



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

Responding to COVID-19

A Rapid Assessment of
Stimulus Packages and Relief Measures:
Will the Target Groups Get the Benefits?

(Draft)

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Responding to COVID-19:

A Rapid Assessment of Stimulus Packages and Relief Measures

SECTION I. INTRODUCTION

The government has announced many forms of liquidity support for producers, exporters as well as small, medium and large factories and business enterprises to boost the domestic economy and cope with the evolving COVID-19 scenario. A number of relief packages for the extreme poor and poor households have also been initiated. The liquidity support packages which the Hon'ble Prime Minister unveiled are certainly welcome. Such liquidity support provides timely and much needed assistance in building resilience to the repercussions of the COVID-19 pandemic. Such liquidity support will be channeled through the banking sector which has proven to be the weakest link in the economy of Bangladesh for the past decade. The lacklustre performance of the banking sector during the last decade was characterized by challenges such as high volume of non-performing loans (NPL) (Annex Figures 1-3), poor governance, major scams, irregularities and heists in banks, growing number of private commercial banks and restricted autonomy of the Central Bank (CPD, 2018a). Recently the scenario the banking sector has aggravated further, which has been manifested by new bad loans and scams, escalation of loan write-offs, increased rescheduling of default loans, higher NPL and decline in bank profit.

Efficient utilisation of COVID-19 related stimulus and liquidity support packages is of utmost national importance now, given that the country is under the grip of the pandemic. However, efficient utilisation of COVID-19 related stimulus and liquidity packages will not be easy. In a recent publication, the International Monetary Fund (IMF) has mentioned that emergency circumstances may provide a conducive environment for vested interests to exploit public funding for private benefit, making it important to consider and minimize vulnerabilities to abuse and misuse (Wendling, Alonso, Saxena, Tang, & Verdugo, 2020). Other international organisations such as the Bank for International Settlements (BIS), Financial Action Task Force (FATF) and INTERPOL have also highlighted the emerging risks and evolving threats of financial crime during the pandemic (Crisanto & Prenio, 2020). The FATF has warned that fraudulent claims on government stimulus funds may be made by individuals presenting themselves as legitimate companies seeking assistance (FATF, 2020). INTERPOL has alerted its 194 member countries, including Bangladesh, regarding the increased risk of financial fraud linked to the COVID-19 pandemic (INTERPOL, 2020 a) and issued Purple Notices to law enforcement agencies around the world (INTERPOL, 2020 b). Experts at BIS have also cautioned financial institutions to take precautions in identifying and protecting vulnerable systems and to respond and recover from cyber-attacks during the pandemic (Coelho & Prenio, 2020).

This report will look into a selected support measures from the perspective of their implementation so far. Since the implementation of these packages are ongoing the assessment is initial and rapid based on interviews and discussions over telephone. We have tried to assess these support measures from the perspective of their adequacy, delivery and results, and governance. The areas which are covered in this presentation include: i) Operationalisation of the liquidity support through banks; ii) Assessment of BDT 5,000 Crore (Emergency) Incentive

Package; iii) Stimulus Package of BDT 20,000 crore Credit Line Support for SMEs; and iv) Relief Packages to Mitigate the Impact of COVID-19.

SECTION II. OPERATIONALISATION OF COVID-RELATED LIQUIDITY SUPPORT THROUGH BANKS

Liquidity Support Offered by the Government

As the effect of the COVID-19 pandemic on the economy in Bangladesh is becoming apparent in several ways, the government has proposed a variety of relief packages for the affected both local and export-oriented businesses and vulnerable groups. These packages are meant to boost public spending, expand social security net coverage and improve cash availability for the immediate, medium, and long term.

Package for Export-Oriented Industries

The package for export oriented industries was declared by the central bank with circulars on 15 April and 27 April 2020 (Bangladesh Bank, 2020 a) (Bangladesh Bank, 2020 b). Loans from this package may be used only for the payment of three months' wages to workers, but cannot be used for payment of salaries to executives or managers. Only business enterprises which export 80 per cent of their goods, B-type and C-type companies operating in Export Processing Zones, Economic Zones, and Hi-Tech Parks are eligible for applying for loans under this package, provided that they have already paid wages to their workers in December 2019, January 2020 and February 2020, did not lay off any workers, and can provide evidence of their eligibility by submitting certificate from trade body and documents from commercial bank. Loan defaulters may obtain loans under this package, since there is no explicit instruction from the central bank barring them from doing so. The amount of loan provided to any single borrower cannot exceed the three month average of the wages paid to the workers of that business enterprise, but the single borrower exposure limit of the central bank shall not be applicable. No transactions can be made in cash. The loan will be interest free, but a one-time administrative fee equivalent to 2 per cent of the loan amount shall be charged by the commercial bank offering the loan and a penalty of 2 per cent interest will be imposed only in the event that the borrower fails to repay any instalment. After an initial grace period of six months, the loan must be repaid in 18 equal monthly instalments.

Working Capital Stimulus Package for Affected Large Industries and Services

The package for export oriented industries was declared by the central bank with circulars on 12 April and 10 May 2020 (Bangladesh Bank, 2020 c) (Bangladesh Bank, 2020 d). Loans from this package may be used only as working capital to ensure smooth continuation of usual business operations and cannot be used to repay existing loans or establish new businesses. Any business enterprise which is not a medium, small, micro or cottage enterprise is eligible for loans under this package, including a business enterprise which has an internal credit risk rating of "Unacceptable" and is defined by the central bank as having "no capacity or inclination to repay" loans, as long as the commercial bank offering the loan deems the business enterprise to be creditworthy based on bank-client relationship. The amount of loan provided to any single borrower cannot exceed the single borrower exposure limit regulation of the central bank. Loans under this package will be provided at 9 per cent interest, whereby the borrower will pay 4.5 per cent interest, while government will pay the remaining 4.5 per cent interest as subsidy, as long as

the loan is repaid with one year. If the borrower fails to pay interest during the one year tenure of the loan or fails to complete repayment of the loan within one year, then government will no longer subsidise the interest payments. Half of the loans under this package, or BDT 15,000 crore, will be provided as a Revolving Refinance Scheme which the commercial banks may avail from the central bank for a period of three years and repay on quarterly basis at a fixed interest rate of 4 per cent.

Special Working Capital Facility for Cottage, Micro, Small and Medium Enterprises (CMSME) Sector

The package for export oriented industries was declared by the central bank with circulars on 13 April, 26 April and 12 May 2020 (Bangladesh Bank, 2020 e) (Bangladesh Bank, 2020 f) (Bangladesh Bank, 2020 g). Loans from this package may be used only as working capital to ensure smooth continuation of usual business operations and cannot be used to repay existing loans or establish new businesses. Any medium, small, micro or cottage enterprise is eligible for loans under this package, including a business enterprise which has an internal credit risk rating of “Unacceptable” and is defined by the central bank as having “no capacity or inclination to repay” loans, as long as the commercial bank offering the loan deems the business enterprise to be creditworthy based on bank-client relationship. The maximum amount of loan provided to any single borrower will vary depending on whether the enterprise is production and service based or trade based and whether the enterprise has already received working capital facility from banks. Loans under this package will be provided at 9 per cent interest, whereby the borrower will pay 4 per cent interest, while government will pay the remaining 5 per cent interest as subsidy, as long as the loan is repaid with one year. If the borrower fails to pay interest during the one year tenure of the loan or fails to complete repayment of the loan within one year, then government will no longer subsidise the interest payments. Half of the loans under this package, or BDT 10,000 crore, will be provided as a Revolving Refinance Scheme which the commercial banks may avail from the central bank for a period of three years and repay on quarterly basis at a fixed interest rate of 4 per cent.

Export Development Fund

The changes in the existing Export Development Fund due to the COVID-19 pandemic was declared by the central bank with a circular on 7 April 2020 (Bangladesh Bank, 2020 h). Loans from this package may be used only to facilitate raw material imports using back to back letter of credit (LC). All authorized dealers of foreign currency are eligible to obtain loans under this package. The total amount of funding under this package represents an increment to the pre-existing Export Development Fund, increasing its size from USD 3.5 billion to USD 5 billion. Under this package, authorised dealers of foreign currency will obtain loans from the central bank at 1 per cent interest per annum and provide loans to the borrowers at 2 per cent interest per annum. Loan defaulters may obtain loans under this package, since there is no explicit instruction from the central bank barring them from doing so.

Pre-shipment Credit Refinancing Scheme

The Pre-shipment Credit Refinancing Scheme was declared by the central bank with circulars on 13 April and 22 April 2020 (Bangladesh Bank, 2020 i) (Bangladesh Bank, 2020 j). Loans from this package may be used only as pre-shipment credit to the industries which export locally produced goods. Any scheduled bank is eligible for loans under this package, as long as it does not have any overdue remittance of export proceeds and did not issue pre-shipment credit against the export

order of a shell company or export letter of credit of shell bank. Any export-oriented business enterprise may apply for loans under this package, as long as they are not considered as loan defaulter under Bank Company Act of 1991. The maximum amount of loan provided to any single borrower cannot exceed 10 per cent of the commercial invoice value of each shipped consignment under this scheme, and shall be subject to the single borrower exposure limit regulation of the central bank. Under this package, commercial banks will receive loans from the central bank at 3 per cent interest rate and the loans to business enterprises at 6 per cent interest rate. The tenure of this scheme will be three years on revolving basis, but loans provided under this package cannot exceed one year, and the central bank will refinance the commercial bank for 120 days starting from the date of the shipment of the goods, which may be extended for another 60 days. The commercial banks must repay the loans availed through this scheme to the central bank in due time, regardless of the recovery of loans from the borrowers.

Special Incentive Refinancing Scheme for the Agricultural Sector

The Special Incentive Refinancing Scheme for the Agricultural Sector was declared by the central bank with circulars on 13 April and 27 April 2020 (Bangladesh Bank, 2020 k) (Bangladesh Bank, 2020 l). Loans from this package may be provided to only current capital based agricultural business ventures or entrepreneurial enterprises who directly purchase agricultural products from farmers. Any scheduled bank is eligible for loans under this package. The maximum amount of loan provided to any single borrower cannot exceed 20 per cent of existing loans for current capital based agricultural business ventures and BDT 5 crore for entrepreneurial enterprises who directly purchase agricultural products from the farmers. Loan defaulters may obtain loans under this package, since there is no explicit instruction from the central bank barring them from doing so. The maximum amount of loan provided to any single borrower with no credit history will be determined based on an assessment by the commercial bank. The commercial bank cannot allocate more than 30 per cent of its loans under this package to any single agricultural sub-sector. Commercial banks must repay the loans availed under this package to the central bank within 18 months, including a six month grace period, at an interest rate of 1 per cent. Borrowers must repay the loans availed under this package to the commercial bank within 18 months, including a six month grace period, at an interest rate of 4 per cent.

Refinance Scheme for the Low-Income Professionals, Farmers and Marginalised Businesses

The Refinance scheme for the low-income professionals, farmers and marginalised businesses was declared by the central bank with a circular on 20 April 2020 (Bangladesh Bank, 2000 m). Loans from this package may be used only for assisting low income professionals, farmers and marginalized businesses from adverse economic impact of the COVID-19 pandemic, and cannot be used to repay existing loans. Any scheduled bank is eligible for loans under this package. A scheduled bank will obtain the funds from the central and select a micro-finance institution (MFI) approved by the Micro-credit Regulatory Authority (MRA) for disbursing the loans to individuals and businesses. Using the liquidity offered through this package, MFIs may provide loans to only the members of its registered society, as long as such borrowers are low income professionals, farmers, marginalized businesses, or poor vulnerable groups and are not loan defaulters. The maximum amount of loan provided to any single MFI by a scheduled bank cannot exceed 30 per cent of the average amount of loans disbursed by that MFI during the past three years or 2 per cent of the refinancing scheme fund (BDT 3,000 crore), whichever is less. The maximum amount of loan provided to any single borrower will depend on the type and number of borrowers applying for any particular loan. Borrowers must repay the loans availed under this package to the MFI

within up to one year for micro-credit loans and within up to two years for entrepreneurial loans. Under this package, the central bank will charge 1 per cent interest to the scheduled banks, the scheduled banks will charge 3.5 per cent interest to the MFIs, and the MFIs will charge 9 per cent interest to the final borrowers. MFIs will reserve the right to monitor the income stream of the borrowers and recover the loans on weekly or monthly instalment basis.

Ironically, the largest industries which are relatively more capable of dealing with shocks got the greatest support from COVID-19 relief funds. Although the COVID-19 pandemic is fundamentally a public health crisis, the funds allocated for purposes related to healthcare can be hardly considered to be adequate. Most notably, there was no allocation for subsidising the treatment of patients at private hospitals or building new hospitals. No health funding was allocated for research, presumably on the premise that efforts towards making a vaccine for the disease are best left to more advanced countries.

Role of Banks in Operationalising Liquidity Support Packages

The lion's share of Bangladesh's stimulus package is repayable loan. In other words, Bangladesh's COVID-19 funds are more of a liquidity support rather than a fiscal stimulus per se. Therefore, banks are expected to play a central role in the operationalisation of the COVID-19 related liquidity support packages announced by the government. However, what remains to be seen is whether the commercial banks, who are supposed to be the providers of more than BDT 50,000 crore of liquidity support (Haque, 2020), have adequate liquidity themselves. Although the central bank has opted for aggressive quantitative easing, it is still likely that some, if not most, commercial banks will face some difficulties in actually implementing the COVID-19 related liquidity packages. The liquidity crisis may worsen if the COVID-19 pandemic continues to impact the economy and if business activities diminish.

