aid programme is 50 million which is close to the number of severely affected population estimated by various researches.

The plan of developing a database of these 12.5 million beneficiary families based of NID card and mobile phone number is undoubtedly a foresighted one. The

¹⁴⁷ "Coronavirus aid management: 15 million relief cards with QR code under process", *The Financial Express*, 24 April 2020

¹⁴⁸ "Six lakh fake poor eat up food aid", *The Business Standard*, 21 July 2020.

¹⁴⁹ Ibid.

¹⁵⁰ "Urban Poor Hit by Outbreak: Tk 2k to each of 50 lac families", *The Daily Star*, 01 May 2020; "PM launches disbursement of cash aid for 50 lac poor households", *The Daily Star*, 15 May 2020.

¹⁵¹ "Six lakh fake poor eat up food aid", *The Business Standard*, op cit.

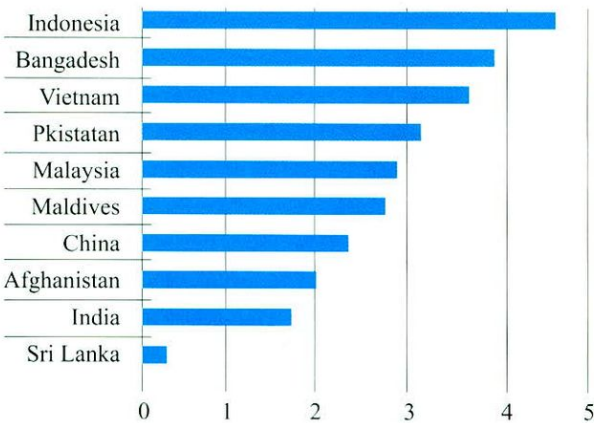
database and the issuance of smart cards would help remove anomalies in the list of beneficiaries. It will not only ensure proper distribution of food aid and plug the loopholes in the current distribution system; it will help in future crises too.

In conclusion it can be said that during the pandemic the government tried to support both the ‘old’ and ‘new’ poor through significant expansion of the social safety net measures. The extended measures, however, could not be fully effective due to some institutional challenges.

4.4 Implementation Challenges

In total the stimulus packages declared by the government of Bangladesh amounts to 3.7 per cent of the country’s GDP which is higher than other South Asian and Southeast Asian countries. However, as a major part of the stimulus package of Bangladesh is credit-based where the government would provide interest rate subsidy only, the burden of the government in financing the stimulus package is expected to be much lower than the total face value (3.7 per cent of GDP) of the stimulus package.¹⁵²

Figure 4.1: Stimulus Packages as Percentage of GDP¹⁵³



While the amount of the stimulus packages might be manageable for the government of Bangladesh, its implementation is likely to see formidable challenges. Three major challenges are: i) financing the stimulus packages from an already stressed banking sector, ii) identifying beneficiaries and iii) making the benefits accessible to the beneficiaries.

¹⁵² Selim Raihan, “Anatomy of the Stimulus Package in Bangladesh”, *Indian Journal of Labour Economics*, Vol. 63, Suppl. 1, published online on 7 September 2020, available at <https://link.springer.com/article/10.1007/s41027-020-00253-2>, accessed on 22 September 2020.

¹⁵³ “Bangladesh’s stimulus package second highest among peer countries”, *The Daily Star*, 15 June 2020.

Finance

A review of the stimulus packages declared by the government of Bangladesh suggests that major responsibility of financing the packages lies with the commercial banks. Reliance on commercial banks to finance the stimulus packages has some big challenges. First, the commercial banks will be responsible for not only selecting their customers through “bank-client relationships” but also for ensuring repayment of the loan in time. Thus, all risks attached to the loan, such as management risk, sectoral risk and market risk will have to be absorbed by the banks. The banking sector of Bangladesh is already suffering from several crises including huge Non-performing Loans (NPLs), liquidity shortage, low net profitability, poor risk management preparation, etc.¹⁵⁴ The stimulus package will add to its burden significantly. Second, if the loans provided under the stimulus packages become bad loans, a situation not unlikely in the pandemic time, the banking sector will run into further trouble. Third, generating the fund for the stimulus packages in pandemic time would be difficult for the banks.

To ease the burden of the commercial banks, Bangladesh Bank has taken some steps like reducing the repo rate to 5.75 per cent from 6 per cent and cutting the Cash Reserve Ratio (CRR) to 5 per cent.¹⁵⁵ Experts are, however, skeptical about the ability of the commercial banks to fully implement the stimulus packages despite the measures taken by the central bank. They suggest supplementing the source of fund with borrowing from international financial institutions. The government also took initiative in this line and requested five of its development partners namely the World Bank, the IMF, the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB) and the Islamic Development Bank (IsDB) for USD2.6 billion in loans to tackle the impacts of the Covid-19 pandemic.¹⁵⁶ Besides taking soft loans, the government might also consider re-prioritizing its ongoing projects. Some infrastructure development projects might be delayed to give room to the task of ensuring food security, providing income support and developing health sector.

Identification

Identification naturally emerges as a major challenge in implementation of large-scale stimulus packages like the one adopted in Bangladesh. In the present modalities of the packages, the farms are self-selecting themselves for seeking the benefit. As there is no systematic process through which rapid assessment can be done on the needs of affected farms, there is possibility that many eligible farms would be deprived while many would receive benefit even though they were not much affected.¹⁵⁷

¹⁵⁴ Fahmida Khatun, “How will the Covid-19 stimulus package be implemented?”, *The Daily Star*, 09 April 2020.

¹⁵⁵ LightCastle, *Government Stimulus Packages in COVID-19: Will it be effective for Bangladesh?* available at <https://www.lightcastlebd.com/insights/2020/05/05/government-stimulus-packages-in-covid-19-will-it-be-effective-for-bangladesh>

¹⁵⁶ “Dhaka wants \$2.6b to face pandemic fallout”, *The Business Standard*, 05 April 2020.

¹⁵⁷ Selim Raihan, “Anatomy of the Stimulus Package in Bangladesh”, op cit.

In absence of any database or other documentation, CMSMEs are likely to suffer more from identification problem than the large ones. As noted before, identification problem emerged as a great challenge for SSNPs too which prompted the government to issue smart cards.

BSCIC and SME Foundation might be engaged to devise a database of MSMEs. In BSCIC industrial estates, there are about 5,000 MSMEs. Earlier, the SME Foundation conducted a survey of MSMEs in 177 natural clusters having more or less 50 firms in each cluster. Also, BSCIC provides small credit to MSMEs for their capacity building, which also gives BSCIC a leverage to identify some MSMEs outside BSCIC estates.¹⁵⁸ A list of the MSMEs mentioned above can be the starting point of making a comprehensive list to be used in future crises.

Accessibility

The other great challenge regarding implementation is making the benefits accessible to the beneficiaries. It is widely alleged that the banks are reluctant to disburse loan to small enterprises due to lack of guarantee, higher operational cost for SME loans, fear of non-repayment caused by the pandemic situation and limitation of human resources.¹⁵⁹ As of July 2020, the packages of loan for salary of workers of export-oriented industries and loan for working capital for large enterprises saw disbursement rate of 99 and 77 per cent respectively while the rate of disbursement of the package for CMSMEs was 7.4 per cent only. The slow pace of disbursement of loan to CMSMEs has created widespread concern about the recovery of the economy and restoring people's livelihoods. To encourage the banks to provide more loans to the SMEs, the government approved a credit guarantee scheme, the first of its kind in the country, worth USD59 million for the CMSMEs in July 2020.¹⁶⁰ Situation improved to some extent thereafter, although the achievement is still far from target.

¹⁵⁸ Monzur Hossain, "Covid-19 stimulus for MSMEs: Hard to reach out to right firms", *The Business Standard*, 09 May 2020.

¹⁵⁹ "SMEs are not getting incentive loans", *The Business Standard*, 16 July 2020.

¹⁶⁰ "BB announces credit guarantee scheme for small enterprises", *The Daily Star*, 24 July 2020.

Table 4.5: Progress of Stimulus Packages, Bangladesh¹⁶¹

Name of the package	Total allotment (USD million)	Total disbursement as of July 2020(USD million)	% disbursed as of July 2020	Total disbursement as of September 2020 (USD million)	% disbursed as of September 2020
Loan for salary for workers export oriented enterprises	590.45	582.2	99		
Loan for working capital for Large enterprises	3900	2,999 (as of 17 September)	77	3,188.5	82
Export Development Fund	1500	1,101.8	73	1260	83.6
Pre-shipment credit	590.45	0.17			
Loan for working capital for CMSMEs	2360	175.9	7.4	694.4	29.4
Loan for non-crop agricultural farms	590.45	128.7 (as of 31 August 2020)	21.8	220.8	37.4
Refinance loan for farmers and small traders	354.3	33 (as of 31 August 2020)	9.3		
Free housing for the homeless	271.6	3.9	1.4		
Cash distribution to distressed families	5 million families	3.5 million families	70		

Besides banks' reluctance towards SME loans, another key reason for slow disbursement of loan to CMSMEs lies in the procedure of loans that many of the CMSMEs find difficult to meet. In a study it was found that in Bangladesh less than 40 per cent SMEs have access to bank and if micro businesses are included, the percentage of small enterprises staying out of banks' coverage is much bigger.¹⁶² This is because majority of them operate informally and cannot prepare documents required by formal financial institutions.¹⁶³ The condition of the packages intended for the agriculture sector is no better than the SMEs. As in the case of SMEs in industry and service sectors, banks are reluctant to give loan to agricultural farms too, most of which operate in small scale; the reason for reluctance being the same.

In a study of CPD, majority of small entrepreneurs were found to believe

¹⁶¹ "Covid-19 Stimulus Package: Disparity in disbursement", *The Daily Star*, 29 September 2020; "Big borrowers gain, SMEs still in pain", *The Daily Star*, 20 October 2020.