Bangladesh Bank has undertaken a number of measures to ensure adequate liquidity in the financial system to support the operations of financial institutions. It has announced to buy treasury bonds and bills from banks (Bangladesh Bank, 2020 o). Additionally, it has cut policy rates. For example, the central bank has lowered REPO rates from 6 per cent to 5.75 per cent effective from 24th March 2020 (Bangladesh Bank, 2020 p). This was to be further reduced to 5.25 per cent effective from 12th April 2020 (Bangladesh Bank, 2020 q). The central bank has also reduced Cash Reserve Ratio (CRR) from 5 per cent to 4.5 per cent (daily-basis) and from 5.5 per cent to 5 per cent (bi-weekly basis) (Bangladesh Bank, 2020 r). These rates will be reduced to 3.5 per cent and 4 per cent, respectively from 15th April 2020 (Bangladesh Bank, 2020 s). Besides, Bangladesh Bank has taken measures to delay non-performing loan classification (Bangladesh Bank, 2020 t), relieve late fees for credit cards (Bangladesh Bank, 2020 u), extend tenures of trade instruments (Bangladesh Bank, 2020 v), and ensure access to financial services. To enhance the domestic credit mobility in the private sector, overcome the liquidity crisis and to tackle the impact of the pandemic, advance-deposit ratio (ADR) for all the conventional banking was increased by 2 per cent (87 per cent from 85 per cent), effective from April 15, 2020 (Bangladesh Bank, 2020 w). At the same time, the Investment deposit ratio (IDR) was increased by 2 per cent, (92 per cent from 90 per cent) for Islami Shariah-based banks and the conventional banks operating under Islamic Shariah rules, effective from April 15, 2020 (Bangladesh Bank, 2020 w). Unfortunately, since the publicly available data of individual banks is several years old and the data of different categories of banks is a few months old, it is difficult to ascertain the liquidity position of the commercial banks during the COVID-19 pandemic.

At the outset, commercial banks have the choice of whether they want to participate in any particular liquidity support package, and how many liquidity support packages they want to participate in. However, since most of the liquidity support packages provide the opportunity for commercial banks to earn interest spread income, there is a financial incentive for them to participate. Such financial incentive may be quite effective in persuading commercial banks to participate in the liquidity packages since general loans and deposits may both dry up due to the economic downturn caused by COVID-19. Therefore, the COVID-19 related liquidity packages offer commercial banks a much-needed scope for keeping their banking operations afloat during the pandemic.

Nevertheless, such an opportunity is not without risks. Participation in any of the COVID-19 liquidity support packages entails that commercial banks will be required to shoulder all risks and be fully liable for recovery of any loans that they provide. Moreover, regardless of the recovery of loans from the final borrowers, commercial banks will have to repay the loans that they received from the central bank. This means that there is a possibility that commercial banks may find themselves in a position with higher NPL in the future because of their decision to participate in the COVID-19 liquidity support packages and because of their inappropriate selection of borrowers.

When a particular commercial bank decides to participate in any of the COVID-19 related liquidity support packages, they will almost invariably be flooded with high number of applications for loans. At this juncture, commercial banks will be faced with the arduous task of selecting borrowers who may be creditworthy and eligible for support. This task is made very complex for commercial banks since the central bank has issued circulars (Bangladesh Bank, 2020 d) (Bangladesh Bank, 2020 g) instructing them to disregard the Guidelines on Internal Credit Risk Rating System for Banks (Bangladesh Bank, 2019a) for two of the largest liquidity support packages, and instead provide loans based on bank-client relationship. Commercial banks must also use their own judgement to decide which potential loan seekers have been “affected” by COVID-19, since no clear quantifiable criteria for defining the term “affected” has been declared by the central bank. Since commercial banks were asked to carry out thisprecedented and monumental task while they were operating on a limited scale during the general holidays, it is a matter of concern as to how effectively and efficiently they were able to accomplish their goals. It must be kept in mind that even under normal circumstances, the dark shadows of huge NPLs (Annex Figures 1-3), liquidity shortage, low net profitability, lack of skilled human resources, poor risk management preparation and inadequate technological skills lurk over the banking sector of Bangladesh. Therefore, it is a reasonable concern whether the banking sector is ready to meet the tremendous obligation of delivering the COVID-19 related relief packages.

Challenges

Regrettably, the banking sector of Bangladesh appears to be unprepared to deal with the emerging risks and evolving threats associated with the COVID-19 pandemic. It is important to recall that the banking sector itself was in need of a stimulus package from the government to set-up a banking commission and a public asset management company. It is this same crisis-ridden banking sector that is now being tasked to deliver a monumental COVID-19 stimulus package, arguably due to the complete lack of fiscal space for direct transfers by the government. Thus, it

is inevitable that the banking sector will face enormous challenges in operationalizing the COVID-19 related liquidity support packages.

The advent of COVID-19 cannot be thought to magically resolve the longstanding problems of the banking sector overnight. Ironically, the nature and design of Bangladesh's COVID-19 relief funds tend to amplify the pre-existing problems of the banking sector and provide ample room for financial malpractices.

For example, there are no guidelines regarding the eligibility of commercial banks which will be responsible for operationalizing the COVID-19 liquidity support packages. This means that public funds may be channeled in weak and poorly governed commercial banks during this pandemic. Since commercial banks will be on the frontline in the battle to save the economy from COVID-19, arming incompetent soldiers with a formidable arsenal may not be able to ensure victory. Moreover, when weak and poorly governed commercial banks will have more money to play with, it may worsen the poor state of governance in the banking sector even further. On the other hand, delays in forming a banking commission due to the pandemic may also lead to worsening of the state of governance in the banking sector.

The volume of NPL in the banking sector, which has been sky-rocketing in the past few years, continued in its upward trajectory in the first quarter of FY2019-20. The total volume of NPL was above BDT 1,000 billion for the third consecutive quarter, and reached BDT 1,162.9 billion in the first quarter of FY2019-20 (Annex Figure 1) (Bangladesh Bank, 2020 x). In this backdrop, the central bank has issued circulars to enable loan defaulters to access the working capital stimulus package for affected large industries and services package (Bangladesh Bank, 2020 d) and the Special Working Capital facility for Cottage, Micro, Small and Medium Enterprises (CMSME) sector package (Bangladesh Bank, 2020 g) and remained ambiguous regarding the eligibility of loan defaulter for the package for export- oriented industries (Bangladesh Bank, 2020 a) (Bangladesh Bank, 2020 b), the export development fund (Bangladesh Bank, 2020 h) and the Special Incentive Refinancing Scheme for the Agricultural Sector (Bangladesh Bank, 2020 k) (Bangladesh Bank, 2020 l). The central has only specifically barred loan defaulters from accessing the Pre-shipment Credit Refinancing Scheme (Bangladesh Bank, 2020 i) (Bangladesh Bank, 2020 j) and the Refinance scheme for the low-income professionals, farmers and marginalised businesses (Bangladesh Bank, 2000 m). However, research by BIS has shown that in several countries, recipients of COVID-19 related liquidity support are required to be in good financial standing and have no NPLs as of a cutoff date just prior to the start of the pandemic (Baudino, 2020). This is to ensure that the financial insolvency of such borrowers is due to the pandemic and not because of other unrelated reasons. Nevertheless, Bangladesh Bank has chosen to go against the international best practice and decided to enable loan defaulters to access certain packages and restrict them from others. There are two issues with such a policy. Firstly, if loan defaulters are allowed access to scarce COVID-19 liquidity support funds, then it decreases the amount of funds available for genuinely creditworthy borrowers. Secondly, Bangladesh Bank has allowed access to the COVID-19 liquidity support to loan defaulters which are large industries, but has prohibited such access to loan defaulters who are low-income professionals. Such a policy may exacerbate the already high level of economic inequality in the country. Loans availed by large industries owned by politically connected and powerful individuals may prove to be difficult to recover. Indeed, John Maynard Keynes once remarked that small borrowers are at the bank's mercy whereas the bank is at the mercy of large borrowers (Keynes, 1979). Therefore, the central

bank's decision to allow loan defaulters to access two of the largest liquidity support packages may lead to a rise in NPL in the post COVID-19 scenario.

CPD has earlier flagged the tendency of the central bank to adopt excessive regulatory forbearance, despite knowledge of poor governance, and called upon the government to end the practice of bailing out weak and poorly governed banks with tax payer's money (CPD, 2018a). It is likely that weak and poorly governed banks will take advantage of COVID-19 induced regulatory forbearance to continue business-as-usual. This means that under the lax regulations due to COVID-19, the performance of weak and poorly governed banks may get worse.

Unfortunately, instead of acknowledging and addressing the fundamental problems ailing the banking sector, the chief topic of discourse during the first few months of 2020 was the capping of interest rates at 6 per cent for deposits and 9 per cent for loans. However, covering the root causes of the banking crisis under the veil of high interest rates did not lead to any solution. Since some forms of COVID-19 related liquidity support will come with subsidized interest rates, the interest rate conundrum in the banking sector will become even more complex. Under the current circumstances, those who are eligible for liquidity support will borrow from the government's packages and those who are not eligible may not borrow at all. On the other hand, small savers will be suffer a double blow to their savings from the pandemic and the low interest rate on bank deposits. Clearly, capping interest rates may not be able to stimulate investment in the post-COVID economy.

CPD has previously highlighted how the number of commercial banks in Bangladesh is excessively high, relative to size of the country and the economy (CPD, 2018a). However, on 23 February 2020 the central bank gave the green signal to Bengal Commercial Bank Limited to begin banking operations, on the grounds of increasing financial inclusion. Unfortunately, the newly approved commercial banks are unlikely to promote financial inclusion, since their borrowing and lending activities are largely based in Dhaka and Chittagong instead of districts with high levels of poverty and inequality (Annex Figure 4). The fact that the newly approved commercial banks have little role to play in financial inclusion has become evident since the direct cash transfers of COVID-19 related funds will be made through mobile banking channels, instead of the 60 commercial banks in the country.

CPD has repeatedly pointed out how detrimental amendments to the Banking Company Act in 2018 have undermined the cause of good governance and reinforced crony capitalism (CPD, 2018a). Since the greatest share of COVID-19 related liquidity support has been offered to large industries, crony capitalists may utilize their strong political foothold in banks to obtain more than their fair share of funds.

The banking sector has been facing a number of serious challenges due to malpractices, scams and heists. Unfortunately, the central bank has not provided any clear definition of a COVID-19 "affected" business or individual based on clear, objective and quantitative criteria. Under such circumstances, fraudulent claims on government stimulus funds may be made by individuals presenting themselves as legitimate companies seeking assistance, as warned by FATF (FATF, 2020).

Illicit financial outflows from a country can cause severe damage to the economy by diverting valuable resources abroad and depriving a nation from tax revenue. According to the report titled “Illicit Financial Flows from Developing Countries: 2004-2013”, illicit financial outflows from Bangladesh were as high as USD 9,666 million in 2013 (Kar & Spanjers, 2015). The central bank has given the provision to commercial banks to provide loans for import of coronavirus related life-saving drugs, medical kits, equipment and other essential medical items without repayment guarantee (Bangladesh Bank, 2020 z). Additionally, many of these items may be imported at zero tariff under the current crisis situation. In this situation, import over-invoicing may be used to carry out trade based money laundering, taking advantage of facilities such as absence of repayment guarantee and import tariff as added bonuses. Hence, illicit financial outflows may be boosted inadvertently due to the policy adopted by the central bank.

A summary of the problems of the banking sector in the pre-COVID and post-COVID scenario is outlined in Table 1.

Table 1: Problems of the banking sector in pre-COVID and post-COVID scenarios

<i>Problems in the banking sector</i>	Pre-COVID Scenario		Post-COVID Scenario	
	<i>Policy recommendations by CPD</i>	<i>Measures taken or planned by the government</i>	<i>New issues relevant to old problems</i>	<i>Probable implications</i>
Lack of good governance	Forming a goal specific, time bound, inclusive, transparent, unbiased and independent Citizen’s Commission on Banking	Forming a Banking Commission	Government guaranteed and subsidized loans are being provided; weak and poorly governed banks will be able to offer loans	Adverse selection and moral hazard; delays in forming a commission may lead to worsening of the state of governance in the banking sector
High volume of NPLs	Taking strong legal steps against willful defaulters, strengthening the central bank, and broadly implementing reforms that would instill good governance	Forming an asset-purchasing type public asset management company which will issue government guaranteed bonds to buy NPLs from troubled banks	Loan defaulters will be allowed to apply for loans under certain COVID-19 related liquidity support packages	Some loans provided as part of the COVID-19 liquidity packages may become non-performing, increasing the volume of NPLs further; since loan defaulters will be able to access the COVID-19 liquidity support packages, they may default on their loans again out of habit

	Pre-COVID Scenario		Post-COVID Scenario	
<i>Problems in the banking sector</i>	<i>Policy recommendations by CPD</i>	<i>Measures taken or planned by the government</i>	<i>New issues relevant to old problems</i>	<i>Probable implications</i>
Excessive regulatory forbearance, despite knowledge of poor governance	Ending the practice of bailing out weak and poorly governed banks with tax payer's money	Recapitalising commercial banks repeatedly, using vast sums of public money	Weak and poorly governed banks will take advantage of COVID-19 induced regulatory forbearance to continue business-as-usual	Performance of weak and poorly governed banks may get worse under lax regulations due to COVID-19
Duality of interest rates of national savings certificates and bank deposits	Rationalising the interest rates of national savings deposits to make them sustainable in the long run; allowing interest rates on bank lending and deposits to be market determined	Capping the interest rate on lending to 9 per cent, and inducing the interest rate on deposits to be around 6 per cent	Some forms of COVID-19 related liquidity support will come with subsidized interest rates	Those who are eligible for liquidity support will borrow from the government's packages and those who are not eligible may not borrow at all; alternatively small savers will be suffer a double blow to their savings from the pandemic and the low interest rate on bank deposits. Capping interest rates may not stimulate investment in the post-COVID economy.
High number of commercial banks, relative to size of the country and the economy	Refraining from awarding licenses for opening new commercial banks	Bengal Commercial Bank Limited awarded license on the grounds of increasing financial inclusion	Direct cash transfers of COVID-19 related funds will be made through mobile banking channels, instead of the 60 commercial banks in the country	New commercial banks are unlikely to promote financial inclusion, since their borrowing and lending activities are largely based in Dhaka and Chittagong instead of districts with high poverty

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	Policy recommendations by CPD	Measures taken or planned by the government	New issues relevant to old problems	Probable implications
Cronyism in banking	Reduce the number of family members allowed on board of directors of banks and decrease the tenure of each director	Number of family members allowed on the board of directors increased from 2 to 4 and tenure of each director increased from 6 years to 9 years	The greatest share of liquidity support has been offered to large industries	Crony capitalists may utilize their strong political foothold in banks to obtain more than their fair share of liquidity support
Scams, heists and irregularities	Take immediate steps to bring perpetrators to justice and recover funds	Some steps have been taken, although they are mostly too little or too late; record of fund recovery is mixed	There is no clear definition of a COVID-19 “affected” business or individual based on objective and quantitative criteria	Fraudulent claims on government stimulus funds may be made by individuals presenting themselves as legitimate companies seeking assistance
Money laundering and illicit financial outflows	Reinforcing the capacity of government agencies, such as the Transfer Pricing Unit of National Bureau of Revenue, to ensure enforcement of law in all areas related to illicit financial outflows	Bangladesh Bank has issued guidance notes and guidelines on money laundering and terrorist financing risk management and prevention	Banks may provide loans for import of coronavirus related life-saving drugs, medical kits, equipment and other essential medical items without repayment guarantee; many of these items may be imported at zero tariff under the current crisis situation	Import over-invoicing may be used to carry out trade based money laundering, taking advantage of facilities such as absence of repayment guarantee and import tariff as added bonuses; illicit financial outflows may be boosted inadvertently

Source: CPD compilation

Mechanisms for Ensuring Transparency and Accountability

The transparency and accountability of Bangladesh’s COVID-19 stimulus plan will be the key to its successful operationalization and implementation. Hence it is critical to make sure that the beneficiaries are selected based on clear, objective and quantitative criteria and vested interests are not allowed to intervene. The government has rightly issued a stern warning against misappropriation and misuse of the COVID-19 stimulus package funds. Despite such warning, numerous reports have emerged that members of the ruling party who were tasked with

managing relief activities have been involved with stealing, storing and illegally selling rice, soyabean oil, sugar and other essential food items that were meant for distribution among the poor through safety net programmes such as Vulnerable Group Feeding or Open Market Sales. Since, the vast majority of Bangladesh's COVID-19 relief funds will be distributed through banks, there is a lucrative opportunity for unscrupulous individuals to profiteer from humanitarian aid without coming into the limelight. This is because financial theft can be hidden from the public eye far more easily than physical theft. Therefore, since the nature and design of the COVID-19 relief funds make them susceptible to corruption, it is of paramount importance to ensure transparency and accountability.

In the regard, the central bank has designed some of the COVID-19 liquidity support packages with some crude built-in accountability mechanisms. For example, the Pre-shipment Credit Refinancing Scheme, the Special Incentive Refinancing Scheme for the Agricultural Sector and the Refinance scheme for the low-income professionals, farmers and marginalised businesses all include a clause which allow the central bank to impose interest penalties on bank in the event of negligence. In case of the Pre-shipment Credit Refinancing Scheme, the central bank will deduct 5 per cent interest from the current account of the commercial bank which cannot ensure that the loans provided under this package are utilized properly (Bangladesh Bank, 2020 i) (Bangladesh Bank, 2020 j).

In the case of the Special Incentive Refinancing Scheme for the Agricultural Sector, the central bank will deduct 2 per cent interest from the current account of the commercial bank which cannot ensure that the loans provided under this package are utilized properly (Bangladesh Bank, 2020 k) (Bangladesh Bank, 2020 l). Additionally, at the end of the tenure of the loan, Bangladesh Bank will deduct any outstanding amount from the current account of the commercial bank, in the event that the commercial bank fails to repay the loan (Bangladesh Bank, 2020 k) (Bangladesh Bank, 2020 l).

In the case of the refinance scheme for the low-income professionals, farmers and marginalised businesses, the central bank will deduct 2 per cent interest from the current account of the commercial bank which cannot ensure that the loans provided under this package are utilized properly (Bangladesh Bank, 2000 m). Moreover, the scheduled bank may pass on this 2 per cent interest penalty on the MFI (Bangladesh Bank, 2000 m).

Unfortunately, no accountability mechanisms were built into the package for export- oriented industries, the working capital stimulus package for affected large industries and services, the Special Working Capital facility for Cottage, Micro, Small and Medium Enterprises (CMSME) sector, the Export Development Fund or any other COVID-19 related liquidity support packages. The absence of such accountability mechanisms makes these liquidity support packages relatively more prone to mismanagement. Therefore, it is urgently required for the government and central bank to design and implement appropriate transparency and accountability mechanisms for all the COVID-19 related liquidity support packages and carry out continuous monitoring and evaluation ensure that the funds are utilized properly.

Policy Recommendations

In light of the findings from the aforementioned analysis, the following recommendations are made to policymakers to ensure effective and efficient operationalization of the COVID-19 related liquidity support packages:

- The allocation of funding support for healthcare should be increased, and liquidity support at low interest rates should be provided for building hospitals.
- Loan defaulters should not be allowed to access any of the COVID-19 related liquidity support packages.
- Weak and poorly governed banks should be barred from participating in the COVID-19 related liquidity support packages. Banks which are not fully compliant with BASEL III or the Banking Company Act should not be allowed to participate in the COVID-19 related liquidity support packages.
- Clear, objective and quantitative criteria should be declared to properly identify “affected” businesses and individuals.
- Transparency and accountability mechanisms should be built into all COVID-19 related liquidity support packages.
- In order to generate additional liquidity, the salaries of all government officials, except frontline workers, should be reduced. Such a reduction may be implemented following the government’s warrant of precedence, which has 25 levels of ranking of government officials. Based on the warrant of precedence, the highest ranked government official may take 25 per cent cut in salary, while the lowest ranked government officials may take 1 per cent cut in their salaries. The additional liquidity generated through such means should be used to increase the funding support for low income professionals, unemployed youth and small businesses.
- A multi-stakeholder taskforce consisting of representatives from the various ministries, central bank, commercial banks, trade bodies, civil society, non-government organisations and academia should be formed for monitoring the delivery of the COVID-19 liquidity support packages and evaluating their effectiveness.
- A goal-specific, time-bound, inclusive, transparent, unbiased and independent Citizen’s Commission on Banking should be set up in order to bring transparency in the prevailing situation, identify the root causes of the manifest problems and suggest credible measures for improving the situation sustainably.

SECTION III. EARLY ASSESSMENT OF BDT 5,000 CRORE (EMERGENCY) INCENTIVE PACKAGE: WILL THE TARGET GROUPS GET THE BENEFITS?

Objectives and Methodology

Bangladesh government has announced a total of nineteen stimulus packages which are part of the four initiatives which the government has undertaken with a view to revitalising domestic economic activities, ensuring employment of workers, and maintaining competitiveness of the entrepreneurs.¹ A major objective of these stimulus packages is to attain short-term stability of

¹ The four activities undertaken by the government include- a) increased public spending, b) introducing fiscal packages, c) expanding social safety net programmes, and d) increasing money supply. These activities will be implemented through specific short, medium- and long-term action plans.

the economy and then to set the economy on to the path of medium-term recovery.² According to Michalillat and Saez (2019), a well-designed stimulus package is judged from a number of aspects such as (a) size of the stimulus package based on the size of the multiplier;³ (b) level of usefulness of public spending which is measured by elasticity of substitution between public and private consumption and (c) level of decrease in unemployment which is measured by ‘unemployment multiplier’. In Bangladesh, the packages are designed with credit-line support for affected target groups (e.g. industries/activities) at a subsidised rate, which are different from those of public spending-led support. Hence effectiveness of the stimulus packages will depend, to a large extent, on commercial interest of the intermediaries (i.e. banks) with associated risks dictating the behaviour of the lenders. Overall, the achievement of core objectives of the stimulus packages is to a large extent ‘conditional’ on a number of factors.

The present study examines the effectiveness of two important stimulus packages announced by the government: (a) BDT 5,000 crore (emergency) credit line support for the export-oriented industries at a subsidised rate (2 per cent service charge) to pay workers’ wages; and (b) BDT 20,000 crore credit line support for small and medium-sized enterprises (SMEs) of which BDT 10,000 crore is under refinancing scheme from the Central Bank at an interest rate of 4 per cent per annum. These two stimulus packages were announced at different time periods since March, 2020. Credit has started to be disbursed in favour of the borrowers under the first package, while the second package is still in preparatory stage. Thus, it is difficult to do a comprehensive assessment of the effectiveness of these packages at this stage. Keeping this limitation in the purview, an early assessment of the two aforesaid stimulus packages have been carried out with a view to appreciate challenges being faced at the preparatory stages in disbursement of credit, accessibility and availability of credit by the target groups. The idea is to get some understanding as to whether the three objectives set by the government – revitalising economic activities, maintaining jobs and competitiveness of the businesses – will likely be achieved when these packages are fully implemented.

This exercise has been carried out based on the primary information and data collected from different stakeholders. A number of KIIs were conducted.⁴ Besides, a total of 62 RMG workers were interviewed by telephone using structured questionnaires. The purpose of the KIIs and the brief survey was to examine and understand how initial steps for disbursement of credit were organised, what were the challenges faced in the disbursement of credit, what role was played by the central bank in providing guidance and in terms of monitoring and enforcement concerning the packages and what were the difficulties faced by the borrowers representing different export-oriented and domestic market-oriented enterprises as also how the workers of export-oriented industries faced in this process. Hopefully, this exercise will help to understand whether the packages are being able to achieve the objectives set out for the stimulus packages.

² According to Ramey (2013) the key objectives of policy interventions are – (a) stimulating domestic economy to raise private spending; and (b) raising employment and lowering unemployment.

³ According to Okun’s Law, effectiveness of these policy interventions is estimated by the ‘multiplier effect’ – how much public spending stimulate the GDP and thereby contribute to private spending, employment and unemployment.

⁴ Participants included one senior official of the Central Bank, five senior officials of commercial banks, five entrepreneurs of the export-oriented RMG industry, and nine entrepreneurs of SMEs.

Assessment of BDT 5,000 crore (emergency) Incentive Package

On 25 March, 2020 the government launched the BDT 5,000 crore stimulus package for export-oriented industries.⁵ Export-oriented enterprises would be able to take loans for paying the salaries of their workers for three months (April, May and June in 2020). The banks would have the responsibility of disbursing the loan amount (65 per cent of workers total wages) directly to the workers' bank accounts or MFS accounts. The lending bank will charge only 2 per cent as service fee. The borrower enterprises were to repay the loans in 18 installments over two years (with six months of grace period).⁶

Disbursement of Credit Line Support

Preparatory Processes for Loan Disbursement: As per the guideline of the Bangladesh Bank, to be eligible for borrowing from the stimulus package, the RMG enterprises would need to export at least 80 per cent of their respective total production and must have paid their workers' wages for the last three months (i.e. December 2019, January and February 2020). Additionally, the RMG entity must be certified by their respective business associations, the BGMEA and the BKMEA. Furthermore, the applicant RMG enterprises have to be clients of scheduled banks. Since the loan was to be disbursed as wages of workers by scheduled banks, directly through MFS or bank accounts, the borrowers needed to ensure, before applying for the loan, that all concerned workers had a bank account or MFS account.

There was an initial opposition from a section of entrepreneurs regarding the opening of workers' bank/MFS accounts in order to pay wages. A large section of RMG enterprises was accustomed for paying workers' salaries in cash and thus thought that paying wages through bank/MFS accounts was a hassle. According to KIIs with the RMG entrepreneurs, workers faced only minor difficulties in opening bank and MFS accounts. As of 2 May 2020, around 30 lac workers had opened MFS account.⁷ Due to the lockdown, and the consequent shut down of factories, it was difficult for the factory management to reach workers and generate all the required information correctly. As a result, the process took additional time and this led to late payment of wages to the workers. Although, entrepreneurs did not face any major difficulties in applying to loans in the banks, management staff had to struggle to prepare all the documents required for submission in connection with the loan application due to limited movement of vehicle and closure of many offices because of the lockdown. As a result, additional time was required to complete the process, and hence some workers received their wages with some delays. Although the majority of the borrowers are from the RMG sector (about 80 per cent), some of the borrowers are from other export-oriented industries including exporters of vegetables, leather, and leather footwear.

⁵ RMG sector is also eligible to take loans under the stimulus package of BDT 30,000 crore, although the mentioned target borrowers of this package were large industry and service sector. The package was announced on 5 April 2020 and unlike the first stimulus package, working capital was to be provided at the low interest of 9 per cent (4.5 per cent by the borrower, 4.5 per cent as subsidy by the government). The package will be available for three years; however, a single client will get government-subsidised loans only for one year. Moreover, the loan can only be used for running regular business activities, not for paying existing bank debt or expanding business. Furthermore, single borrower exposure limit will be applicable for taking loans under the package. Along with the banks, the non-bank financial institutions can also provide loan under this package.

⁶ If the borrowers fail to repay the loan installment within the deadline, the bank can charge 2 per cent additional interest on the outstanding installments.

⁷ See, <https://businessnews24bd.com/disbursement-of-salary-of-rmg-workers-from-stimulus-package-starts/>

After several deferments at the request of borrowers, Bangladesh Bank finally set the last day for the submission of the loan application on 2 May 2020. Depending on the date of application, most of the loans applied were disbursed within 15 May, 2020. This indicates timely disbursement of the loan. The amount of loan was determined by the banks taking the average of total wages of workers of the borrowing enterprises over the stipulated three months.⁸ According to the borrowers, they did not face any significant problems in availing of the loan, and they did not incur additional financial expenses to get the loan.

Lenders' Perspective on Disbursement of Loan: Majority of bank officials interviewed expressed concern about the fragile state of the banks which was exposed even before COVID struck; the fragility further aggravated during the COVID period. Prior to the outbreak of the Coronavirus, the banking sector was suffering from a low level of cash flow. In this backdrop, the decision by the Central Bank to increase cash flow by lowering the repo rate & CRR, and through purchase of treasury bills was well appreciated by the banks (Table 2). Although the decision to decrease the repo rate would enhance liquidity of banks, it could also increase banks' burden if repayment of the loan would not be ensured. On the other hand, banks hold Treasury Bills in varying amounts; hence the success of lowering the repo rate as an instrument remains uncertain. Moreover, banks' income has been affected by some of the recent pronouncements including the annulment of charges against late payment of credit card bill and not to charge interest for customers' credit which was disbursed before April, 2020 (Table 2). On 1 June, 2020 government has allocated BDT 2,000 crore in favour of banks to adjust their interest related losses.⁹

Table 2: Key Measures Taken by Bangladesh Bank to Fight With The Ongoing Crisis

Key Measures	Probable Outcomes
Repo rate is reduced by 50 basis point to 5.25 per cent.	1. Enhanced liquidity in the banking sector 2. Increase in banks' capacity to disburse loan
Cash Reserve Ratio (CRR) is reduced to 5 per cent from 5.5 per cent.	1. Increase in the liquidity of the banking sector 2. Increase in banks' capacity to disburse loan
Annulment of fees/charges/interest against late payment of credit card bill from 15 March 2020 to 31 May 2020.	1. Reduced income of banks 2. Reduced pressure on borrowers
ADR rate was raised to maximum 87% from 85%, and IDR for Islamic banking was raised to 92% from the prevailing 90%	1. Enhanced liquidity in the banking sector 2. Increase in banks' capacity to disburse loan
BB instructed banks not to charge customers interest (on loans disbursed before 1 April 2020) until further notice	1. Reduced income of banks 2. Reduced pressure on borrowers

Source: Based on several documents available on the internet

According to bank officials, the most formidable challenge facing banks in distributing loans to entrepreneurs under stimulus packages is that it is only the banks that are bearing all the risks when providing loan. Even before the COVID the banking sector was struggling with a large amount of NPL, which is indicative of weaknesses of banks in disbursing loans. Not taking due cognisance of this, the central bank has instructed banks to provide loan based on the bank-client relationship when dealing with the stimulus package. This would further deepen the problem

⁸ In some cases, the loan amount has exceeded the demanded amount by the borrowers, while in some other cases it was lower than the amount that the borrower applied for.