¹⁶² Monzur Hossain, op cit.

¹⁶³ "SMEs are in dire need of a lifeline from banks", *The Daily Star*, 24 August 2020.

that it will be either difficult for them to receive loan from the stimulus packages or they are not eligible for this loan. In this backdrop, they instead demanded withdrawal of interest payment of existing loan and waiver on payment of utility bills for several months.¹⁶⁴ The government might consider their demand in addition to the existing packages.

Finally, it should be kept in mind that the large stimulus packages would lose their effectiveness if they are poorly executed, funds are allocated in an unplanned manner and there is lack of transparency and accountability. To make the stimulus packages a success, the government must ensure the quality of execution and transparency in delivering the services.

5

¹⁶⁴ CPD, *A Rapid Assessment of Stimulus Packages and Relief Measures: Will the Target Groups Get the Benefits?* op cit.

Chapter 5

Tackling the Economic Impact of Covid-19: Suggestions for the Short Run

Covid-19 pandemic is taking a great toll on people's life and economic activities around the world. "Life or livelihood?" is the dilemma that the pandemic has left all countries in, from the US to the UK, from South Korea to India and Bangladesh. Countries are trying to solve this puzzle in their own ways depending on their own situation.

Being the 10th most densely populated country of the world, solving the "Life or Livelihood" puzzle is even more difficult for Bangladesh. Although there are differing views about the ways to solve this puzzle, there is broad consensus that when it comes to choosing between people's lives and economic growth, it is the former for which the latter can be compromised.

In this backdrop, the following can be suggested as the major policy guidelines for Bangladesh for fighting the economic impacts of Covid-19 pandemic in the short run:

1. *Save people from pandemic and hunger:* Saving people from the pandemic as well as from hunger should get priority over growth.
2. *Emphasize on revival of domestic demand:* One factor that makes Bangladesh economy comparatively resilient to global economic shock is that external sector constitutes a comparatively small part of its GDP. Seventy six per cent of its GDP comes from domestic consumption while foreign consumption, i.e., export constitutes only 15 per cent. Therefore, if the purchasing power of the population revives, so will the economy.
3. *Re-prioritization of different sectors:* Priority should be re-set among different sectors of the economy. For example, sectors like health, agriculture and SSNPs should now receive more attention than before.
4. *Harmonization of measures:* To make the efforts of saving life and reviving economy more effective and to avoid overlapping of target population, there should be harmonization of measures. This is particularly important for SSNPs.

With these policy guidelines in view, the followings can be suggested for the consideration of the government in the short run.

5.1 Health Sector

The duration of the Covid-19 pandemic is still unknown. Faced with a probable second wave of the pandemic and uncertainty about finding a vaccine, countries are preparing themselves to fight with the virus and cope with the pandemic situation. Bangladesh also needs to be prepared with necessary developments in the health sector to ensure that the economic recovery is not jeopardized by the pandemic again. For that purpose, the government might consider the followings.

5.1.a Increase health budget

Bangladesh's total healthcare expenditure comprises around 3 per cent of its GDP while government expenditure on health comprises nearly 1 per cent of GDP. This is about one fifth of World Health Organization (WHO) standard which demands government expenditure on health to be 15 per cent of national budget and 5 per cent of GDP.¹⁶⁵ In case of per capita budget allocation for health, Bangladesh lags behind its South Asian neighbours too.

Table 5.1: Allocation of Health Budget Per Head by Country¹⁶⁶

Country	Budget Allocation Per Capita (USD)
Maldives	2,000
Sri Lanka	399
India	267
Pakistan	129
Bangladesh	88

Since 2017, health budget as per cent of the GDP has remained merely at 0.9 per cent level which is lower than the target of 1.12 per cent of GDP set out in the Seventh Five Year Plan of Bangladesh.¹⁶⁷ Moreover, in recent years, instead of rise in budget share for health, the sector saw a fall instead, from 5.7 per cent in FY 2016-17 to 4.9 per cent in FY 2019-20.

In FY 2020-21 budget, allocation for health sector increased to USD3.45 billion from USD3.04 billion in FY 2019-20 increasing the share of health in the national budget from 4.9 per cent to 5.14 per cent. The increase of health share in the budget is welcoming but the gravity of the pandemic demands more allocation in this sector.

¹⁶⁵ UNDP Bangladesh, "Covid-19: A reality check for Bangladesh's healthcare system", available at <https://www.bd.undp.org/content/bangladesh/en/home/stories/a-reality-check-for-bangladesh-s-healthcare-system.html>, accessed on 15 May 2020.

¹⁶⁶ Jahangir Alam, "Health Sector Deprived for Over a Decade", *e-Prothom Alo*, 16 May 2020.

¹⁶⁷ Fahmida Khatun and Syed Yusuf Saadat, "Healthcare in the time of Covid 19", *The Daily Star*, 26 March 2020.

5.1.b Address manpower shortage

In its fight against Covid-19, Bangladesh suffered from manpower shortage in a number of frontiers; increase of test coverage, increase of Intensive Care Unit (ICU) facilities, rotation of service hours of health workers—all were hampered due to shortage of manpower.

According to Health Bulletin 2018, out of 103,743 sanctioned posts of health workers and professionals under the Directorate General of Health Services (DGHS), 28,758 or 28 per cent were vacant. For physicians, number of vacant posts was 5,066 which makes the vacancy rate to be 19 per cent.¹⁶⁸ There is, however, significant regional disparity in this regard. The capital city has 2,514 more doctors than sanctioned post while in regions outside Dhaka, 40 to 60 per cent post of physicians remains vacant.¹⁶⁹ Bangladesh Health Facility Survey 2017 found that among the healthcare facilities in Bangladesh, only 59 per cent had general practitioners or medical officers.¹⁷⁰

To tackle the Covid-19 pandemic, the vacant posts of health workers and professionals should be filled up immediately keeping special attention to existing regional disparity. Shortly after the outbreak of the pandemic, the government appointed 2,000 physicians and 5,000 nurses at 10 days' notice. The remaining vacant posts should be filled up in similar fashion.

According to the WHO, Covid-19 treatment requires 3 nurses and 5 medical technologists against each doctor. Also, due to highly contagious nature of the virus, health workers and professionals engaged in Covid-19 treatment have to go through compulsory isolation after certain days of service. This is why fighting Covid-19 requires a big force of health workers. It implies that in case of a second wave, Bangladesh will have to engage health workers in a number far higher than the sanctioned posts. To address this problem, the government can on one hand sanction more posts and on the other hand, following the example of other countries, can employ retired health workers and call for voluntary service when required.

5.1.c Improve condition of health facilities at upazila and community level

Over the years Bangladesh has been successful in establishing a health facility network extended to the grassroot level. The 1012 Community Clinics, 250 Union Health and Family Welfare Centres and 32 Upazila Health Complexes played a significant role in the country's commendable achievement in Millennium Development Goals (MDGs)

¹⁶⁸ Ministry of Health and Family Welfare, GoB, *Health Bulletin 2018*, Dhaka: Government of Bangladesh, p. 150.

¹⁶⁹ Anwar Islam and Tuhin Biswas, "Health System in Bangladesh: Challenges and Opportunities", *American Journal of Health Research*, Vol. 2, No. 6; "Dhaka faces doctor glut while 20.4% DGHS posts lie vacant countrywide", *Dhaka Tribune*, 21 July 2019.

¹⁷⁰ MoHFW, *Bangladesh Health Facility Survey 2017*, Dhaka: Government of Bangladesh

and progress in Sustainable Development Goals (SDGs). Despite this achievement, the health facility network at grass root level suffers from serious limitation of resources. According to Bangladesh Health Facility Survey 2017,¹⁷¹

- i) 60 per cent of district and upazila public health facilities have all six basic items of equipment for providing quality services (stethoscope, thermometer, blood pressure apparatus, adult scale, child or infant scale, and light source) while only 22 per cent of community clinics have the equipment.
- ii) Only 14 per cent of district and upazila public health facilities have facilities for five basic diagnostic tests (hemoglobin, blood glucose, urine protein, urine glucose and urine pregnancy tests).
- iii) Only 5 per cent of all health facilities have emergency transport, 21.5 per cent have alcohol-based disinfectants, 27.5 per cent have medical masks, 43.1 per cent have regular electricity and 55.1 per cent have soap and water.

The inadequacies of government health facilities, particularly at upazila and community level deserve attention immediately. To ensure better health in general and in particular, to ensure that major hospitals at district level do not become overburdened during the pandemic, the government must take immediate action to improve the facilities at upazila and community levels.

5.2 Ensuring Food Security

Covid-19 pandemic not only has put millions of people under great economic hardship all over the world by arresting economic activities, with an almost halt in transportation over a wide part of the world, the pandemic also has challenged the very notion that any person or any country can buy anything anytime if money is there. In this situation, in the post pandemic world, one of the imminent issues for a great number of countries would be ensuring food security for its population. This is more so for the developing and newly developed countries like Bangladesh. World Food Program (WFP) has already warned that 1 billion people in 55 countries might face famine in the coming days.¹⁷² Although Bangladesh is not apprehending any famine to happen, the government has taken the issue of food security very seriously. To better ensure food security, the paper suggests the followings.

¹⁷¹ Ibid., p. 19, 42, 45.

¹⁷² *The Daily Star*, 23 April 2020.

5.2.a Enhance government food stock

After the procurement of *boro* paddy and rice in FY 2020-21, food stock of the government stood at 1.04 million metric ton of which 0.76 million metric ton is rice and the rest is wheat.¹⁷³ For the *aman* season, the government has set a procurement target of 0.85 million metric ton of which 0.2 million metric ton is paddy and 0.65 million metric ton is rice.¹⁷⁴

If according to the government's plan 12.5 million households are to be distributed rice, along with other essential items, for 5 months (30 kg rice in each month), it will require more than 1.8 million metric ton rice which equals to the present reserve plus the target for *aman* season. It implies that if the plan of smart food aid card is implemented properly, with the present target for *aman* season, the government food stock will be in a tight position and will not be able to tackle the food situation if any natural calamity takes place or any man-made crisis manipulates the market. The present food stock situation thus calls for raising the target for *aman* season. More importantly, the pandemic situation demands that the government takes utmost care in *aman* procurement and fulfils the enhanced target.

Besides running the SSNPs smoothly, another reason that adds to the significance of enhanced food stock is market price volatility. Amid the pandemic, Bangladesh grew 6 per cent more rice in the *boro* season of FY 2019-20 compared to the previous year. Production of potato was also satisfactory which surpassed the yearly domestic demand by over two million tons. Despite that, in October 2020, the price of coarse rice—mostly consumed by the poor—rose to 62 US cent (BDT52) per kg in Dhaka, a price nearly 9 per cent higher from previous month's selling price, and over 44 per cent higher than the corresponding period of the previous year. Similarly, price of potato rose to 59.5 US cent (BDT50) a kilogram in Dhaka which was 27 per cent higher than previous month and over 100 per cent higher than previous year's price.¹⁷⁵ A huge food stock undoubtedly helps the government to intervene in the market at times of price volatility. With an unveiling economic crisis, such intervention will be of immense importance in the coming days.

To facilitate food-grain procurement, storage capacity should also be enhanced. At present, there are two ongoing projects of food storage—one project of 0.1 million metric ton capacity has been 81 per cent completed while another project of 0.5 million metric ton capacity has been 51 per cent completed. These projects should now be given priority over other infrastructure projects.

¹⁷³ Ministry of Food, Dhaka: Government of Bangladesh available at <https://mofood.gov.bd/site/page/0cea147a-17f8-4420-a8a3-b0a3d7adf783/%E0%A6%AE%E0%A6%9C%E0%A7%81%E0%A6%A6%E0%A6%AA%E0%A6%B0%E0%A6%BF%E0%A6%B8%E0%A7%8D%E0%A6%A5%E0%A6%BF%E0%A6%A4%E0%A6%BF>, accessed on 25 October 2020.

¹⁷⁴ "Govt to procure 8.50 lakh mts food grains in Aman season", *UNB*, 28 October 2020.

¹⁷⁵ "Food stock aplenty, price remains a concern", *Dhaka Tribune*, 15 October 2020.

5.2.b *Expand, deepen and harmonize SSNPs*

Before the pandemic, coverage of the existing food security programmes of the government was quite big with respect to the size of population living below poverty line. Prior to the pandemic, total number of beneficiaries of major food security programmes, namely FFP, OMS, VGD and VGF was 7.6 million. Taking the average size of household to be four, the total population covered by these programmes stand at 30 million which is roughly equal to the number of poor people living below the poverty line before the pandemic.

Although the coverage of the food security programmes was high in pre-pandemic time, the benefit was thinly distributed. In FY 2019-20, the beneficiaries of OMS, FFP and VGF received USD8.3 per head per month and the beneficiaries of VGD programmes received USD16 per head per month.¹⁷⁶ Average receipt from cash transfer programmes was USD6.9 per head per month and that from food security and employment generation programmes was USD1.7 per head per month. If the number of household members is considered instead of the beneficiaries alone, per head benefit becomes even smaller.

Table 5.2: Per Head Allocation in Social Safety Net Programmes, Bangladesh, FY 2019-20¹⁷⁷

	No. of Beneficiary (Persons in Million)	Allocation (USD Million)	Per Head Allocation Per Year (USD)	Per Head Allocation Per Month (USD)
Cash Transfer Programme*	8.75	724.25	82.77	6.9
Food Security and Employment Generation Programme	83.75	1715.6	20.47	1.7

Note: Excluding Honorarium for Freedom Fighters, Honorarium and Medical Allowances for Shaheed (Martyred) Family and Injured Freedom Fighters and Pension for Retired Government Employees and their Families.

Given that the Covid-19 pandemic made the existing 30 million poor people poorer and has pushed another 30 million below the poverty line, there is need for both substantial expansion and deepening of the existing food security programmes. The government's plan to give 'smart card' for food aid to 12.5 million households which would provide 50 million people essential goods for five months might be a good start in

¹⁷⁶ Finance Division, Dhaka: Ministry of Finance, Government of Bangladesh available at <https://mof.portal.gov.bd/site/page/32220b73-846f-4a33-b4c0-a6650c918e25/Safety-Net>, accessed on 23 May 2020.

¹⁷⁷ Finance Division, *Social Safety Net Programmes FY 2020-21*, Dhaka: Ministry of Finance, Government of Bangladesh available at <https://mof.portal.gov.bd/site/page/32220b73-846f-4a33-b4c0-a6650c918e25/Safety-Net>, accessed on 21 September 2020.

this regard. If implemented properly, this would go a long way in providing food security to the existing and 'newly poor' population. If the impact of the pandemic lingers, the government might consider extending the programme for further few months.

The smart card scheme and the associated database is also a good step in harmonizing the SSNPs. However, if the database is made by mere merging of the existing lists of various programmes, it might fail in targeting the expected population as there are many problems in the existing lists. Care should be taken in preparing this new list even if it requires somewhat more time and while preparing the new list, food aid programmes can be continued based on the previous lists.

Income support programmes also require a new harmonized list. Again, the two beneficiary lists—list for food security programmes and list for income support programmes should be synchronized. Use of Mobile Finance System (MFS) for paying salary of RMG workers from the USD590.45 million package was hailed by many as the cash directly went into the hand of the workers and there was less scope for misappropriation of the fund. Even prior to the pandemic, the government had been using MFS to distribute stipend for education. MFS can be used for income support programmes too, such as allowances for aged, widow, disabled and other destitute population.

As stated before, a new flawless list is crucial to run the social safety net programmes effectively. Such a list will help in distributing aid in any natural or man-made catastrophe even after the pandemic. To make new lists flawless, the government might consider government-civil society collaboration. For a proper checking of the list, it should be published in open community places such as local haat/bazar (marketplace), Union Parishad office or local school from where the respective community can see and check the list. There also should be a grievance redress committee and a hotline for each area where a prospective beneficiary can easily lodge complains about the list.

5.3 Reviving Domestic Consumption

5.3.a *Extend cash transfer for informal workers*

Revival of domestic consumption requires simultaneous resumption of production and purchasing power which in turn require preserving previous employment and/or creating new ones. In case of Bangladesh, out of the USD9.53 billion packages allocated for manufacture and service sectors, only USD590.45 million (to be paid as wages to workers of export-oriented industries) is directly meant for raising purchasing power while the rest is meant for reviving production mainly.

To have more impact on consumption the government could have offered separate packages for the salary of the non-RMG large enterprises and CMSMEs. One

major obstacle in implementing such salary packages is lack of documentation. At present there exists no systematic documentation of the number of employees in the enterprises—be it large, medium or small. Lack of documentation is naturally more acute for CMSMEs which mostly work in informal setting.

In absence of documentation of employees, the only option the government is left with to provide cash support to millions of distressed informal workers and to boost domestic consumption thereby, is a general cash transfer programme. Particularly those working in informal sector should be targeted for this transfer. Government's cash support programme for 5 million families (USD29.5 or BDT2500 for each beneficiary) can be taken as a starting of such cash transfer programme. Once the list of beneficiaries of this programme is corrected, the government should extend the cash transfer programme. Instead of one-shot cash transfer, the recipients should be provided with several transfers of higher amount.

5.3.b *Boost income and consumption of farmers through procurement*

Two main objectives of public procurement of food grains are building food stock and providing price support to farmers. In case of Bangladesh, putting more emphasis on buying rice from millers instead of buying paddy from farmers and failure to meet even that smaller target of paddy have long been two major issues of debate. At least during the pandemic, there should have been all out efforts to fulfill the target of paddy procurement from farmers to boost their purchasing power and consumption.

The target of *boro* paddy procurement have already been missed. For *aman* season, the government has set target to buy 0.2 million metric ton of paddy from farmers and 0.65 million metric ton of rice from millers. To give a boost to farmer's purchasing power and consumption, the government might re-consider the composition of food-grain purchase by raising the target of paddy and strengthen its effort to fulfill the target of paddy purchase.

One reason that is often shown as the cause for not buying paddy from farmers is that farmers cannot maintain the 14 per cent moisture level required for government purchase. At least at the time of pandemic, such restrictions might be relaxed. For the time being, with some extra effort, the government might accept paddy from farmers at slightly higher level of moisture and then get them dried in the mills through a contract with mill owners.

The government might also consider buying various agricultural products such as pulse, onion, and vegetables from local markets to distribute as relief. This would help expand the contracted market for agricultural products and enhance the income and consumption of the producers.

5.3.c Expand Government Employment Generation Programmes in Rural Areas

Farm income (i.e., income from crop cultivation) constitutes only a part of rural income. About 40 per cent of rural households depend on non-farm activities for their livelihood; farm households also supplement their income by non-farm activities. As non-farm activities had been severely impacted by the pandemic and would continue to be affected, albeit to a lesser extent in the coming days, there would be need for employment generation by the government.

Bangladesh already has such government programmes; for example, Food for Work (FFW), Food for Money (FFM) and Employment Generation Programme for the Poor etc. In FY 2019, 4.12 million man-month employment was generated through these programmes which means 1-year employment for 0.34 million people or 6-month employment for 0.68 million people. In FY 2020-21, allocation for such programmes increased from USD1.71 billion to USD2.12 billion. Considering the number of people impacted by the pandemic, there is need for more substantial extension of such programmes.