⁹ See, <https://www.newagebd.net/article/107349/pm-announces-tk-2000-crore-bank-interest-waiver>

facing the banking sector in the upcoming time. Moreover, the huge demand for loans within a short span of time could make it difficult to exercise due diligence and undertake inspection of borrowers to examine repayment capacity. This could end up with disbursement of a good amount of loans to bad borrowers who could become the 'future defaulters'. To mitigate these risks, banks are trying to exercise caution and are being more meticulous in selecting the possible clients. As per the guideline of the central bank, they have formulated special cells to ensure smooth disbursement of loans under the stimulus package.

Due to the lockdown, the money deposited with the bank had decreased. Consequently, the banking sector at present is not in a position to support the disaster-triggered recessive economy through large scale lending activities. Challenges might arise in disbursing loans in the following months with a shortage of liquidity might getting acute in the upcoming months. Due to the Corona crisis, the capacity of repaying the loan by many existing borrowers has significantly decreased. A section of borrowers could find it difficult to repay due to limited or no orders at hand from their buyers. Delays and non-repayment of large amount of existing loans could be a reality. On the other hand, sharp rise in unemployment owing to the COVID crisis could lead to a significant withdrawal of deposits from the banks. As a result, some banks may be unable to disburse new loans in the upcoming months. In this backdrop, if COVID crisis is prolonged, a more flexible repayment timeline would help entrepreneurs but at the cost of banks. In view of this, measures will be needed to inject money into the banking system to meet the future demand.

Disbursement of Loan to Export-oriented Enterprises: Table 3 shows the status of claimed loans under the stimulus package, for nine banks. A total of 643 enterprises have applied for a loan of BDT 2,645 crore. In other words, each enterprise, on average, applied for a loan of BDT 4.11 crore, which ranged from as low as BDT 2.27 crore in case of Agrani Bank to as high as BDT 6.29 crore for the Pubali Bank. As of 2 May 2020, 37 lending banks claimed BDT 2,566.2 crore under the stimulus package.

Table 3: Bank-Wise Status of the Claimed Loan Under the BDT 5,000 Crore Stimulus Package (As of 2 May 2020)

Bank Name	Total number of companies applying for loan	Total amount of applied loan (in crore Tk)	Loan per company (in BDT Crore)
Exim Bank	122	540	4.42
South East Bank	150	480	3.3
DBBL	60	300	5.0
Agrani Bank	83	188	2.27
Rupali Bank	40	125	3.13
Pubali Bank	48	302	6.29
Dhaka Bank	45	210	4.67
Mutual Trust Bank	45	200	4.44
Bank Asia	50	300	6.0
Total	643	2645	4.11

Source: The Daily Star, 2020

It is important to note here that the number of borrowers from export-oriented sectors is rather low even if the RMG sector is taken into consideration. If the 643 enterprises which applied for loans are all RMG units (out of 3648 RMG enterprises), the share of RMG enterprises would stand

at only 17.6 per cent. According to newspaper reports, as of 11 May, 2020 a total of 2,132 garment factories have applied for BDT 3,343 crore from the stimulus package. Of those, 1,615 are BGMEA members, which have applied for Tk2,614 crore, and 517 are BKMEA member which have applied for Tk729 crore.¹⁰ The number of RMG enterprises applied have considerably increased (58 per cent of total RMG enterprises) in less than two weeks increased. Despite that a large section of enterprises has not yet applied for the loan. Perhaps a section of large group of companies did not take loans, may be because of financial contingency plans; perhaps in case of units that are part of group of companies there was cross-subsidisation from mother companies. It is important to examine why the rest of the enterprises did not apply for loan for their workers. Did these enterprises find that they did not qualify for applying for loans (such as small scale and sub-contracting enterprises)? Similarly, why exporters from other sectors did not apply for loans like the ones in the RMG sector?

It is important to note that the selection criteria for availing of the loans (80 per cent of total production has been exported) made it difficult for other categories of entrepreneurs such as members of buying house associations who are also associated with the value chain with direct and indirect employment of 4 lac people. Indeed, under both stimulus package of BDT 5,000 crore and BDT 30,000 crore, buying houses were not given any monetary support as per the guideline formulated by the Bangladesh Bank. There is no specific clause that mentions loan eligibility for the buying houses which are involved in the export of RMG. This has resulted in banks' lack of interest to disburse loans to buying houses.

Workers' Views regarding Payment of Wages during COVID-19 Period

Opening Bank/MFS accounts in availing wages: One of the successes in the process of providing loans under the stimulus package is that majority of workers have received their monthly salaries for the month of April, 2020 through their bank account or MFS account. About 95 per cent of the interviewed workers have received their respective wages digitally. Of these workers, about 47.6 per cent have opened their accounts during the COVID period. Majority of these workers did not any face difficulty in opening bank accounts since factory management had facilitated the process in cooperation with local branch offices of banks and MFSs. Some workers, however, complained about problems in PIN number, late and incomplete payment etc.¹¹ According to workers' survey, the highest number of bank/MFS accounts were opened in Chittagong (63.6 per cent) followed by Gazipur (50 per cent) (Table 4). The number of accounts opened by workers of Dhaka city and Narayanganj was found to be relatively low the reason being that many had their accounts already areas because of having accounts of a larger section of workers earlier.

¹⁰ <https://tbsnews.net/economy/rmg/paying-wages-rmg-workers-stimulus-package-begins-79897>

¹¹ The workers had to go to the bank, but they had to walk as there were no transportation facilities due to unannounced lockdown. Payment was made on time but due to such inconvenience they received payment with some delays.

Table 4: Opening of Bank/MFS Accounts by Workers

District	Percentage of workers said 'yes'		Percentage of bank/MFS account holders among the workers*
	Any Bank/Mobile Acc. before Corona Crisis?	Did you Open Bank/Mobile Acc. during Corona period?	
Chittagong	40.9	63.6	104.5
Dhaka (Others)	33.3	36.4	69.7
Dhaka (Savar)	60.0	40.0	100.0
Gazipur	50.0	50.0	100.0
Narayanganj	54.5	36.4	90.0
Total	47.5	47.6	95.1

Source: Workers' Telephone Survey, May 2020

Note: * Sum may exceed 100% as a large section of workers now have both a bank and a MFS account

Payment of Workers' Wages and Other Entitled Financial Benefits: Majority of workers received full payment for the month of March, 2020 (85.5 per cent of total respondents) (Table 5). In a few cases, workers complained about receiving about 60-65 per cent of the gross monthly wage, and in some other cases workers complained about not receiving wages for the days following within the period of announced public holidays. The situation, however, changed during April, 2020 when only 14.8 per cent of respondents mentioned about receiving full payment. Majority of workers in Gazipur and Dhaka (Others) complained about receiving less than their full wages. Among the rest of the workers, 60.7 per cent workers received payment between 60-95 per cent of their gross wages while for other workers the payment varied – from no payment to token payment (1-7 per cent) to half payment etc. Despite the credit support for the export sector, workers were deprived of getting the eligible amount of wages (65 per cent of the gross wages) which is unfortunate.

Table 5: Payment Received by Workers during March and April, 2020 (N=62)

District	March (% Without overtime)				April (% Without overtime)			
	Full Payment	60 to 95%	Half or less than half payment	No Payment	Full Payment	60 to 95%	Half or less than half payment	No Payment
Chittagong	86.4	9.1	0	4.5	9.1	68.2	0.0	22.7
Dhaka (Others)	88.9	11.1	0	0	0.0	44.5	33.3	22.2
Dhaka (Savar)	60.0	20	20	0	30.0	50	10	10.0
Gazipur	100.0	0	0	0	0.0	100	0.0	0.0
Narayanganj	90.9	0	0	9.1	36.4	36.4	18.2	9.1
Total	85.1				14.75	60.7		

Source: Workers' Telephone Survey, May 2020

It is to be noted in connection with the above that workers did not receive their other entitled benefits during this time. This is observed in the form of payment of half of the overtime benefits, half of Eid bonus or no bonus at all etc. According to trade union leaders, about 10 per cent of factories was yet to pay the wages of April, 2020. The industrial police stated that about 50 per cent of the factories did not pay the Eid bonus. These dues include 60 per cent of salary for April, overtime payments and Eid bonus etc.

Impact and Implications on Revitalising Economic Activities, Reducing Unemployment and Ensuring Business Competitiveness

Revitalising Economic Activities: The payment of workers' wages helped the export-oriented enterprises from the immediate pressure of cash shortage due to abrupt cancellation/deferment of work orders against which factories had incurred necessary expenditure for procuring raw materials, paying workers' wages and paying banks' and other payables.¹² Since workers' wages account for a major expenditure, government emergency credit support at zero interest rate helped businesses to continue their operations for servicing at hand. However, the wage specific stimulus package had a limited multiplier effect in stimulating businesses, since most of workers received wages which were well-below their normal wages that provided minimum income support to them. Such wages were spent for meeting a part of essential needs but left a lot of their required needs unspent. Hence a limited level of 'substitution effect' seems to be observed with this spending to stimulate private consumption. Unless brands and buyers come with fresh orders which seems very unlikely because of limited opening of economic activities in major buying countries, the multiplier effect of the wage related stimulus package seems low.¹³

Payment of Workers' Wages: The stimulus package has ensured payment of workers' wages, albeit partly in April, 2020. Since majority of workers received less than the announced wages (65 per cent of gross wages) in April, 2020, workers faced various types of financial difficulties in meeting daily livelihood needs. Because of less than normal level income, the substitution effect of public expenditure of private consumption through workers' wages is limited. According to Table 6, as high as 63 per cent of respondent workers mentioned that they could not pay house rent, 39 per cent mentioned about unpaid utility bills, 36 per cent mentioned about unpaid school fees, and 57 per cent could not afford to send money to their villages etc. Despite the factories are largely in operation at a limited scale, uncertainty looms among the workers about their jobs. This would rise irregularity in payment in the future, the dues and financial burden on workers would increase further in the coming months. Because of limited employment opportunities during the lockdown period, spouses of 35 per cent workers did not have any jobs and were unable to share the financial burden of the family. The situation is more difficult for workers living in Gazipur areas where 43 per cent of workers' spouses did not have any income during the lockdown period. As a result, workers had to seek loans from relatives, friends, or local moneylenders (with interest). During the period of public holidays (26 March- 15 May 2020) the average amount of loans taken by garment workers from various sources was about BDT 3,765 per family (Table 7). Workers of Gazipur and Dhaka (Others) had taken higher amount of loan compared to other areas.

¹² Out of US\$3.6 billion worth of orders cancelled, about US\$1.0 billion worth of orders have been revived which brands/buyers have agreed to honour with necessary payment in favour of the suppliers.

¹³ The effect would however depends on impact of other supporting measures for the export sectors such as moratorium for payment of utility bills till June, deferred import payment, deferred payment of loan without additional interest charges etc. have facilitated the export sector. However, a sizable number of RMG enterprises, as well as a large section of non-RMG enterprises, did not apply for a loan or perhaps not yet taken the loan.

Table 6: Workers' Unpaid Bills

District	Unpaid house rent	Unpaid Utility Bills (gas, electricity, water)	Unpaid School Fees of the Children	Due Payment to Rural home	Other due payments
Chittagong	66.7	28.6	28.6	57.1	78.9
Dhaka (others)	66.7	33.3	28.6	33.3	66.7
Dhaka (savar)	60.0	30.0	33.3	80.0	50.0
Gazipur	50.0	71.4	33.3	62.5	50.0
Habiganj	0.0	0.0	0.0	0.0	0.0
Narayanganj	72.7	54.5	60.0	54.5	45.5
Total	63.3	39.0	36.2	56.7	60.3

Source: Workers' Telephone Survey, May 2020

Table 7: Average amount of loan taken by workers during the lockdown period

District	Average Loan/Debt (26 th March- 15 th May)
Dhaka (savar)	2830
Dhaka (Others)	8367
Gazipur	5143
Narayanganj	3409
Chittagong	3711
Total	3765

Source: Workers' Telephone Survey, May 2020

During the period of crisis, government social support in the form of providing subsidised food to workers could have helped maintain minimum food security to the workers. More than 90 per cent of surveyed workers from the selected districts reported that they did not receive any in-kind support. A very insignificant portion of the workers from Chittagong and Narayanganj reported that they had received government food relief of 5 kg rice and 1 kg potato once in the month of April. Few reported that local political leaders took necessary documents (NID/birth certificate, contact number etc.) several weeks back, but they did not hear from them nor had they received any support.

Overall, wage support to workers in its current form was found to be inadequate even in view of minimum livelihood standards. Unless workers received their payment as per commitment, the livelihood standards of their families would be further deteriorated in the coming months.

Employment and Unemployment Situation of Workers: There are incidences of laying off of workers from the garment factories during this period. About 3.3 per cent of the workers reported that they had been laid off from their factories. However, no respondent was found to have been retrenched from the factory till mid-May. As of April, 2002 incidence of 'unemployment multiplier' effect in the RMG sector was found to be negligible. However, workers who received 65 per cent of gross wages in April are defacto laid-off workers. A number of incidences of retrenchment have been reported in the media. One surveyed worker mentioned that his factory had laid off 600 workers out of 1200 workers due to not having required amount of orders in hand. The management agreed to pay a part of the wages for the month of May, 2020. Unless the business situation improves, incidences of both laying off and retrenchment of workers will increase further in the coming months. In other words, fiscal stimulus did not help stop laying off

of factory workers. Without any improvement in the business situation, workers would be retrenched in the coming months.

Maintaining Competitiveness: The stimulus packages for export-oriented industries have extended some support for the enterprises with a view to improving their competitiveness. However, maintaining competitiveness will call for positive response from the brands and buyers in the form of placement of orders over the coming months. Thus, preparedness and support at the buyers' end are more important in maintaining competitiveness at the suppliers' end. Despite the rising number of corona affected cases, a large section of factories is in operation with partial or full workforce. Given the ongoing crisis in the RMG industry, entrepreneurs want to keep their factories open until they are left with no other option but to shut down the factory. Entrepreneurs plan to continue production even with a limited orders by following all the health-related safety instruction, even if only some workers are available. Thus, maintaining competitiveness would be difficult to maintain only by supply-side preparedness; rather reciprocal response at the buyers' end will be necessary.

Suggestions

Three core objectives of the stimulus packages will hardly be achieved through the BDT 5,000 crore emergency support for the export-oriented industries. The impact in terms of stimulating economic revitalisation of the RMG sector is rather limited. Raising private consumption through workers' wages could not be ensured due to irregularities in wage payment and despite the credit support workers' employment could not be ensured. Rather there are incidences of unemployment in the RMG sector. In this backdrop, the government needs to rethink about the stimulus package in order to ensure its effectiveness in achieving the stated objectives.

Ensuring Access to Export-oriented Enterprises: It is found that a section of export-oriented enterprises of the RMG industry and a large section of enterprises of other export-oriented industries did not take the offered loans. It is important to explore the reasons behind enterprises not availing these facilities. Most importantly, whether not availing of the facility had led to workers of those enterprises not getting wages is an issues that needed to be examined. Besides, the definition of export-oriented enterprises needs to be widened to include associated services related to the export-sector supply chains: buying houses, enterprises producing accessories for export-oriented industries, backward linkage textiles enterprises for export-oriented industries. These need to be accommodated under the package.

Ensuring Banking Facility to All Categories of Exporters by Providing Guarantee against Disbursed Loan: The loan facility should not be determined by bank-customer relationship only, rather, the facility should be extended considering the level of adverse effect on enterprises. Central Bank should introduce a credit guarantee scheme for enterprises which are in difficult state and are not found as 'loanable'. In this case, the Central Bank can negotiate with international commercial banks or international loan guarantee schemes/facilities to provide credit support to risky but needy export-oriented enterprises.

Payment Irregularities undermine Workers' Survivability: Workers need regular payment of their wages; otherwise, it is difficult to ensure food security and minimum livelihood standards. Public monitoring agencies such as DIFE and DoL should strictly monitor the payment of workers' wages on a regular basis. It seems that the agreed wages (65 per cent of gross wages) are not sufficient to meet their monthly dues, such as house rent, utility bills, children's school fees, paying family members in rural areas. Hence the amount needs to be increased to at least 75 per cent of gross wages. To pay this amount of wages, brands, and buyers as well as sourcing countries, should come forward with financial package to pay a share of workers' wages. A number of discussions are currently ongoing at the global level to provide livelihood support to

RMG workers. ILO's global call for action and EU's fund for supporting workers may be highlighted in the connection.¹⁴

Workers should not be officially laid off or retrenched: Guaranteeing workers' employment should be made conditional on availing credit support as well as other monetary and financial support from the government. Workers should be provided with minimum wage in order to maintain their livelihood needs at least for the next six months. Public monitoring authority such as MOLE and MOC should take necessary measures in this regard. Global brands should come forward to increase more export orders to countries in need by evenly distributing orders between apparel producing countries. In this connection, a part of the orders from the major apparels exporting countries such as China could be distributed by the brands to other supplying countries such as Bangladesh, at least for a period of one year.

SECTION IV. STIMULUS PACKAGE OF BDT 20,000 CRORE CREDIT LINE SUPPORT FOR SMES: WILL THE TARGET GROUPS GET THE BENEFITS?

On 05 April, 2020 the government has announced a stimulus package of BDT 20,000 crore credit line support for the cottage, micro, small, and medium (CMSMEs) scale enterprises. Of this amount, BDT 10,000 crore will be provided by the Central Bank under its refinancing scheme; commercial banks could charge a maximum interest rate of 9 per cent against this loan of which 4 per cent interest will be charged to the borrowers, and the remaining 5 per cent will be paid by the government as a subsidy to the concerned banks and financial institutions. CPD (2020) has pointed out that due to the disruptions in major supply chains in view of COVID-19 outbreak majority of small and medium scale enterprises have been severely affected through disruptions in production, import, export, and other factors. According to Rapid Assessment Survey 2020 conducted by the CPD that included 42 entrepreneurs,¹⁵ the majority of enterprises have experienced 'high' level of adverse impact on production (about 58.0 per cent). The level of 'high' adversity was found to be high for 'large' scale enterprises, followed by small, medium and micro enterprises (Figure 1). These enterprises were also affected through disruptions in importing raw materials and intermediate products (about 73.2 per cent) and exporting finished products (about 55 per cent).

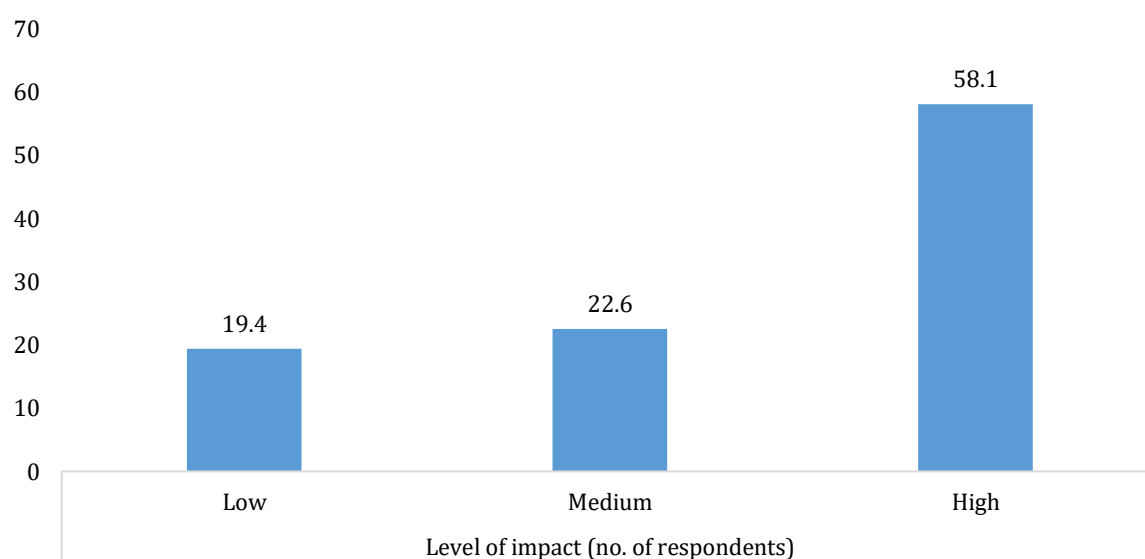
Majority of SMEs involved in the consumer goods supply chains are largely dependent on specific events for their businesses - religious festivals, cultural events/festivals etc. These are important opportunities to sell their products and services. Since the outbreak of COVID-19 and consequent shut down of economic activities for about two months, these SMEs have missed out several important cultural events such as Pahela Baishakh, Pahela Falgun, and Valentine's Day. Many entrepreneurs were not able to sell any product, some only a part of their normal business. Missing the Eid-ul Fitr, which is the largest religious festival in the country, was a major loss for many SMEs. Although they have managed to sell at a modest level due to the partial opening of shops, most businesses were not able to sell even the minimum amount. As a result, most of their

¹⁴ The 'Team Europe' (comprises member states and financial institutions of the Europe) has announced a EUR334 million package for economic recovery of Bangladesh which include food security, private sector development and WASH related programmes. As part of that, EUR 113 million grant from the EU and the Germany will be provided for cash assistance to workers of the export-oriented industries adversely affected. Under that grant, 1 million RMG workers may receive a cash support of BDT 3,000 per month for the months of July, August and September, 2020.

¹⁵ Entrepreneurs with having a capital of at least BDT 10 crore were the respondents of this survey. The Survey was conducted during March-May, 2020.

businesses are under pressure due to loss of earnings and the consequent shortages of working capital to pay dues, particularly workers' wages. Many have gone bankrupt.

Figure 1: Level of Adverse Impact on Production (% of total respondents, n=31)



Source: CPD's Rapid Assessment Survey 2020

In this connection, the stimulus package of BDT 20,000 crore credit line support had offered an opportunity for the SMEs to get the necessary working capital to start their businesses after lifting of the lockdown. As mentioned, SME related stimulus package like other packages are still at the preparatory stages of disbursement. This made it difficult to undertake a comprehensive assessment of effectiveness of the package. An early assessment of this package was carried out with a view to examine preparatory processes concerning disbursement of credit, access and availability of credit by the target groups. The purpose was to understand whether the three objectives as announced by the government– revivifying economic activities, maintaining jobs and competitiveness of the businesses – could be achieved or not.

Disbursement of Credit Line Support

Procedural Issues: In providing the credit support under this package, priority was to be given to the manufacturing and service-oriented MSMEs. However, business/trade based micro and small-scale industries were also to be covered under this package. According to the circular of the Bangladesh Bank, the proportion of distribution of these loans would follow the ratio of 50:30:20 as applicable to manufacturing, services, and trading activities, respectively. In this connection, a minimum of 70 per cent of the total annual loan was to be provided to the cottage, micro and small-scale industries, and the rest 30 per cent to medium scale industries. Similarly, a minimum of 15 per cent of the total annual loan was to be provided in rural areas, while 5 per cent of the loan was to be provided to women entrepreneurs. This package was to be in place for 3 (three) years. Any single company will be eligible for subsidy under this package for a maximum of one year.¹⁶

¹⁶ The process of disbursement of loans must not be deferred due to any type of complexity. Following the approval of the loan, the bank/financial institution will disburse the loan expeditiously from its own funds under its own 'loan/investment policy' to the borrowing entrepreneurial institution.

Loans provided under this package would only be used against current capital demand for conducting normal activities of the CMSME sector affected by the COVID-19.¹⁷ The loan facility could be provided to both new applicants and existing borrowers in cottage, micro, small and medium scale enterprises subject to maintain in a number of conditionalities.¹⁸ This loan/investment cannot be used for business expansion or starting a new business, including BMRE.¹⁹ Entrepreneurs involved in trading business who have already taken working capital loan from a bank can avail of the current capital gain of up to 25 per cent of annual turnover. In case of new loan, the working capital loan availability limit will be determined under the existing policy of the bank/financial institution. Nevertheless, the limits are similar to the existing borrowers.²⁰

Instructions issued by the Bangladesh Bank regarding 'Single Customer Loan Limit' will be applicable in respect of the loan facility. Each bank and financial institution shall have 3 (three) months to inform Bangladesh Bank's SME and Special Programs Department regarding their respective loan exposure limits. Bangladesh Bank can be able to increase/decrease the limit so that more entrepreneurs can get the loan facility. If the total loan/investment amount given by the bank/financial institution exceeds the prescribed limit, the package loan will not consider the additional amount of loan for a subsidised rate of interest.²¹

The Special Monitoring Cell of the SME & Special Programs Department of the Bangladesh Bank will inspect the loan/investment activities under this fund. Each bank will set up a 'Special Monitoring Cell' at its head office to monitor the utilisation of the loan. In order for the entrepreneurs to get loans quickly and easily, a separate help desk must be set up in each branch of the banks and financial institutions to help the affected entrepreneurs. Banks and financial institutions will co-operate with the concerned chambers or associations and members of the FBCCI regarding the selection of borrowers, disbursement, supervision, and recovery of loans.

Partnership Agreement between Central Bank and Commercial Banks: According to the senior official of the Bangladesh Bank, the BDT 10,000 crore refinancing scheme of the Central Bank was created in order to support the commercial banks to improve their cash flow situation. This refinanced part of the loan is about 5 per cent of total outstanding loans in the SME sector during FY2019.²² It has been found that a number of commercial banks have signed on to the participation agreement with Bangladesh Bank in order to avail of the cash flow from the Central Bank. As of 18 May, 2020 a total of 17 banks have signed agreements with the Central Bank; the number of banks was expected to rise after the Eid holidays are over. According to the official of

¹⁷ If any loan recipient is rescheduled more than three times after being classified as bad/harmful investor, such loan/investment recipient organisation will not get loan facility under this package.

¹⁸ This conditionality is- (a) having last year financial statement (previous year's financial statement if six months have not elapsed since the last financial year at the time of borrowing) or (b) written document of production/sales/turnover of the previous year. Similarly, it is allowed for both new applicants and existing borrowers in small scale industry as long as they have the final version of the audited financial statement of the closing year which can be taken as confidence. In case of medium scale enterprises, this will be decided based on the Guidelines on Internal Credit Risk Rating System for Banks (ICRRS) as long as they have the final version of the audited financial statement of the closing year where the rating must be marginal.

¹⁹ No existing loan accounts can be reconciled/repaid with the loan taken under this package.

²⁰ Investment banks and financial institutions will regularly maintain and monitor all documents, relating to production and turnover of industrial enterprises, in their respective systems.

²¹ This loan/investment will not be included in the year-based targets mentioned in serial no. 3 of SMESPD Circular No. 2 issued on 05 September 2019.

²² According to the Bangladesh Bank (2019), total outstanding SME loan as of June, 2019 was BDT 208,150 crore.

the Central Bank, a large section of commercial banks is unwilling to sign the agreement as they consider the amount of subsidy (5 per cent) inadequate to meet their high administrative costs (over 9 per cent) for dealing with SME loans. With limited human resources, banks may find it difficult to verify loan applications in a speedy manner, which will also increase the administrative pressure. Under this scheme, the loan will be disbursed in favour of commercial banks every three months.

According to senior officials of commercial banks, classification of potential borrowers under this package loan and maintaining the conditionality as per agreement would be difficult to maintain on the part of banks. The conditionalities are found to be difficult for a number of reasons: *First*, each bank and financial institution will need to provide information on the monthly disbursement of loan to the 'SME and Special Programs Department' of the Bangladesh Bank within the first ten (10) days of the next month. *Second*, in case of verification of the information, the concerned department of Bangladesh Bank may request the bank/financial institution to provide loan documents and conduct audit activities at the branch/field level. *Third*, failure to follow proper procedures for disbursement of loan may result in cancellation of the relevant loan incentive from the package in question.²³ *Fourth*, government's interest subsidy will be paid to the banks/financial institutions only on a quarterly basis (March, June, September, and December) by the Accounts and Budgeting Department (A&BD) of the head office of Bangladesh Bank.²⁴

Lenders' (Commercial Banks') Perspective on Disbursement of Loan: According to the KIIs with senior bank officials, the package will be preferred by those banks which have specialised operations concerning the SMEs, rural-based lending activities and women entrepreneurship development activities. Hence, banks that do not have such specialised operations would be less interested to take advantage of this package.²⁵ Though it is mentioned that new entrepreneurs could take loans under this package, bank officials felt that it would be highly unlikely such loans would be disbursed among new entrepreneurs. This is partly because of the limited amount of funds available for disbursement among new clients. One official informed that disbursed loans to new SME clients during FY2019 were 10 per cent of its total outstanding loan, which was unlikely to be maintained during the COVID period.