5.3.d Increase tax-free income limit and lower minimum tax amount

To encourage consumption, the government has raised annual non-taxable income limit from existing USD2,952 (BDT250,000) to USD3,543 (BDT300,000) for the fiscal year 2020-21. The government might consider raising the limit further to USD4,133 (BDT350,000) for male and USD4,723 (BDT400,000) for female.

Besides raising the tax-free income limit, the government has also lowered the minimum tax rate for individuals from 10 per cent to 5 per cent, and the maximum tax rate for individuals from 30 per cent to 25 per cent. Minimum amount of tax has also been reduced. For FY 2020-21, lowest income tax would be USD59 (BDT5000) instead of existing USD118 (BDT10000). These all are welcome changes which are supposed to encourage domestic consumption.

5.4 Reviving production

5.4.a Ensure concerted effort

Covid-19 pandemic has created an unusual challenge for Bangladesh economy. Ensuring health safety and proper functioning of health system on one hand and competing in a world with shrinking business opportunity and rising competitions on the other hand are daunting tasks indeed. To face this extraordinary challenge, the government must ensure concerted effort based on collaboration with all relevant stakeholders. The government might consider forming an expert committee which would provide it with guidelines and pragmatic plans on how to revive production in the current situation.

5.4.b Diplomatic effort to revive the RMGs

Due to the Covid-19 pandemic, Bangladeshi RMG factories witnessed cancellation or deferment of order worth USD3 billion. To address this problem, the country should plan for a concerted diplomatic effort aimed at restoring these orders as well as channeling new orders into the country. The government has already taken some initiatives in this direction. To restore the RMG sector on track, more concerted effort is required which would involve the foreign missions in all export destination countries.

5.4.c Attract investment relocated from China

Amidst US-China trade war, Japan, the US and Europe have announced relocating many of their factories from China. Japan has already allocated USD2.2 billion to help its manufacturers shift production units out of China. Korean companies are also planning to move out of China. In this backdrop, Vietnam, India, Indonesia and other RMG competitors of Bangladesh are racing to get their share of the pie from the probable exodus of factories from China.

By April 2020, the Indian government, through its overseas missions, reached out to more than 1,000 US companies and offered them incentives to move to India from China. The country has also earmarked lands for foreign companies intended to shift factories out of China. Vietnam's proximity to China and presence of global companies have made it a big choice for the probable relocation of factories from China. Also, Vietnam's achievement in containing Covid-19 is one of the best in the world and it has helped them earn the trust of foreign investors. Yet, the country is doing everything—from offering space to incentives and tax cuts—to bring foreign companies in Vietnam. The government of Vietnam has planned to set up a special working group to negotiate directly with foreign groups to move investment to Vietnam after the pandemic.¹⁷⁸

Bangladesh is also working on a new proposal for prospective investors who would relocate their investment from China to Bangladesh. The new proposal, which includes extending tax waiver, allowing duty-free import of machinery, providing bond facilities, and speeding up services, is yet to be finalized.

Bangladesh's RMG sector has been showing a downward trend, a situation made worse by the pandemic. Not only USD3 billion has been cancelled or delayed, future of global RMG market is also uncertain. The global apparel market is projected to decline by 15 per cent because of many retailers' filing for bankruptcy particularly in the USA. According to the United Nations Department of Economic and Social Affairs (UNDESA), clothing exports from Bangladesh, Cambodia, Lesotho and Haiti could fall by at least 20 per cent.¹⁷⁹ In this situation, many big RMG manufacturers

¹⁷⁸ "Factories leaving China: Can Bangladesh seize the opportunity?", *The Business Standard*, 14 May 2020.

¹⁷⁹ "As \$297bn apparel market to vanish, Bangladesh also to suffer", *The Business Standard*, 14 May 2020.

are eyeing to the relocation of RMG investment from China for their existence in the sector.¹⁸⁰ The condition of RMG sector thus calls for more speedy and concerted efforts by the government as well as by trade bodies like BGMEA, BKMEA and Federation of Bangladesh Chambers of Commerce and Industries (FBCCI).

5.4.d *Reconsidering Value Added Tax (VAT) for cottage, micro and small enterprises*

To encourage consumption of thousands of small entrepreneurs, VAT-free turnover limit needs to be increased. The government has raised the VAT-free turnover ceiling from USD59,045 (BDT5 million) to USD94,473 (BDT8 million) for the 2020-21 fiscal year. At present businesses with USD59,045 (BDT5 million) to USD354,274 (BDT30 million) annual turn-over pay 4 per cent turnover tax; this ceiling has been raised to USD413,320 (BDT35 million).¹⁸¹ These measures are supposed to increase production on one hand and boost consumption of the thousands of small entrepreneurs on the other hand.

To encourage enterprises to pay VAT while reducing their burden, the FBCCI has long been advocating for reducing minimum tax rate from the existing 4 per cent to 2 per cent.¹⁸² The government might consider, at least temporarily, such reduction in tax rate, particularly for the small enterprises in a bid to mitigate the pandemic impact.

5.5 *Deferring LDC Graduation*

LDC graduation might cause Bangladesh to lose its apparel export to a significant extent. Bangladesh's export is growing in the markets like the European Union, Canada, China, India and Japan, where the country enjoys zero tariff facility as an LDC. But soon after the LDC graduation, Bangladesh will be subjected to paying tariff between 8.61 per cent and 17 per cent in those countries. On the other hand, as a result of the EU-Vietnam Free Trade Agreement (FTA), EU tariffs on Vietnam exports would come down to zero by 2027. According to an estimate, Bangladesh's potential export loss due to LDC graduation could be as high as one third of its apparel export to the EU if Vietnam's trade deal with the EU is taken into consideration. Even without considering Vietnam's EU deal the loss might be in the range of USD2-6 billion.¹⁸³ LDC graduation is, therefore, considered to be a challenging issue for Bangladesh. The pandemic just made it more challenging than before. Against the backdrop of the economic damages caused by the pandemic, Bangladesh may now reconsider the timing of its graduation. The country might request the UN to defer its next triennial LDC status review (in 2021) for at least three years. At the same time, the country should start FTA negotiations with

¹⁸⁰ Banik Barta, 16 May 2020.

¹⁸¹ "VAT-free turnover limit likely to be Tk80 lakh", *The Business Standard*, 01 June 2020.

¹⁸² Ibid.

¹⁸³ Abdur Razzaque, "Exports: riding the waves of uncertainty", *The Daily Star*, Dhaka, 30 June 2020.

the EU, the UK, India and China for the continuation of the zero-duty trade preference for its export in the post-LDC graduation era.

5.6 Diplomatic Effort for Support from Migrant Labour Receiving Countries

With falling oil price, lockdown/curfew in destination countries and probable global economic downturn in future, Covid-19 pandemic resulted in lay off and pay cuts of Bangladeshi and other migrants in the Gulf Cooperation Council (GCC) countries, the central destination of Bangladeshi labour migrants. Moreover, there is apprehension that the GCC states might strengthen their efforts for “localization of jobs” in the post-pandemic stage which calls for an overhauling of Bangladesh’s labour migration trends in the long run.

In the short run, however, no such overhauling is required. What the government might consider in the short run are as follows:

- i) The government should take diplomatic efforts to pursue the labour migrant receiving countries so that they do not deport the migrant workers at the time of crisis. This diplomatic effort should be a continuous process so that even if some workers are deported due to the pandemic situation, they could re-migrate as soon as the situation improves.
- ii) Diplomatic efforts should also be there to ensure that all labour migrants who had been stranded in Bangladesh due to the pandemic and whose visas have been expired for this reason can get their visas easily.
- iii) Bangladeshi Missions in concerned states should take measures to help the expatriates with proper documentation if they lack any. Because, it is the undocumented/inadequately documented workers who first bear the brunt of any deportation attempt. In many GCC states, if a migrant works in a company other than that for which he had been hired, he becomes illegal. Although such practice had been in place for many years and the law enforcers usually are lenient to this, in crisis situations, the authorities enforce the law very strictly.
- iv) In case of lay off, the Bangladeshi Missions should take care so that the workers are fully paid according to the law of the destination country and job contract.

Chapter 6

Suggestions for the Medium Term

Considering the all through deep impact of the pandemic, particularly on people's income and livelihoods, the economy of Bangladesh is likely to take a few years to return to the track. It is not only the small informal enterprises which are at risk, the future of big ones is also not clear. The fact that some major thriving industry had been suffering from some structural challenges even before the pandemic, made the situation more difficult. The following suggestions might be considered for the medium term to recover from the pandemic effect as well as to address the long-standing challenges of various sectors of the economy.

6.1 Revisiting Food Policy

Food security is a multidimensional concept which includes food accessibility, availability, utilization, and stability.¹⁸⁴ As the country was on a high growth track in recent years, the issue of accessibility and stability was not of much concern. Therefore, Seventh Five Year Plan placed its focus mainly on food availability (domestic production and imports) and utilization (micronutrient consumption) measures of food security.¹⁸⁵

Covid-19 pandemic has adversely affected the food security of the country. According to a survey conducted by PPRC and BIGD at the time of the pandemic, 27 per cent of the people were not getting food three times a day.¹⁸⁶ Moreover, the pandemic is likely to increase poverty significantly, making the poverty ratio close to double. Therefore, in the post-pandemic period, while planning for food security in the medium term, for example in the Eighth Five Year Plan, the government should also take the accessibility and stability dimensions into consideration.

While ensuring availability of food calls for emphasizing on agriculture, ensuring accessibility and stability requires enhancement of food storage capacity and significant expansion of social safety net programmes covering both food aid and cash aid programme. The first two will be discussed in the next section; this section will focus on the part of SSNPs.

¹⁸⁴ For definition of the four dimensions of food security, see, FAO, *Food Security*, Policy Brief, Issue 2, June 2006, available at http://www.fao.org/fileadmin/templates/faoitaly/documents/pdf/pdf_Food_Security_Coecept_Note.pdf, accessed on 22 April 2020.

¹⁸⁵ GED, *7th Five Year Plan FY 2016-2020: Accelerating Growth, Empowering Citizens*, Dhaka: Planning Commission, Government of Bangladesh, 2016, p. 618.

¹⁸⁶ "Economists fear food crisis due to inadequate storage capacity", *The Business Standard*, Dhaka, 06 May 2020.

Bangladesh's food policy has evolved over the years depending on the condition and demand of the economy. To address the long-term poverty impact of Covid-19 pandemic, the government might consider revisiting its food policy and reinstating some of its old programmes in renewed forms. For example, the "Smart Card for Food Aid" can emerge as renewed form of food rationing. Food for Education programme can also be reinstated as "School Lunch Programme". At present "School Feeding Programme" comprises a small scale programme having allocation of only USD56 million (BDT4.74 billion). The government can consider school lunch programme in a country-wide scale covering the students in government primary and secondary schools as well as in NGO-run schools. Besides helping food security situation, this programme will also help to reduce drop out from schools which is likely to increase due to the economic pressure created by the pandemic. To ensure micronutrient intake as well as to give a boost to animal and poultry farms, the school feeding programme might include eggs and milk alternatively once in a week.

6.2 Rethinking Agriculture

In Bangladesh, agriculture still provides 40 per cent of the country's employment as a result of the failure of manufacturing and service sector in absorbing the resources released from agriculture.¹⁸⁷ Despite its crucial role in ensuring food security and providing employment, agriculture receives less attention in policy discussions in Bangladesh. Ahmed et al. observes that in Bangladesh, the farmers are relatively weak as a pressure group which, according to them, "permitted the policy regime to continue to discriminate against agriculture".¹⁸⁸

However, with the onset of the pandemic, the government is putting great emphasis on agriculture. "No one inch of agricultural land should be left uncultivated"—the government is reiterating this intention time to time. Covid-19 pandemic seems to have reminded the developing world the strategic importance of agriculture sector.

With renewed emphasis on agriculture, it is now time to rethink about agriculture. There are many things to do for the development of agriculture sector ranging from enhancing credit facility, price support initiative, Research and Development (R&D) activities, diversification, mechanization, improvement in supply chain, establishing value chain and so on. However, amidst the pandemic situation, in the medium run, the government might put emphasis on the following two measures with a view to boost agriculture sector as well as to support the income of the farmers.

¹⁸⁷ Azizur Rahman Khan, "The Transformation of Bangladesh's Agriculture", *Bangladesh Development Studies*, Vol. XXXX, Nos. 1 & 2, March-June 2017; Rizwanul Islam, "Structural Transformation and Absorption of Surplus Labour", *Bangladesh Development Studies*, Vol. XXXX, Nos.3&4, September-December 2017; Kazi Iqbal and Md. Nahid Ferdous Pabon, "Quality of Growth in Bangladesh: Some New Evidence", *Bangladesh Development Studies*, Vol. XLI, No. 2, June 2018.

¹⁸⁸ Nazneen Ahmed, Zaid Bakht, Paul Dorosh and Quazi Shahabuddin, *Distortions to Agricultural Incentives in Bangladesh*, Working Paper No. 32, Dhaka: BIDS and World Bank, 2007.

6.2.a Making agricultural loan 'really' accessible

Majority of Bangladeshi farms are of small size category. For crop cultivation, share of small farms in total number of farms is 87 per cent; similar is the case for dairy and poultry sector. On one hand these small farmers find it difficult to deal with bank loans by themselves, on the other hand, due to their economic vulnerability, they are less preferable to the bank as borrowers.¹⁸⁹ As a result, at present, only 28 per cent of rural households borrow from banks while 50 per cent borrow from NGOs at a much higher rate. Moreover, there is great difference among small and large farmers in terms of taking loan from banks—among marginal farmers 16 per cent takes loan from banks and 63 per cent takes loan from NGOs. For large farmers, the shares are 58 and 16 per cent, respectively.¹⁹⁰

Currently, Bangladesh Bank has made it mandatory for all commercial banks to disburse a certain proportion of total loan to farmers including the marginal ones. But in practice, very few marginal and small farmers can avail the loan as banks are reluctant to give them loan out of fear of default. The government should address this issue in order to boost agricultural production. It might consider continuing subsidy in interest rate that has been offered for both crop and non-crop agricultural loan under the existing stimulus packages.

To encourage the small and marginal farmers to take loan from banks, special campaign should be run by the government. The task can be awarded to DAE. DAE can task the Sub Assistant Agriculture Officers (former Block Supervisors) to encourage farmers in taking crop loans from banks by explaining them the procedure through yard-meeting, *haat* meeting, etc.

Given the educational status of small and marginal farmers, procedural rules and regulations of agricultural should be made more borrower-friendly. A help desk might be introduced in the branches of banks situated in rural areas to assist the farmers with the procedure.

6.2.b Strengthening price support initiative

At present the only price support mechanism for farmers is government procurement of food-grain, particularly paddy or rice. For various reasons, rice still dominates the country's agricultural produce.¹⁹¹ To the distress of the rice farmers, real

¹⁸⁹ Md. Alauddin and Jyotirmoy Biswas, "Agricultural Credit in Bangladesh: Trends, Patterns, Problems and Growth Impacts", *The Jahangirnagar Economic Review*, Vol. 25, June 2014, pp. 125-138.

¹⁹⁰ Bangladesh Bureau of Statistics, *Census of Agriculture 2008, Vol-III*, Dhaka: Planning Commission, Government of Bangladesh, p. 87.

¹⁹¹ Rice accounts for 73 per cent of cultivated area in Bangladesh. See, BBS, *Bangladesh Agricultural Statistics Yearbook 2018*, Dhaka: Planning Commission, Government of Bangladesh, 2019.

price of rice has been showing a declining trend for a long period with occasional crisis led hiccups both at global and national level.¹⁹² In developing countries, the grievance of farmers are added by the fact that distress sell is a common phenomenon there.¹⁹³ With 84 per cent of farmers falling in the small farm category¹⁹⁴ having less than 2.5 acre of land, the problem of distress sell is more acute for Bangladesh. These are the reasons why Bangladesh, like its fellow rice grower countries such as India, Vietnam and Thailand, has long been practicing public procurement of rice.¹⁹⁵

According to Shahabuddin and Rahman, although the government procurement of grain was beset with inefficiency and bureaucratic rent-seeking behaviour, it can be suggested that all farmers benefit from the general rise in prices due to the programme. Without the programme, the prices would certainly have been lower.¹⁹⁶ Such was the case in Bangladesh in the *boro* season at the pandemic time. Therefore, with renewed emphasis on agriculture in the post-pandemic context, public procurement of rice should receive attention in the coming years.

To make government procurement of grain more effective so that it can encourage agricultural production and at the same time can boost domestic consumption by raising income of farmers, the government may consider the following suggestions:

- To have significant impact on the market, the share of government procurement in total production should be increased. In Bangladesh the government usually procures less than 10 per cent of total rice production¹⁹⁷ while in neighbouring West Bengal, the share has been more than 20 per cent in recent years.¹⁹⁸ A study of International Food Policy Research Institute (IFPRI) and United States Agency for International Development (USAID) on Bangladesh's foodgrain procurement system showed that the actual procurement of 399,862 metric ton of *boro* paddy, which was 7.25 per cent of total production in 2019 increased the market price of paddy by 7.6 per cent, from 18.3 US cent (BDT15.41) to 19.7 US cent (BDT16.56) per kg. The study also found that if the share of the procurement had increased to 18.7 per cent, the market price would have reached to 31 US cent (BDT26) per kg, the government set price in that year.¹⁹⁹ Bangladesh,

¹⁹² Khan Ahmed Sayeed and Murshid Mohammad Yunus, *Rice prices and growth and poverty reduction in Bangladesh*, Rome: Food and Agriculture Organization (FAO), 2018, p. 11.

¹⁹³ Rehman Sobhan, "Addressing the Structural Sources of Risk and Vulnerability for the Resource Poor", *Bangladesh Development Studies*, Vol. XXXX, Nos.3&4, September-December 2017.

¹⁹⁴ Bangladesh Bureau of Statistics, *Bangladesh Agriculture Census 2008, vol 1*, Dhaka: BBS, p. 54.

¹⁹⁵ Khan Ahmed Sayeed Murshid and Mohammad Yunus, op cit.

¹⁹⁶ Quazi Shahabuddin and Atiqur Rahman, op cit.

¹⁹⁷ "Buy paddy from farmers, not rice from millers", *Dhaka Tribune*, 11 May 2020.

¹⁹⁸ Akhter U. Ahmed and M. Mehrab Bakhtiar, *Boro Rice Procurement in Bangladesh: Implications for Policy*, Dhaka: IFPRI and USAID, April 2020, p. 19.

¹⁹⁹ Ibid.

therefore, might consider increasing the share of procurement to ensure its success in supporting farmer level price. Besides supporting price, increased purchase would also provide the base for an expanded SSNPs which will be necessary in the coming days.

- Government procurement is most effective when the grain is bought from the farmers directly. The IFPRI-USAID study mentioned above showed that if in FY 2018-19, if the government had procured the entire quantity as paddy from the farmers, then the market price of paddy would have been 26.6 US cent (BDT22.36) per kg which is 45 per cent higher than the actual average market price of 18.3 US cent (BDT15.41) per kg.²⁰⁰

Unfortunately, the experience of Bangladeshi farmers in this regard is frustrating. A study found that over the period 1991 to 2012, only about 20 per cent of grain were procured from farmers while over the period 2004-2012 almost all the grains were procured from millers.²⁰¹ This trend still continues.²⁰² Various studies suggest that the existing procurement system mainly benefits the rice millers at the cost of the farmers. As mentioned before, one reason shown for not buying paddy from farmers is that they cannot ensure moisturizer level of required 14 per cent. It can be mentioned here that to address this problem, some rice producing countries, e.g., Indonesia and Philippine follow the policy of differentiation of price based on moisturizer level while some other, e.g., Sri Lanka has taken policy of milling paddy through government initiative.²⁰³

Recently, acknowledging the failure of the existing procurement system in supporting farmers, the government of Bangladesh has also decided to develop drier facilities and paddy silos across the country so that during the procurement more staple can be bought in the form of paddy, directly from farmers, rather than rice from the millers.²⁰⁴ These measures should get priority in the medium run.