According to the KIIs, on average, the size of loans for each bank would be within the range of BDT 250-350 crores, where banks with specialised SME operation would receive as high as BDT 1,000 crore. Whatever the amounts that bank will receive, an equivalent amount of loan needs to be disbursed by the bank from its own fund. According to the bank officials, majority of the banks have not yet determined the target for total allocation and disbursement of loans under this package based on their own funds. Banks are providing loans at normal interest rates to their existing borrowers. One of the banking officials mentioned that about 1500 applicants had submitted application to its bank to date. Banks will disburse three types of working capital loans to those applicants: term loan, overdraft cc loan, and demand loan.

²³ In case of falsifying the information about loan facility by the bank and financial institution submitted, to the Bangladesh Bank, the bank and financial institution will not be entitled to any interest subsidy under this package. In addition, a penalty of 2 per cent will be levied on the loan disbursed.

²⁴ If the part of the interest paid on the loan by the customer is not paid/ repaid in time as per the policy by the concerned bank / financial institution will not be entitled to the interest subsidy from the government. In this case, the entire liability will be borne by the customer and the bank will take action on such loan as per its own policy.

²⁵ For example, a large commercial bank disbursed loan to 12,000 SME during FY2019 whereas a medium-sized bank had disbursed loans among 10,000 SME entrepreneurs over the same period.

As per the KII, only existing borrowers will receive the stimulus package loan. This is also because the amount of credit support is well below the required amount of support to cover all the SMEs. An example was shared by the Bank official – if the banks decide to provide each borrower an amount of Tk 500,000, a total of only 0.4 million SMEs could be covered with the targeted amount of fund (Tk20000 crore). This number of entrepreneurs was only 4-5 per cent of total SMEs in Bangladesh (about 5.6-8.0 million). Hence the commercial banks' priority will be to provide loan support to their existing clients, and not providing loans to new SME entrepreneurs.

The bankers are reviewing the case of affected clients on a case by case basis and examines their financial records. Based on this exercise, banks are identifying risky borrowers. One of the banks has identified 1800 clients and has classified them as per level of risks based on their cash and sales records. The bank has finalised the list of only 15 clients who will be provided with loans (after the Eid holidays), whereas another 100 applicants under review. However, bankers feel that risk mitigation measures depend on bank's liquidity position. In this context, the lending rate cap at 9 per cent limits banks' capacity to lend to SME borrowers as per their requirement. Given the liquidity constraints, banks' selection of borrowers has been determined by an assurance of repayment of the loan, although only 3 to 10 per cent of total outstanding SME loans are found to be NPLs. In fact, cash flow situation in the coming months would not improve much as borrowers' capacity to repay loan has reduced due to their limited earning.

Borrowers' Perspective on the SME Loan Package: Majority of entrepreneurs were found to be aware of this stimulus package; however, they feel that it will be either difficult for them to receive the loan or they are not eligible for this loan. Micro level entrepreneurs are not expected to receive this loan since they did not have a past record of borrowing from banks. In most cases, micro and small scale enterprises tend to conduct businesses using their own fund or borrowing from informal sources.²⁶ These entrepreneurs opined that banks would lend to big borrowers to reduce the administrative burden, cost, and time. In this backdrop, micro and small-scale entrepreneurs demand other facilities such as temporary withdrawal of interest payment of existing loans, waiver of payment of utility bills for several months, and compensation of losses during the last three months of lockdown period.

According to the KIIs, SME entrepreneurs are not well aware of the guideline of the refinancing scheme prepared by the Bangladesh Bank. Hence they are seeking funds through their associations. Maintaining financial statements is a barrier for the SMEs in availing loans under this package. A large section of SME entrepreneurs does not maintain double-entry bookkeeping system.²⁷ They maintain books of accounts of their businesses as per their own method. They cannot afford to employ an accountant to maintain their accounts. Most of the female

²⁶ According to World Bank (2019) access to formal finance by MSMEs in Bangladesh is limited compared to the average for the South Asia region, with an estimated financing gap of BDT 237 billion (US\$2.8 billion).Source: "Financing Solutions For Micro, Small And Medium Enterprises In Bangladesh, (World Bank, 2019)"

²⁷ According to the Bangladesh Bank (2018) about 67 per cent of the businesses maintain their own regular balance sheet and only 32 per cent audited the balance sheet. (Survey on MSME Financial Inclusion Indicators, 2016 (Bangladesh Bank, 2018). The survey reveals that most of the enterprises maintain their unaudited balance sheets on their own which means that they run their businesses in sole proprietary form.

entrepreneurs who are involved in SME related activities are looking for the opportunity to avail of the loan facility. However, majority of them do not know where and how to apply for this loan. Entrepreneurs who operate medium-size businesses in light engineering, shoemaking business, and plastic sheet making business are also well aware of this package. However, they also thought that banks would provide loans only to their existing clients. One of the shoemaking entrepreneurs has received loan from its LC limit at a normal interest rate.

A few entrepreneurs have contacted the banks for accessing loans from the package, but were refused. Local branches of commercial banks have got away by saying that they have not received circulars from their head office. Entrepreneurs who went to their corresponding bank to talk about the package were discouraged. Some of the banks said that the package loan is disbursed only by the government banks only. In some cases, they were asked to come after the Eid holidays. Some SME entrepreneurs have been asked why a bank should provide loans to the small scale entrepreneurs when their administrative cost is too high. Micro/small entrepreneurs who want to apply for the loan has to stand in long queues at the banks.²⁸ As per the circular of Bangladesh Bank, an entrepreneur can borrow 30 per cent of his/her outstanding loans from the corresponding banks. One of the entrepreneurs who was in the shoe business informed that he had applied for the loan, but the amount provided could not cover the cost of three (3) months' salary of his workers. The general impression one gets is that, in general, banks are not friendly and cooperative with small scale entrepreneurs.

Impact and Implications on Revitalising Economic Activities, Maintaining Employment/Reducing Unemployment and Ensuring Business Competitiveness

Revitalising Economic Activities: SMEs are, in general, deprived of getting credit from formal sources. The credit line support under the stimulus package hardly satisfies the needs of even existing borrowers of commercial banks as per their requirements, let alone those of the new borrowers. The micro and small-scale entrepreneurs who are badly affected due to supply chain disruptions and are in need of working capital support are considered to be risky by the banks and tend to be excluded from the credit line support. Similarly, new SMEs, rural based SMEs, and women-led SMEs may not get the support as per the circular of the Bangladesh Bank due to the perceived high risk involved as regard repayment of loans. A large section of banks has expressed their unwillingness to sign agreements with the Bangladesh Bank for getting the subsidised cash flow support as the amount of subsidy is considered to be low compared to the high operating expenses in dealing with the SME loan; besides a section of banks have limited exposure to SME led financing activities. Banks are finding it difficult to comply with compliance requirements. Besides, local bank officials are not cooperative with borrowers as regards providing loan under the new facility. Overall, there is a very limited scope of the 'substitution effect' of public spending to increase private consumption and thereby to revitalize the CMSME led activities.

Payment of Workers' Wages and Ensuring Employment: As mentioned above, majority of the SMEs will remain outside the ambit of the stimulus package. On the other hand, these enterprises are finding it difficult to pay their dues particularly providing workers' wages and other benefits. Even those who can avail of the facility find it inadequate to pay workers' wages for the three

²⁸ On the other hand, large entrepreneurs apply for the loan from their home by calling the MD/ chairman of the banks or vice versa.

months of lockdown period. These enterprises will end up trying to open their businesses on a limited scale by taking credit mostly from informal sources, at a high cost. Hence a large section of workers who have got unemployed and unpaid would continue to face a difficult situation even after the lockdown period due to limited scope for businesses to grow and employment opportunities to be created. Thus, there will be almost no multiplier effect to be taken advantages of by workers working in CMSMEs during COVID, and the post-COVID period.

Maintaining Business Competitiveness: Since cottage, micro, small and medium scale enterprises are most affected due to the disruptions in the supply chains, the traditional banking system would find these 'risky' and would like to avoid these borrowers. Moreover, a large part of these enterprises has limited exposure to formal credit and limited eligibility for applying for loans. Hence, these stimulus packages will hardly reach these enterprises, let alone help maintain their competitiveness. These enterprises need different types of financial instruments, particularly at a time when their businesses are affected severely due to COVID-19.

Suggestions

The stimulus package for SMEs is an important monetary policy instrument. However, the instruments in its current form will hardly achieve the objectives as stated in the policy statement of the government – revitalising economic activities, supporting workers through wages and employment and reducing unemployment, and helping businesses to maintain their competitiveness. The government needs to think of additional measures to ensure that SMEs are actually able to draw benefits from the stimulus package.

Distributing Loans through Banks which have Specialised SME Operations: The Central Bank should distribute loans under the stimulus package only through those commercial banks which have country-wide SME, women and rural-based credit operations. There is no need to sign up partnership agreements with those banks which have no such specialised operations and are not willing to provide loan under this facility. The Central Bank can increase the exposure limit of the specialised banks to provide credit. The SME Foundation should receive a part of this loan and could distribute this to SMEs in different SME clusters. It is important to ensure that the credit should be disbursed inclusively. In order to meet the high operating costs, the Central Bank may provide an additional fund to banks for 'loan processing'.

Allocation of Fund for SMEs need to be increased: Since the existing package could meet the demand of only a small segment of SMEs, the government may consider additional allocation of subsidised credit for the SMEs. To raise liquidity flow to commercial banks, the Central Bank may discuss and negotiate with international development banks to provide low-cost credit support under the guarantee of the government to provide credit support to the SMEs.

Classification of borrowers needs to be more specified: SME entrepreneurs are not well aware of the classification of borrowers, as mentioned in the circular of the Bangladesh Bank. They have suggested that the classification based on economic activities, geographic location, types of operations, and gender should be well-specified. Based on this, the Central Bank should monitor the progress of disbursement of loans by banks under those sub-categories.

Distributing Loans through SME Foundation: The Central Bank may allocate a specialised fund for the SME Foundation under the Ministry of Industry to distribute credit to the SMEs, which are

not getting or applying for loans to the commercial banks. These subsidised credits should be distributed to cottage and micro-enterprises which are usually not eligible for traditional bank loans.

Introduce Credit Guarantee Scheme for New Entrepreneurs and Risky Borrowers: The Central bank may consider introducing a credit guarantee scheme for new entrepreneurs and risky borrowers. This guarantee could be shared trilaterally between borrowers, lenders, and the central bank. In this case, Central Bank can negotiate with international commercial banks or loan guarantee facilities to provide credit support to start such operations in the CMSME sector. India has launched Credit Guarantee Fund Scheme for MSMEs with a funding ratio of four to one, respectively, facilitated by the Ministry of Small & Medium Enterprises and Small Industries Development Bank of India.²⁹ Similar initiative is found in other Asian countries including Pakistan and Indonesia.

SECTION V. SOCIAL SAFETY NET

This section reviews two broad packages announced for the support of the poor and low-income households who are the worst hit due to COVID-19 pandemic. These are as follows:

- (a) Expansion of the coverage of the social safety net programmes which amounts to BDT 6,859 crore (The Prime Minister's Office, 2020b).
- (b) Cash assistance equivalent to BDT 2,500 for a month to 50 lac families. The total package amounts to BDT 1,250 crore.

Expansion of social safety net programmes

Under this package an amount of BDT 6,859 crore will be spent. This package is basically a combination of many small sub-packages. So, the beneficiary numbers vary across the sub-units of the package. The components of this package will include the following:

- A certain Programme “Ghore Fera” will cater to the people with low-level incomes who have returned to their respective villages.
- The safety net is also supposed to provide free of cost homes for the underprivileged who are homeless or landless along with 6 month of food rations and cash assistance.
- The infrastructure in Bhashan Char is being constructed to make room for 100,000 people and the government had been making arrangements for people to migrate there (The Sentinel Project, 2020).
- Some programmes like Vulnerable Group Development (VGD), Vulnerable Group Feeding (VGF), and the Open Market Sale (OMS) of rice at Taka 10 per kg (a quarter of the market price) have been operating on a large scale. The special OMS operation which was launched on 6 April 2020 was selling rice equivalent to the rate set by another programme called the Khaddo Bandhob—which is the nation’s largest public distribution programme for the ultra-poor—and according to the Prime Minister, 74 thousand tonnes of rice were to be distributed by this OMS operation at a subsidised cost of BDT 2.51 billion. The

²⁹In India, the credit limit under this scheme is INR 1 crore per borrowing unit. The guarantee cover limit is 75 per cent of the loan amount up to INR 50 lakh – for loans up to INR 5 lakh the guarantee cover is 80 per cent. Guarantee tenure is as per the agreed tenure of the term loan/composite credit; however, for working capital, the guarantee tenure is five years or above – in blocks of five years. In terms of fees, there is a one-time guarantee fee of 1.5 per cent and an annual service fee of 0.75 per cent for lenders. For loans up to INR 5 lakh, the one-time fee is one per cent and the annual fee is 0.5 per cent.

initiative is to run till the end of June 2020 and is supposed to cover 12.5 lac families of city corporation areas and divisional cities, selling rice at one-third of the market price.

The government is planning to provide food aid to the destitute people under various programmes—around 1.25 crore families—who have been fighting with hunger and other basic necessities. The nationwide relief distribution began on 26 March 2020. Initially, based on a preliminary database made by the respective local administrations, the government had given 10 kg rice along with oil, soap, salt, potatoes and lentils to the families that were in the list; the Prime Minister has instructed that baby food such as milk be added to the package as well for the families who need it. The Ministry of Disaster Management and Relief is also distributing food supplies at the district level (International Monetary Fund , 2020).