- There should be proper fixing and appropriate timing of announcement of procurement price so that these send correct signals to producers, while minimizing budgetary costs to the government. Price should be high enough to protect the farmers from making loss but not so high that it

²⁰⁰ Akhter U. Ahmed and M. Mehrab Bakhtiar, op cit.

²⁰¹ Md. Jahangir Alam, Shaheen Aktar and Ismat Ara Begum, *Bangladesh's Rice Procurement Sytem and Possible Alternatives in Supporting Farmers' Income and Sustaining Production Incentives*, Mymensingh: Department of Agribusiness and Marketing Bangladesh Agricultural University, 2014, p. 48-49.

²⁰² "HC issues ruling over government buying paddy and rice directly from farmers", *Dhaka Tribune*, 19 September 2019.

²⁰³ Alam et al., op cit., p. 5-17.

²⁰⁴ "Food Ministry asked to formulate procurement policy that benefits farmers", *Dhaka Tribune*, 27 May 2019.

distorts incentive and discourages crop diversification. Studies found that setting procurement price substantially above market price encourages rent seeking behaviour and corruption.²⁰⁵

- The procurement centres should be more dispersed and decentralized so that the farmers can reach there at low costs and thus can cut down on transaction costs. The government might also opt for e-purchase which would help reduce cost and address various irregularities. In West Bengal of India e-purchase scheme has been proven to be a success. The government of Bangladesh had also taken attempt to introduce such schemes back in 2017 but it is yet to see any notable success.²⁰⁶
- While giving price support to the farmers, balancing measures would be required to ensure that it does not lead to price hike in urban markets and hit the urban poor and lower middle class. OMS programme, if run effectively, can have significant balancing effect.

6.3 Rebuilding the Health Sector

The pandemic has brought into fore some weaknesses of the country's health sector which must be addressed in the medium and long run to ensure public health and to build resilience against any pandemic like the present one.

6.3.a Bring Government in the Driving Seat of Health Sector

Bangladesh's health sector is dominated by private sector. Private sector employs 58 per cent of physicians and provides 64 per cent of total hospital beds.

Table 6.1: Comparative Share of Public and Private Health Sector, Bangladesh, 2016²⁰⁷

	Public sector	Private Sector
Number of hospitals	1,084	5,023
Percentage share in total number of hospitals	18	82
Number of hospital beds	49,414	87,610
Percentage share in total number of hospital beds	36	64
Percentage in share of total doctors employed	42	58

²⁰⁵ Qazi Shahabuddin and Atiqur Rahman, op cit.

²⁰⁶ "Govt to procure Boro paddy directly from farmers through Krishaker App", *Dhaka Tribune*, 11 March 2020.

²⁰⁷ Ministry of Health and Family Welfare (MoHFW), Government of Bangladesh, *Health Bulletin 2017*, Dhaka: MoHFW, 2018, p. 21; WHO, available at <https://www.who.int/workforcealliance/countries/bgd/en/>, accessed on 30 June 2020.

With a few exceptions, the over-all performance of the private healthcare sector of Bangladesh at the time of pandemic was not encouraging, if not disappointing. Closing of outpatient treatment by private practitioners at the early stage of the epidemic, denying admission to emergency patients and profit mongering attitude of some renowned private sector hospitals at a time of national crisis—all these suggest moral and infrastructural incapability of the country's private health sector in serving at the time of crises like Covid-19 pandemic.

The experience of Bangladesh during Covid-19 pandemic has shown that it would be risky to depend on private health care sector for tackling any future epidemic. Dominance in healthcare sector seems to have encouraged the private healthcare sector to deny treatment to patients during the pandemic even ignoring government direction. To reverse the balance, the government should emerge as the majority provider of healthcare service, if not the sole provider. Global experience of Covid-19 pandemic also suggests that the government should be in the driving seat of healthcare sector to tackle such crises.

6.3.b Universal Health Coverage

Out-of-pocket health expenditure (health expenditures directly paid by a patient during time of service use and not reimbursed by any insurance coverage) is very high in Bangladesh. Sixty-seven per cent of the total expenditure on health is privately financed through Out-of-Pocket (OoP) purchase while 23 per cent is financed by the government.²⁰⁸ This share of OoP is much higher than global average which is about 19 per cent.²⁰⁹ Even in many neighbouring countries, the share of OoP is lower than Bangladesh—64.58 per cent in India, 55.44 per cent in Nepal and 50.12 per cent in Sri Lanka.²¹⁰

A negative consequence of the large share of OoP purchases is that it places burden on the population in the lowest quintile who have the least ability to pay for health care. While planning for universal healthcare coverage in the long run, in the medium run, to reduce OoP share in health expenditure, the government can consider the following:

- i) For those employed in formal sector, the government can facilitate health insurance at affordable premium which will be partly paid by the employer, partly by the employee and the rest by the government.
- i) For workers in informal sector, the government should expand its coverage of healthcare facility, particularly focusing on ensuring presence of

²⁰⁸ MoHFW, *Bangladesh Health Facility Survey 2017*, op cit., p. 7.

²⁰⁹ Rumana Huque and S M Abdullah, "Health system responsiveness to contain Covid-19", *The Financial Express*, 17 April 2020.

²¹⁰ Ibid.

physicians at government health facilities as well as on ensuring supply of medicine as these two comprise the major part (more than 60 per cent) of OoP expenditure of households.²¹¹

6.4 Diversifying Export

Diversification of export has long been a serious concern for Bangladesh economy. Although export growth of Bangladesh's RMGs was robust for the last decade and a half, the concern was always there that a sudden decline in demand for Bangladeshi RMGs, which accounts for 40 per cent of manufacturing value added, 60 per cent of manufacturing employment and more than 80 per cent of total export, would send shock waves throughout the economy. The current situation of Bangladesh's RMG sector proves this apprehension to be true. With an uncertain future of Bangladesh's RMG export in the post pandemic era, diversification of export has become even more urgent for the country.

It can be mentioned here that both Sixth and Seventh Five Year Plans put emphasis on export diversification, although with little success. In fact, share of RMG in total export increased to 81 per cent and then further to 84 per cent during the years of Sixth and Seventh Five Year Plans, respectively.

The challenges in export diversification and their solutions are well documented. These include: ensuring export competitiveness in general by addressing border barriers and beyond-the border constraints; reducing anti-diversification bias, specifically RMG-bias; restructuring curriculum at degree and diploma levels for all technical courses along with the upgradation of industrial training institutions; promoting R&D of product design geared to supply chain management and customer relations; improving quality of infrastructure which includes power, gas, transport networks and telecommunications, land and sea ports and improving business environment particularly in terms of starting business, getting electricity and credit, registering property and enforcing contracts. The Covid-19 pandemic has added to the urgency as well as has created an opportunity to reflect on the issues and start the reforms mentioned above.

6.5 Addressing the Challenges of RMG

It was noted before that the RMG sector of Bangladesh was facing a hard time much before the pandemic started. It was also mentioned that a host of internal and external challenges was liable for the collapse in RMG export prior to the pandemic. External challenges include economic downturn in major destination of the country's RMG namely the US, Germany, the UK and Italy which created downward pressure

²¹¹ Sazzad Hossain, "Bangladesh Healthcare Industry: The Thriving Industry that is Growing Faster than the GDP", 11 April 2016.

on its demand,²¹² a situation further aggravated by the pandemic, devaluation of euro leading to rise in the production cost and price cut by the US and EU buyers. According to BGMEA, production cost in RMG sector went up by 17 per cent in the last two years. Price cut by the buyers further reduced the profit margin of Bangladeshi entrepreneurs.

But the most significant concern for the country's RMG sector was that it was losing its competitive edge which led the buyers to turn to its competitors like Vietnam, India and Pakistan. Bangladesh's relatively worse performance compared to its competitors in various global indices regarding competitiveness and trade performance,²¹³ devaluation of currency by competitor countries like Vietnam and India, FTA of Vietnam with the EU and huge Chinese investment in Vietnam²¹⁴—all these have left Bangladesh's RMG sector in a comparatively disadvantaged situation. The fact that Bangladesh is going to lose duty free market to the EU, the destination of 60 per cent of its apparel export, after its graduation to a developing nation while its most important competitor Vietnam has struck a free trade deal with the EU, adds to the comparative disadvantage of Bangladesh. By the end of FY 2018-19, Vietnam almost touched Bangladesh in terms of share in global RMG export and there was strong apprehension that Vietnam would soon become the second largest apparel exporter toppling Bangladesh.²¹⁵ By August 2020, Vietnam was able to beat Bangladesh in apparel export.

Some internal challenges of the country's RMG sector add to its comparative disadvantage. There are significant gaps in terms of skilled manpower, labour efficiency, technological advancement, R&D activities, efficiency in product development and product diversification.²¹⁶

Bangladesh has comparatively lower worker productivity rate amongst competing nations which is reflected in skill gaps and shortages at all levels starting from workers to managers. In a study, 87 per cent of mid-level managers expressed the view that lack of education and training among workers has negative impact on their productivity.²¹⁷ As of 2015, an estimated 200,000 foreigners working in RMG industries in Bangladesh remitted USD5 billion annually, majority of them are occupying supervisory and managerial positions.²¹⁸ In a study of CPD titled "New Dynamics of Bangladesh's Apparel Industries" it was found that 13 per cent of the country's RMG

²¹² "Global economic slowdown and its impact on Bangladesh RMG sector", *Textile Today*, 05 May 2020.

²¹³ For example, in Ease of Doing Business Index 2019, Bangladesh ranked 168th while Vietnam ranked 70th. Source: "Why will Vietnam overtake Bangladesh in RMG export?", *Textile Today*, 18 March 2020.

²¹⁴ "RMG sector needs to allow FDI, shorten lead time learn from Vietnam: Experts", *BizData Insight*, 21 July 2020; "How is Bangladesh's rival Vietnam's RMG sector growing so fast?", *The Business Standard*, 22 December 2019.

²¹⁵ "RMG global market share: Bangladesh loses as Vietnam gains", *Dhaka Tribune*, 04 August 2019.

²¹⁶ Mohammed Ziaul Haider, op cit., pp. 12-17; Md Ridwanul Huq, op cit.; Md. Nurul Alam, op cit.

²¹⁷ Md. Masud Chowdhury, Razu Ahmed and Masuma Yasmin, "Prospects and Problems of RMG Industry: A study on Bangladesh", *Research Journal of Finance and Accounting*, Vol. 5, No. 7, 2014, p. 108.

²¹⁸ Md. Ridwanul Huq, op cit.

enterprises have foreign professionals. The study attributed this to the failure of local management schools.²¹⁹ This greatly adds up to the cost of manufacturers and at the same time drains valuable foreign exchanges.

Besides competence of workforce, Bangladeshi garment factories are also in need of technological upgrading. While many analysts and policy-makers hold the view that Bangladesh would continue to enjoy the comparative advantage of low labour-cost, others express the concern that “[T]he notion of comparative advantage based on the labour cost alone has fast changed due to technological progress and automation.”²²⁰ They point to the fact that rival firms in China, Vietnam and Cambodia have adopted technologies to replace labour at a faster pace than their counterparts in Bangladesh. For every million-dollar garment export, 142 workers are employed in Bangladesh, which is 48 in both Vietnam and China and 75 in Cambodia.²²¹

The RMG enterprises are not yet prepared with new forms of operational practices, especially with regard to use of technologies in production process as well as in merchandising and marketing. With the rise of online based transaction through various online based platforms, such as Amazon and Alibaba, the mode of giving and taking order has been changing over the years. Bangladesh’s RMG enterprises, except some large ones, are not yet ready to take advantage of this change.²²²

Bangladesh seriously lags behind its competitors in terms of R&D. In the study of CPD mentioned before, it was found that only 21 per cent of RMG enterprises have facilities for new design development.²²³ Due to the lack of R&D facilities, an average Bangladeshi factory takes three to four months for product development (from design to sample preparation); for China the required time is 15 to 30 days only.²²⁴ Another major concern for the country’s RMG sector is lack of product diversification. Even after four decades, Bangladesh’s garment sector is still trapped in basic items. Still, almost 75 per cent of the shipments consist of T-shirts, trousers, sweaters, formal shirts and jackets.²²⁵

The sector also suffers from infrastructural problem like gas crisis while image crisis acted as a huge obstacle in further growth of this sector over the past few years. Although Bangladesh made some progress in recovering its image in the post Rana Plaza incident period thanks to the activities of the ACCORD, compliance still remains to

²¹⁹ Centre for Policy Dialogue (CPD), *New Dynamics of Bangladesh’s Apparel Enterprises: Perspectives on Upgradation, Restructuring and Compliance Assurance*, Dhaka: CPD, 2019, p. 15.

²²⁰ Abdur Razzaque, op cit.

²²¹ Ibid.

²²² Centre for Policy Dialogue (CPD), *New Dynamics of Bangladesh’s Apparel Enterprises: Perspectives on Upgradation, Restructuring and Compliance Assurance*, op cit., p. 15;

²²³ Ibid., p. 17.

²²⁴ Helal Uddin Ahmed, “RMG Growth: Battling the Challenges”, *The Daily Star*, 05 August 2020.

²²⁵ “Why will Vietnam overtake Bangladesh in RMG export?” *Textile Today*, 18 March 2020.

be an issue. After the pandemic, at least until discovery of vaccine and its nation-wide application, compliance regarding Covid-19 would also be very important.

The shortcomings of the country's RMG sector suggest that in the post-pandemic period, it will require more than a stimulus package. To be on track again, the sector requires a set of holistic measures, most of which should come from the enterprises themselves such as undertaking substantive investment for upgrading machineries as well as for facilitating online merchandising, providing training, setting up R&D facilities, design and product development, adhering to compliance, etc. On the other hand, the government has major role to play in improving the over-all quality of education – both vocational and non-vocational, launching a concerted diplomatic effort aimed at facilitating the sector in market diversification and ensuring compliance. Many of the suggested developments are already under consideration and some are already in implementation stage. For both government and private sectors, the aim should be to strengthen these efforts in the medium run with a view to accomplish them in the long run.

Duty-free market access given by China in recent days in 97 per cent tariff lines can be regarded as an extremely timely opportunity for the country's export in general and RMG export in particular. Such deep and comprehensive preferential market access can attract Chinese firms into Bangladesh to produce goods and export to China where rising wages have been reducing profitability. Beside China, the country can focus on other Asian markets like Japan and India apart from the traditional markets like Europe and the US, with a view to revive export earnings during the time of the pandemic as the latter is being more affected by the pandemic.²²⁶

6.6 Addressing Challenges of Pharmaceutical Industry

While Multi Fiber Agreement (MFA) helped Bangladesh's RMG sector to grow, relaxation of the Trade Related Intellectual Property Rights (TRIPS) of WTO helped the growth of its pharmaceutical sector. Through this relaxation, the WTO has permitted the pharmaceutical industries of LDCs to reverse engineer, manufacture and sell generic versions of on-patent pharmaceutical products for domestic consumption as well as for export to other LDCs till 2033. Although Bangladesh properly utilized this patent waiver flexibility to gain self-sufficiency in domestic market, same cannot be said about foreign market.²²⁷

The pharmaceutical sector of Bangladesh is plagued with several long-standing challenges which are holding back this sector from realizing its export potential. A major

²²⁶ "Shift Focus to Asia to Boost Export", *The Daily Star*, 08 July 2020.

²²⁷ Samir Kumar Sheel, "Problems of Export of Pharmaceutical Products from Bangladesh: An Analysis", *Journal of Business Studies*, Vol. XXXVI, No. 3, December 2015

limitation of Bangladesh's pharmaceutical industry is lack of a strong backward linkage industry.²²⁸ As mentioned before, the country imports 90 per cent of the API used in this sector and 70 per cent of the API comes from China and India, whom Bangladesh wants to compete with in foreign markets. Recently built API Park in Munshiganj would greatly help to reduce the cost of API through domestic production and to increase the competitiveness of this sector thereby. Even though the country would still have to depend on import for the raw materials for API – core compounds, solvents and other intermediaries, the API Park, utilizing comparatively cheap labour of the country, is expected to raise the cost competitiveness of the country's pharmaceutical sector vis-à-vis its competitors.²²⁹

Two other major limitations are absence of bioequivalence test facility and lack of modern drug testing laboratory.²³⁰ Bioequivalence testing is conducted to see if the generic version is identical to originator brand and this is mandatory for product registration in any developed market. At present, Bangladesh does not have any such facility. To register a product, a pharmaceutical company has to carry out this test outside the country at a huge charge (USD50,000-100,000 per product) which discourages many pharmaceutical manufacturers to register their products in foreign countries.

The fact that Bangladesh is going to lose the advantage of TRIPS flexibility by 2024 when it graduates from LDCs adds to the concern of the sector. For the survival and development of pharmaceutical sector after this phase out, the country should emphasize on domestic production of API. For promoting export, the government should actively consider setting up bioequivalence testing facility, modernize drug testing facility and strengthen drug administration. The pharmaceutical companies, on the other hand, might consider expanding their market in LDCs as long as they are facing obstacles in exporting to developed countries due to absence of bioequivalence testing centre and modern drug testing facility. Moreover, Bangladesh can present itself as an attractive destination for outsourcing as more and more western companies are concentrating more on the high-cost patented drugs and seeking new sources to cut cost in their manufacture of bulk drugs. With these measures, the pharmaceutical sector can provide some buoyancy to the export earnings of the country amidst the uncertain future of the RMG sector.

6.7 Addressing Challenges of Leather, Footwear and Leather Products Industries

For Bangladesh, leather is the second largest foreign exchange earning industry. It is one of the few export-oriented sectors of Bangladesh passing billion-dollar mark

²²⁸ Samir Kumar Sheel, op cit., Naznin Sultana Niti, "Potentials of Bangladesh Pharmaceutical Industry: A Comparative Study", *Global Journal of Human-Social Science*, Vol. 19, Issue 1, 2019; EBL Securities Ltd., *Pharmaceutical Industry of Bangladesh: The Multi-Billion Dollar Industry*, July 2019.

²²⁹ Ibid.