However, in order to eliminate corruption, a prerequisite step is being prepared before the disbursement of food relief begins. The step involved the issuance of a Quick Response (QR) smart card, the ownership of which will grant that person food rations. The smart card will be based on a database of the poor and needy that is being prepared by the ICT and Disaster Management and Relief ministries. The database had an initial entry of 50 lac families but once it is fully operational, it would also include the 49 lac families from Gratuitous Relief (GR) from the disaster management ministry, 50 lac beneficiary from the food ministry's Food Friendly Programme (FFP), 12.5 lac recipients from the special Open Market Sales (OMS) programme and 10.40 lac beneficiaries of government's Vulnerable Group Development (VGD) programme, which is run by Ministry of Women and Children Affairs (Ministry of Finance , 2019), along with three lac fishermen who get rice under the Vulnerable Group Feeding (VGF) programme. A total number of 1.20 crore families are to be included in the database who would be the beneficiaries. Officials hope that such cards will help to close down the flaws in the existing distribution system, combat corruption and will eliminate ghost lists.

In order to ensure nourishment among the students while the school is closed for the pandemic, the government officials along with primary teachers are also distributing fortified biscuits to around 30 lac houses of primary school students, with each student getting 30 to 50 packets at a time. The programme would continue if the crisis perpetuates further.

Challenges of implementation of social safety net programmes

The distribution of relief has been met with several obstacles that are preventing the packages to safely reach the beneficiaries. Some of these are as follows.

The implementation of the social safety net programmes will be a challenge because of the huge number of recipients involved both in the rural and urban areas. There are many people in this category who live in isolated areas who have no means of letting the ones in charge of the distribution that they need assistance. Thus, the task of finding them out and ensuring that relief is reached them will have to be shouldered by the government, both central and local, and the humanitarian agencies. The Palli Karma-Sahayak Foundation (PKSF)—a government-sponsored foundation— which is involved with a lot of medium and large NGOs can help in mobilising the NGOs and other institutions to reach these communities.

There are problems with the listing of beneficiaries. Countless families are still suffering from food shortages and most of them are not even included in any data list. The preparation of this dataset has been full of bureaucracy, slowing down the process even more.

Besides the lack of coordination and expertise in the bureaucratic administration, there is huge corruption that is high among the officials which causes misappropriation of these relief packages. Many local leaders and local government officials have been involved in theft of food rations and other corruption for which arrests are being made (The Daily Star, 2020a) (UCAnews, 2020).

The government has pledged to show zero tolerance towards these perpetrators and punishment will be meted out to them under Section 34 (1) of the Local Government (Union Parishad) Act 2009 (Islam, 2017). The Union Disaster Management Committee (UDMC) needs to be activated under the Union Parishad level in order to work under the Upazila administration and ensure that the relief is being distributed amongst the most deserving and information about the packages is being properly disseminated. The Anti-Corruption Commission has been appointed with the task of overseeing the proper distribution of government relief materials under the government's safety net programme after allegation of corruptions became widespread (The Financial Express, 2020).

Recommendations for improving efficiency in the SSNPs

A detailed census that includes the poor is yet to be developed. Such an expansive dataset could have enabled a digital infrastructure that could have made the process of relief distribution more effective and efficient. It has to be taken into account that not everyone has national identification (NID) and they should not be left out from the social safety net programmes at all cost.

In the relief and assistance programmes, everybody, everywhere from among all segments of the population, who are in need of such support, can be reached by identifying them through coordinated efforts at central and local levels. Although in a country of over 165 million people, it is a formidable task to identify and reach all of them, every citizen is entitled to protection and support – particularly in the wake of a pandemic. Here, an all-out centrally and locally coordinated and transparent mechanism can reach out to those who need the support.

One of the areas which remained outside the government support is the migrant workers. The government should focus on is the extreme loss that the country will be facing due to expatriates losing their jobs. Their future prospects of getting a job in the foreseeable future looks bleak and the government must extend social safety nets to cover migrant workers returning to the country. It is apprehended that several hundred thousand workers will be forced to come back to Bangladesh (International Labour Organization, 2020).

Cash assistance for 50 lac families

Who are the beneficiaries of the direct cash transfer?

On 14 May 2020, the government started to distribute of BDT 2,500 via mobile financial services (MFS) such as bKash, Rocket, Nagad and SureCash to each of the 50 lac impoverished families severely affected by the COVID-19 outbreak. Members of these low-income households have become unemployed due to the nationwide lockdown because of the pandemic. They include day-

labourers, rickshaw- and van-pullers, dock workers, petty traders, shop employees, barbers, hawkers, and construction workers, agriculture workers, private-sector workers, workers in poultry and dairy farms and transport workers (The Prime Minister's Office, 2020a). Ten lac people are expected to get this direct cash support through MFS every day during this period (The Prime Minister's Office, 2020a) .

In addition to cash aid, the Ministry of Food will also distribute 20 kilogrammes of rice to each of the listed 50 lac families. In case the pandemic lingers after May 2020, the government also promised to provide assistance to these families in June 2020. The rice distribution programme will be executed by the Ministry of Disaster Management and Relief in June 2020 (The Business Standard, 2020b).

The conditions to be enrolled in this cash assistance programme are: (i) not more than one member from a family is eligible for cash aid; (ii) those who are getting allowance under the existing SSNPs will not receive this cash aid; (iii) those low-income households who have lost their jobs during COVID-19 pandemic will be covered under this package. (The Prime Minister's Office, 2020a)

The first round of cash support was disbursed during 14 -18 May 2020. The concerned ministries involved with this package are Ministry of Finance, Ministry of Disaster management and Relief. The technical assistance has been provided by the a2i division of the Government. On 11 May 2020, the Finance Division of the Ministry of Finance released an amount of BDT 1,257 crore for the cash assistance programme. The PMO is overseeing the operationalisation of this initiative (The Business Standard, 2020a). The PMO has given the responsibility to the Ministry of Disaster Management and Relief for monitoring and updating the cash assistance activities across the districts of the country (Ministry of Disaster Management and Relief, 2020a).

Are the support measures adequate?

The current COVID-19 situation is an unprecedented catastrophe which requires urgent support to people with no income. Therefore, despite budget constraints, the government had to undertake support measures for the affected people. The initiative to support the vulnerable people with cash support is a welcome decision by the government. However, the amount is inadequate for a family of four persons. Earlier on 13 April 2020, CPD recommended that Tk 8,000 per household should be distributed to a total of 1 lac 70 thousand families (under the lower-case scenario³⁰) and 1 lac 90 thousand families (under upper case scenario³¹) for two months. This will require BDT 26,962 crores (about 0.9 per cent of GDP) under the lower-case scenario and BDT 29,852 crore (about 1 per cent of GDP) under the higher case scenario. These will cover a total of 6.84 crore and 7.57 crore citizens, respectively (CPD, 2020). CPD also recommended that these transfers be made through mobile financial services. It is very difficult to carry out in-kind relief distribution by following social distancing guidelines during pandemic. Besides, in case of food or in-kind relief, corruption is high. Several cases of embezzlement of relief materials have

Among the three groups of employment categories (day labourer, paid employee and self-employed); since not all self-employed population fall under the vulnerable category, an income threshold has been applied to identify the needy. Considering the average household size being 4 persons, we have considered two thresholds for self-employed population (along with day and paid labour):

¹lower case scenario; BDT 10,000 per month

³¹Upper case scenario; BDT 11,000 per month

been reported in the media. So, the current pandemic is an ideal situation when the use of MFS is most critical. Cash support also has multiplier effect on the economy. It is estimated by CPD that the injection of such transfer will generate 6.25 times the money initially injected into the economy. A cash transfer of BDT 26,962 crore will generate BDT 168,514 crore worth of demand for goods and services in the economy; and in the upper-case scenario, a cash support of BDT 29,852 crore will generate BDT 186,573 crore worth of demand for goods and services in the economy. This multiplier effect will stimulate local small business activities since demand will be generated for their products. Besides, this will also be an indirect stimulus for the large businesses involved in supply of essential commodities as domestic demand for their commodities will be generated (CPD, 2020). It may be mentioned that because of its recognised benefits, the National Social Security Strategy, that the GoB prepared in 2015, proposes to transform all workfare-based food transfer interventions into cash assistance schemes (General Economics Division, 2015).

Mechanisms of sending money

The Ministry of Finance receives the lists from the offices of the district commissioners. Since the list is in Bangla, then they translate this list into English and align a large part of this list with the database of the National Election Commission. Then these lists of the beneficiaries will be verified and evaluated further by the Ministry of Disaster Management and Relief, who will disburse this money to the mobile financial services providers (MFSs) only after being confirmed with the beneficiaries' national identity cards and bank accounts. Those beneficiaries who do not have access to the mobile phone or mobile banking account, will receive this money through bank account. Mobile financial services (MFSs) providers will then check this list through the verifications of national ID cards. After having this scrutiny, this allocated amount of BDT 2,500 is sent through the designated MFSs providers to each beneficiary household's account number (The Daily Star, 2020b) (The Business Standard, 2020c).

A number of mobile financial service (MFS) providers have been engaged in the distribution of cash amount to the beneficiary household. Among the targeted 50 lac families, Nagad, a joint scheme of the postal division and a private firm, will distribute cash to 17 lac households (amounts to BDT 425 crore). Another frontrunner bKash will distribute cash to 15 lac families (amounts to BDT 375 crore), Rocket will distribute to 10 lac (amounts to BDT 250 crore) and SureCash to the remaining 8 lacs (amounts to BDT 200 crore). (The Daily Star, 2020b) & (The Business Standard, 2020a).

How the beneficiaries are selected?

The beneficiary list has been made with the poorest 50 lac families of the 1.25 crore disadvantaged families who are now getting assistance from the government. At the level of local government, a list of qualifying families was then prepared. The local administration along with support from locally elected representatives prepared this list. In an attempt to determine the accuracy of the list, the government has checked the details of 10 per cent of the families listed for the support (Ministry of Disaster Management and Relief, 2020b).

In order to eliminate fraud and corruption in the distribution of the fund, the government has engaged MFS operators to directly transfer the funds to the mobile banking accounts of the families (The Daily Star, 2020b). Despite having this system, some anomalies were found in the list of beneficiaries and in the distribution of cash support. Specifically, the following concerns

have been used: (i) more than one member of the same family has got their names listed as the beneficiary; (ii) a large number of well-off and solvent people across the country have been selected for the government's cash relief intended for 50 lac poor households who are hit hard by the coronavirus pandemic; (iii) many people who are already enjoying allowances under social safety net programmes have also been added to the list; (iv) many ineligible people were selected in the list erroneously as the local authorities had to make it hastily; (v) in some areas, the list was prepared considering voting politics; (vi) it has been found that a union Parishad member used his mobile number for 40 beneficiaries; (viii) there are contentions of nepotism and irregularities in the case of preparing the list.

Steps taken by the government so far

There are a few steps which have been initiated by the state to tackle these problems, these are:

- (i) At the time of data entry of the lists, there was an option to insert a phone number in the datasheet. Primarily, the addition of any 11-digit numbers was allowed. But later it became compulsory to use a beneficiary's genuine mobile number that must be the same as the national ID;
- (ii) During the verification at the Upazila level, most mistakes were found, which was corrected at that stage. Nonetheless, there were a few errors. This is why certain problems emerged during the final stage of the disbursements.
- (iii) There is no way of distributing money to the same number more than once. Disbursement of money to those controversial numbers has already been halted. The government asked the field administration to rectify the complete data by 18 May 2020. Those who have used others' numbers should use either their own or bank account numbers.
- (iv) The reimbursement of money can only be made clear until their national identification cards or bank accounts have been certified. Beneficiaries can collect cash assistance from bank accounts without cell phones.

Ensuring efficiency in distributing this cash assistance programme

Ensuring the efficiency in delivering the direct cash transfer to the marginalized group during the ongoing pandemic requires a united effort and commitment from all the relevant stakeholders (i.e. government, private sector, non-government organisations, community based organisations, civil society organizations etc.). The problem arises because the country is yet to prepare a comprehensive national household database which could have tracked the needy household more proactively. CPD in its recent media briefing on 13 April 2020 recommended some measures for ensuring the efficiency in delivering this cash transfer programme. These are:

- An in-built technology-induced mechanism needs to be put in place to ensure minimum leakages and to avoid selection bias concerning beneficiaries;
- The list of programme beneficiaries must be disclosed through the website of the relevant department of the Government with other key details including address and phone number;
- CSOs working in the community will need to be encouraged to review the list within a week of inclusion of the participants. The CSOs then can also register grievance via the website, which will be monitored at district and central level, within the 72 hours of the filing of the complaint;
- The government will need to forge collaboration of the mobile and electricity companies so that they can provide the required information within 72 hours of the enlistment of the participants

- A competent team of technology experts will need to be vigilant in monitoring these activities and its website where there are the lists of the beneficiaries and the required big data analysis. The a2i programme of the government may lead this process from the forefront.
- Strict measures will need to be enforced to deal with corruption and malpractices in implementing the programme;
- The programme should prioritise the inclusion of all deserving participants and then look into avoiding the inclusion of false participants (CPD, 2020).

Given the current allocation, coordination, monitoring and infrastructural management of the existing social safety net programmes, this would be arduous to reach to the maximum number of beneficiaries amid this crisis. Besides, the social protection system of the country suffers from the problem of targeting and beneficiary leakage which came at the fore at this critical moment. Due to these ongoing flaws in the current system such as; the distribution mechanisms, corruption in the listing process and its delivery system, more attention in the coming days will be required from the relevant authorities and policy makers of the Government. In this context, attention will be required to focus on the issues such as;

- Preparing a central database of the beneficiaries for all safety net programmes;
- Enhancing and enforcing the coordination and collaboration both at the local and central level. In that case, concentration may be given in connecting the NGOs working at the grass-root level;
- Digital infrastructure needs to be built up with all sorts of surveillance mechanisms; In that case, the ICT division of the Government may take the lead;
- The Anti-Corruption Commission of the Government may play a role in ensuring the credibility of the system.
- In the case of cash-transfer programme, a competent team of expert may help in overcoming the leakage that arises in this process. Digital payment system should also be updated following the examples of other countries such as; Adhar Card in India.

In this way, the transfer and relief programmes could help in mitigating the income erosion and unemployment crisis of the country in the short and medium term.