²³⁰ Samir Kurma Sheel, op cit.; "Pushing Pharmaceutical Export Frontier", *The Financial Express*, op cit.

and is considered to be a promising industry for diversifying manufacture and export base. Bangladesh has good reputation in producing good quality leather and the industry here has strong backward linkage with mostly locally sourced raw material allowing as high as 80 per cent domestic value addition. Besides, relatively low wage rate and tariff advantage of Bangladesh vis-a-vis its competitors have helped the rise of this sector.²³¹ To take advantage of these factors, several multinational footwear companies have chosen Bangladesh for outsourcing which has given a boost in the footwear export from the country since 2012.²³²

With many bright sides mentioned above, leather sector of Bangladesh has long been suffering from compliance problem. Improper waste management and resultant environment pollution and health hazard of the workers have been major issues which acted as a barrier to the promotion of export of this sector.²³³

In an attempt to curb the pollution created by the tanneries and save the Buriganga River where most of the tanneries of Bangladesh were situated, the government of Bangladesh has developed a special industrial hub dedicated for leather industries at Savar and took steps to relocate the tanneries from Hazaribag near the Buriganga River to the new location. This was a welcomed step which was supposed to help the leather industry by solving the long-standing compliance issue. But unfortunately, the relocation took much time as a result of delay made from both sides – the government and the private enterprises.²³⁴ The Savar Leather Estate still lacks in solid waste management system and the incomplete central effluent treatment plant, able to process about 25,000 cubic metre of waste a day, overflows with an estimated daily discharge of about 40,000 cubic metre even though all the tanneries are not at full operation yet. Poor waste management is barring the Savar Leather Estate from getting the certificate of Leather Working Group (LWG) and thereby keeping reputed buyers away from buying leather from Bangladesh. In 2019, rawhide worth USD59 million remained unsold at Savar tanneries as many buyers suspended leather purchase from Bangladesh.²³⁵

In the post pandemic period, attempts should be taken by the government to revive the leather, footwear and leather goods industries with a view to revitalize export earnings and to strengthen the diversification of export. With that view, the government should act promptly to get all the tasks of waste management and waste treatment

²³¹ LightCastle, *Leather Industry: Bangladesh's 3rd Engine of Growth*, April 2017; ADB, *Developing the Leather Industry in Bangladesh*, op cit.; Emerging Credit Rating Limited, *Leather Industry of Bangladesh: A new hope for export diversification*, op cit.; EBL Securities Ltd., *Bangladesh Tannery and Footwear Industry Review*, op cit.;

²³² LightCastle, *Leather Industry: Bangladesh's 3rd Engine of Growth*, op cit.; ADB, *Developing the Leather Industry in Bangladesh*, op cit.

²³³ ADB, *Developing the Leather Industry in Bangladesh*, op cit., p.4; Emerging Credit Rating Limited, *Leather Industry of Bangladesh: A new hope for export diversification*, op cit., pp. 4,7.

²³⁴ LightCastle, *Leather Industry: Bangladesh's 3rd Engine of Growth*, op cit.; Emerging Credit Rating Limited, *Leather Industry of Bangladesh: A new hope for export diversification*, op cit.

²³⁵ "Worrying delay in making Savar Leather Estate properly work", *New Age*, 10 July 2020.

accomplished without delay. The unacceptable delay of about a decade and a half in relocating the tanneries to Savar should not be repeated. Both the government and the private sector would have to work to regain the image of this sector tarnished by compliance issue. Also, the footwear enterprises should focus on increasing production of non-leather footwear as demand for those is on rise now.

6.8 Improving Skill Level of Labour Migrants and Finding New Destinations

Export of skilled, semi-skilled and un-skilled labour services is the main form of service export from Bangladesh. Like merchandise export, service export of Bangladesh is also heavily concentrated with GCC countries accounting for 80 per cent of Bangladesh's manpower export.

It was mentioned that even before the corona pandemic, Bangladeshi migrants were being deported by some major destination countries, especially by the KSA, in their pursuit of replacing migrant workforce with local ones, a practice called "Localization of jobs". Covid-19 pandemic, following reduction in oil price and resultant economic slow-down might strengthen the practice of "Localization of jobs" and thus create pressure on Bangladesh's domestic labour market.

To face the apprehended deportation of scores of labour migrants from the GCC, the government should chalk out a re-integration plan for the returnee migrants for the medium run. For the long run, emphasis should be on finding new job markets abroad. A number of studies have already been conducted by the government of Bangladesh in this regard; the Seventh Five Year Plan might emphasis on revisiting these studies and may consider starting implementation of the findings of those studies.

Chapter 7

Conclusion

Covid-19 pandemic has been identified as the greatest challenge to the humanity since World War II. The death toll of the pandemic reached to 1,201,973 as of as of 31 October 2020. The pandemic is more than a health crisis with devastating impacts on social, economic and political aspects of the society. After identifying its first case of Covid-19 on 08 March, Bangladesh enacted lockdown all over the country on 26 March 2020 to contain the spread of the disease. The lockdown was gradually loosened and was finally lifted on 31 May 2020. Halt of all economic activities for about two months had serious consequences for the economy. The pandemic affected the economy mainly through deceleration of economic activity, disruption of supply chain and fall in domestic and external demand.

In agriculture, animal farming (consisting of poultry, dairy and fisheries) was impacted adversely. In manufacturing, all major industries have been affected badly which include RMG, steel, cement, ceramic, glass, pharmaceuticals and leather industries. All major services sectors such as construction, wholesale and retail trade, transport, restaurant, hotel and tourism also faced similar consequence. In total, the severely affected sub-sectors in agriculture, industry and service comprise 60 per cent of the country's GDP and 48.6 per cent of the country's employment. The short run impact of the pandemic is thus quite obvious.

RMG and textile which accounts for 12 per cent of GDP and 10 per cent of employed people is likely to take time to return to its track, if it returns at all. The future of animal farming, cement and steel industries, construction, trade, transport, hotel and restaurant, comprising another 32 per cent GDP and 23 per cent of employed person is also uncertain. Thus, in the medium run too, economic sectors involving 44 per cent of GDP and 33 per cent of employed people are likely to continue to suffer.

With cancelled and deferred order worth USD3 billion, RMG export saw a sharp decline in FY 2019-20, so did the total export. A closer inspection, however, suggest that the country's export was facing a bad time well before the Covid-19 pandemic started. Amidst the gloomy export scenario of FY 2019-20, only promising item was jute and jute goods. Following the plunge in the months of April and May, all export items more or less rebounded in June 2020, but this could bring little comfort for Bangladesh as its prime export item RMG is still far from the level in previous years as business environment still remains to be uncertain in the face of a probable second wave of the pandemic.

Being the producer of 50 per cent of manufacture goods, RMG sector is the largest importer of capital machineries in the country. Therefore, in the first nine months of FY 2019-20, when RMG export shrank by 7.12 per cent, import also fell by 4.4 per

cent. Amidst the negative impacts of Covid-19 pandemic on the country's external sector, one zone of comfort was falling price of oil which helped to reduce import cost and further improved the balance of payment situation.

The pandemic is likely to have three major consequences for overseas employment of Bangladesh. First, fall in oil price caused by the pandemic is likely to create pressure on the economies of the Middle East leading to loss of jobs and incomes of Bangladeshi expatriates. Second, Covid-19 pandemic may strengthen the practice of "localization of jobs." Third, the pandemic totally stopped the outflow of overseas employment due to the lockdown imposed in destination countries.

Responding to the incentive declared by the government as well as to continued devaluation of Taka, remittance soared in FY 2019-20 for four months in a row and at the end of the calendar year 2019, annual remittance reached 18.32 billion, the highest till then. With the onset of the pandemic in destination countries, remittance reduced to USD1,276 million in March and then further to USD1092 million in April which was the lowest in 15 months. Interestingly, remittance started to rise thereafter reaching to a record high USD2,598 million level in July. The following two months also witnessed remittance inflow of around USD2 million.

The spectacular rise of remittance amidst a complete halt in overseas employment associated with large scale returning flow and job losses and job cuts in destination countries aroused curiosity. Various explanations have been offered to explain this extraordinary situation. Without further investigation, there is no way to be sure about the exact reason/s but so far, there is little possibility that the sudden rise in remittance will sustain and hence there is little room to be complacent about it.

Due to falling income of households and enterprises, Bangladesh is likely to see a decline in domestic demand creating downward pressure on GDP not only in the short run but in the medium run too. In recent years, public investments, a revival of export growth, and private consumption boosted by healthy remittances have been the leading contributors of Bangladesh's GDP growth on demand side. On the production side most of the growth has come from manufacturing, especially large-scale manufacturing (mainly concentrated in RMG), services, and agricultural recovery (particularly in fisheries, dairy and poultry). All these components of growth are likely to be hit hard by the pandemic making the task of continuing the recent growth record impossible. The extent to which the growth rate will be affected will depend on the national and global response to the pandemic. Last but not the least, it is not only the GDP which is in stake. What deserves more concern is the fact that the pandemic might fade out the country's achievement of one decade in poverty reduction if proper and timely measures are not taken.

To mitigate the impact of Covid-19 pandemic on the economy, the government of Bangladesh declared stimulus packages worth more than USD11.8 billion. The

stimulus packages declared by the government of Bangladesh for industry and service sectors was a timely intervention aimed at injecting much desired liquidity in the sectors hit by the pandemic. An anatomy of the packages, however, suggests that some sectors, most notably the RMG may benefit disproportionately from the packages while others, particularly the small enterprises seems to be in a comparatively disadvantageous situation in reaping the benefit of the packages. Although the amount under the packages is not inadequate, there is need to reconsider the sectoral shares within the packages.

During the pandemic the government tried to support both the 'old' and 'new' poor through significant expansion of SSNPs. The extended measures, however, could not be fully effective due to some institutional challenges.

While the amount of the stimulus packages might be manageable for the government of Bangladesh, its implementation is likely to see formidable challenges. Three major challenges are: i) financing the stimulus packages from an already stressed banking sector, ii) identifying beneficiaries and iii) making the benefits accessible to the beneficiaries. Also, the large stimulus packages would lose its effectiveness if they are poorly executed, funds are allocated in an unplanned manner and there is lack of transparency and accountability.

The paper proposes four policy guidelines for the short run which includes: giving priority to saving people from the pandemic and hunger over growth, emphasizing on boosting domestic demand, re-prioritization of different sectors with more priority on sectors like health, agriculture and SSNPs and harmonization of measures. For the medium term, it emphasizes on rebuilding health sector, revising food policy, support to agricultural sector, skill development and diversification of export of goods and services.

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