SECTION VI. CONCLUSION

Lack of fiscal space has compelled the government to offer mostly liquidity support instead of fiscal stimulus to mitigate the adverse impacts of COVID-19. In general, the nature and design of the liquidity support packages have three main characteristics: i) the greatest amount of liquidity support is offered to the least vulnerable; ii) the most stringent requirements and regulations are applicable to the most vulnerable; and iii) several loopholes have been left wide open to provide ample room for unscrupulous individuals and businesses to exploit humanitarian aid for private gain.

The banking sector is a rather dubious candidate to be tasked with the tremendous responsibility of supporting businesses and individuals during the pandemic. The reality is that the banking sector of Bangladesh is unprepared to deliver the COVID-19 related liquidity support packages. Most of the major problems in the banking sector continue to persist during the pandemic and

are apprehended to get more acute. Urgent steps are needed to rescue the banking sector from the quicksand of poor governance, because if it sinks underground it will most likely take the entire economy along with it.

Three core objectives of the stimulus packages will hardly be achieved through the BDT 5,000 crore emergency support for the export-oriented industries. The impact in terms of stimulating economic revitalisation of the RMG sector is rather limited. Raising private consumption through workers' wages could not be ensured due to irregularities in wage payment and despite the credit support workers' employment could not be ensured. Rather there are incidences of unemployment in the RMG sector. In this backdrop, the government needs to rethink about the stimulus package in order to ensure its effectiveness in achieving the stated objectives. Following issues need to be taken into account: i) ensuring access to export-oriented enterprises; ii) ensuring banking facility to all categories of exporters by providing guarantee against disbursed loan; iii) payment irregularities undermine workers' survivability; and iv) workers should not be officially laid off or retrenched.

The stimulus package for SMEs is an important monetary policy instrument. However, the instruments in its current form will hardly achieve the objectives as stated in the policy statement of the government – revitalising economic activities, supporting workers through wages and employment and reducing unemployment, and helping businesses to maintain their competitiveness. The government needs to think of additional measures to ensure that SMEs are actually able to draw benefits from the stimulus package. Following issues need to be taken into account: i) distributing loans through banks which have specialised SME operations; ii) allocation of fund for SMEs need to be increased; iii) classification of borrowers needs to be more specified; iv) distributing loans through SME foundation; v) introduce credit guarantee scheme for new entrepreneurs and risky borrowers.

Given the current allocation, coordination, monitoring and infrastructural management of the existing social safety net programmes, this would be arduous to reach to the maximum number of beneficiaries amid this crisis. Besides, the social protection system of the country suffers from the problem of targeting, leakages and beneficiary selection which came at the fore at this critical moment. Due to these ongoing flaws in the current system such as; the distribution mechanisms, corruption in the listing process and its delivery system, more attention in the coming days will be required from the relevant authorities and policy makers of the Government. In this context, attention will be required to focus on the issues such as: i) preparing a central database of the beneficiaries for all safety net programmes; and ii) enhancing and enforcing the coordination and collaboration both at the local and central level. In that case, concentration may be given in connecting the NGOs working at the grass-root level; iii) digital infrastructure needs to be built up with all sorts of surveillance mechanisms; In that case, the ICT division of the Government may take the lead; iv) the Anti-Corruption Commission of the Government may play a role in ensuring the credibility of the system; and v) in the case of cash-transfer programme, a competent team of expert may help in overcoming the leakage that arises in this process. Digital payment system should also be updated following the examples of other countries such as; Adhar Card in India. In this way, the transfer and relief programmes could help in mitigating the income erosion and unemployment crisis of the country in the short and medium term.

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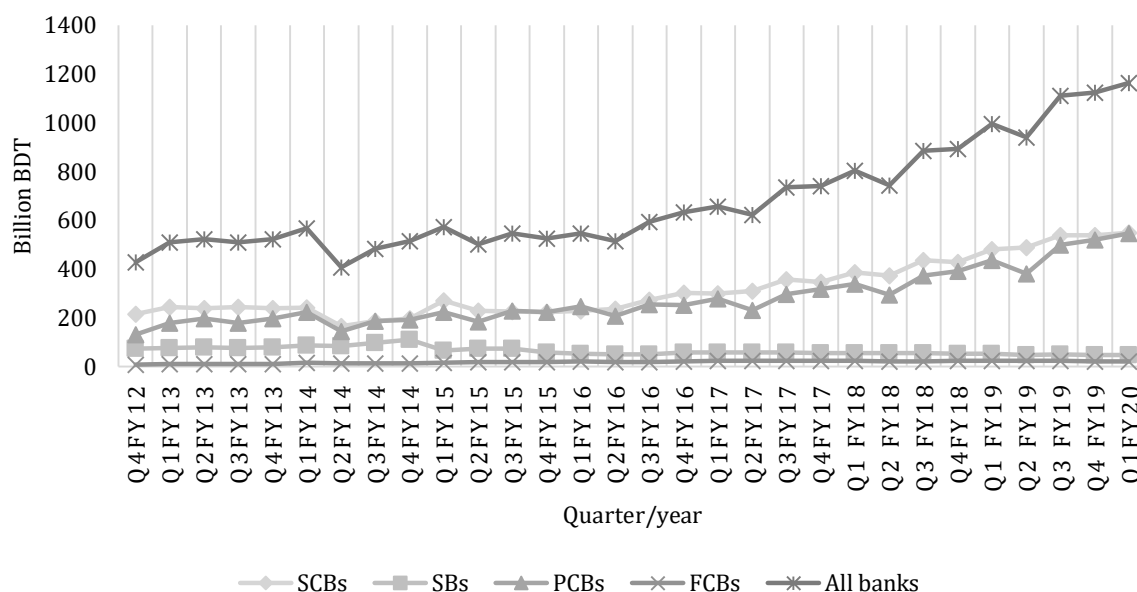
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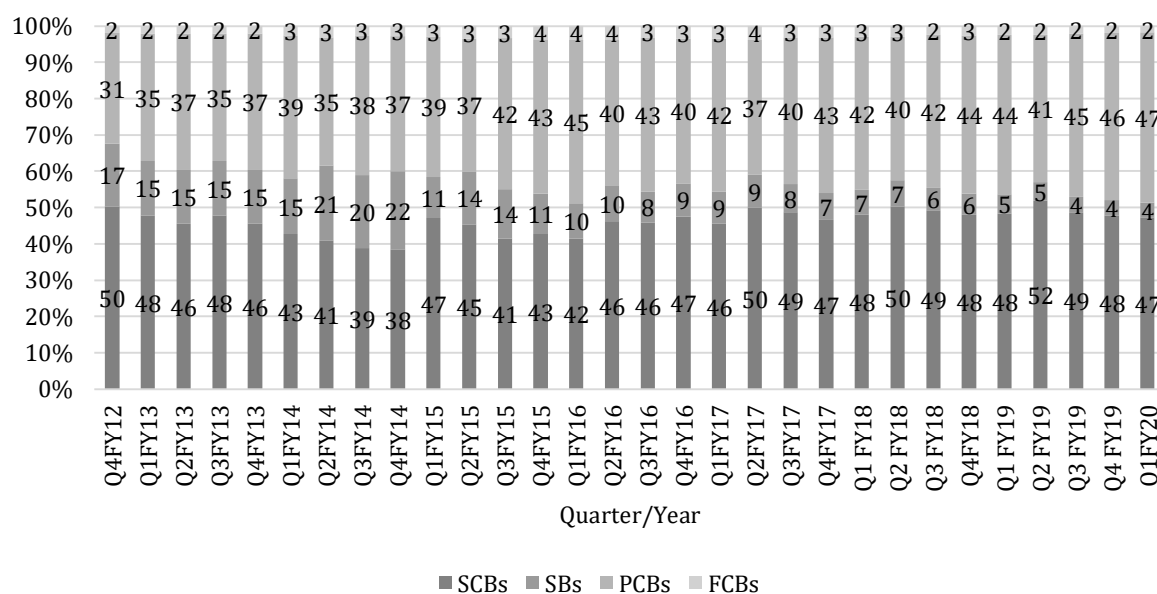
ANNEX

Annex Figure 1: Total volume of non-performing loans (in billion BDT)



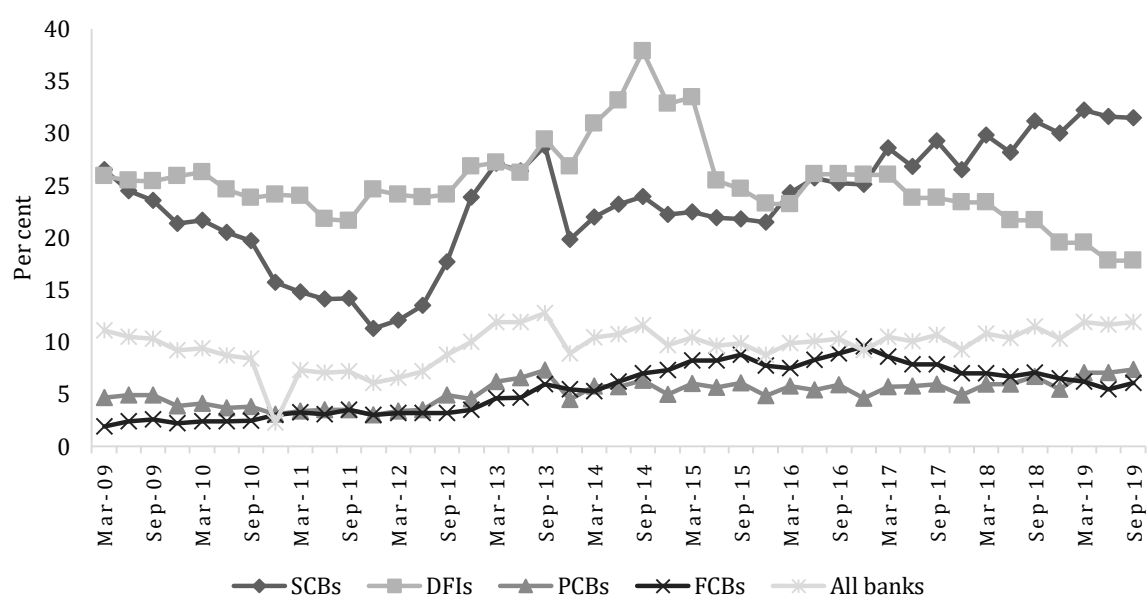
Source: CPD illustration based on data from Bangladesh Bank (Bangladesh Bank, 2020 x)

**Annex Figure 2: Distribution of NPL by type of bank
(as percentage of total NPL in banking sector)**



Source: CPD's illustration based on data from Bangladesh Bank (Bangladesh Bank, 2020 x)

Annex Figure 3: Gross NPL ratios by type of banks (in per cent)



Source: CPD's illustration based on data from Bangladesh Bank (Bangladesh Bank, 2020 x)

Annex Figure 4: District-wise deposits, advances, poverty and inequality in Bangladesh

Figure 4A: District deposits as a percentage of country's deposits, as of 30 September 2019

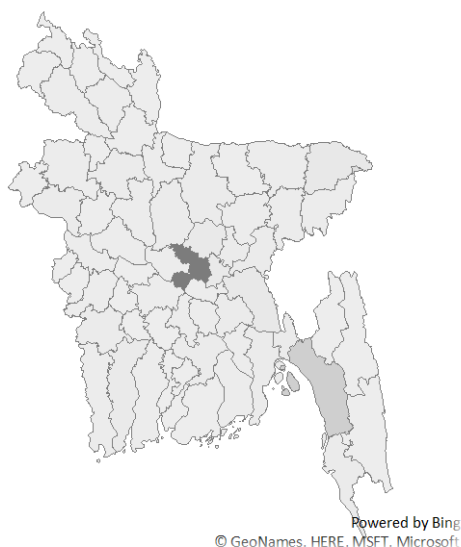


Figure 4B: District advances as a percentage of country's advances, as of 30 September 2019

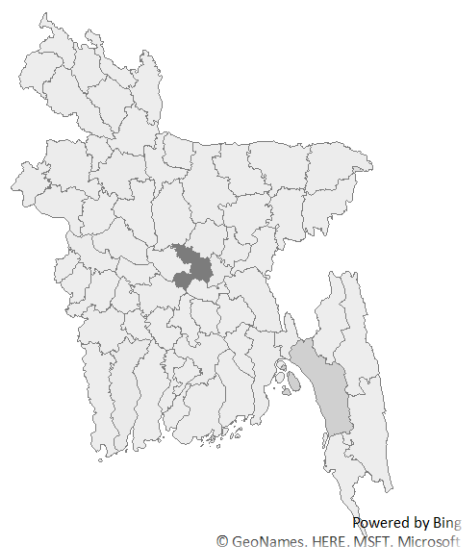


Figure 4C: Percentage of district population below national lower poverty line

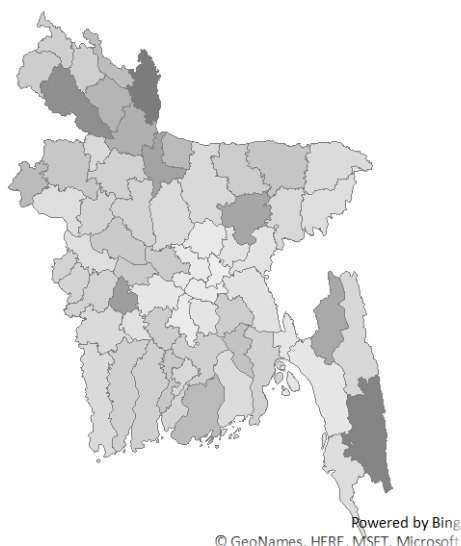
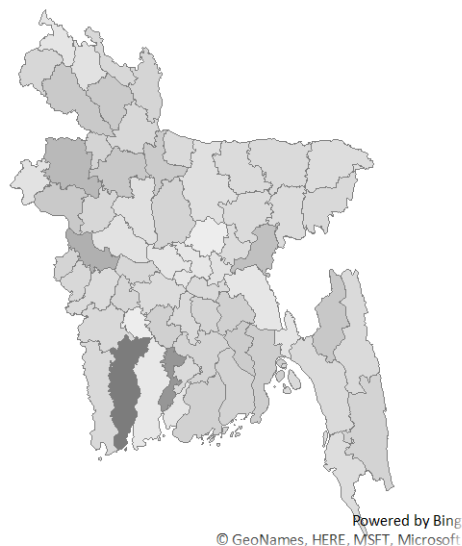


Figure 4D: Gini coefficient of income inequality in 2016



Source: CPD's illustration based on data from Bangladesh Bank (Bangladesh Bank, 2020 y) and Bangladesh Bureau of Statistics (BBS, 2019)

Note: Darker shades indicate higher values