



# Report and Recommendation of the President to the Board of Directors

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Project Number: 54255-001  
August 2020

## Proposed Countercyclical Support Facility Loan Republic of the Union of Myanmar: COVID-19 Active Response and Expenditure Support Program

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 3 August 2020)

Currency unit	–	kyat/s (MK)
MK1.00	=	\$0.00073
\$1.00	=	MK1,363.69

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CARES	–	COVID-19 Active Response and Expenditure Support
CBM	–	Central Bank of Myanmar
CERP	–	COVID-19 Economic Relief Plan
COVID-19	–	coronavirus disease
CPRO	–	COVID-19 pandemic response option
GDP	–	gross domestic product
HSCP	–	Health Sector Contingency Plan
IMF	–	International Monetary Fund
MOHS	–	Ministry of Health and Sports
MOPFI	–	Ministry of Planning, Finance and Industry
MSMEs	–	micro, small, and medium-sized enterprises
OP	–	operational priority
PFM	–	public financial management
PRC	–	People's Republic of China
TWG	–	technical working group
WHO	–	World Health Organization

## **NOTES**

- (i) The fiscal year (FY) of the Government of Myanmar ends on 30 September. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2020 ends on 30 September 2020.
- (ii) In this report, “\$” refers to United States dollars.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 54255-001	
<b>Project Name</b>	COVID-19 Active Response and Expenditure Support Program	<b>Department/Division</b>	SERD/SEPF
<b>Country Borrower</b>	Republic of the Union of Myanmar	<b>Executing Agency</b>	Ministry of Planning, Finance and Industry (formerly Ministry of Planning and Finance)
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54255-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=54255-001-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54255-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=54255-001-PortAtaGlance</a>		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Public sector management</b>	Public expenditure and fiscal management		100.00
	Social protection initiatives		50.00
<b>Agriculture, natural resources and rural development</b>	Agricultural policy, institutional and capacity development		25.00
<b>Health</b>	Disease control of communicable disease		50.00
	Health system development		25.00
	<b>Total</b>		<b>250.00</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Promoting rural development and food security			
✓ Fostering regional cooperation and integration			
		<b>ADB Financing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 1.5, 1.a		Effective gender mainstreaming (EGM)	✓
SDG 2.1			
SDG 3.8, 3.d			
SDG 5.c			
SDG 8.1			
SDG 10.4		<b>Poverty Targeting</b>	
		General Intervention on Poverty	✓
<b>4. Risk Categorization:</b>	Complex		
<b>5. Safeguard Categorization</b>	<b>Environment:</b> C	<b>Involuntary Resettlement:</b> C	<b>Indigenous Peoples:</b> C
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>250.00</b>	
Sovereign COVID19 Pandemic Response Option (Concessional Loan):		250.00	
Ordinary capital resources			
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>250.00</b>	
<b>Currency of ADB Financing:</b> US Dollar			

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of the Union of Myanmar for the COVID-19 Active Response and Expenditure Support (CARES) Program under the Countercyclical Support Facility–COVID-19 pandemic response option (CPRO).<sup>1</sup>

2. The CARES Program, under the CPRO of the Asian Development Bank (ADB), will help the Government of Myanmar fund critical public expenditures to mitigate the adverse impacts of the coronavirus disease (COVID-19) pandemic. It will also build the foundations for the country's economic recovery using a coordinated response led by the country, with support from its development partners. The proposed loan will provide general budgetary support for: (i) social assistance to the poor and vulnerable groups and populations at risk; (ii) a strengthened health system to prevent and control COVID-19; and (iii) micro, small, and medium-sized enterprises (MSMEs) and workers to insulate them from the economic downturn.

3. Myanmar sustained strong growth averaging 6.4% in 2015–2019 and maintained sound macroeconomic conditions. It has also reported only a moderate number of confirmed COVID-19 cases to date. However, the country is highly vulnerable to economic shocks because of its dependence on trade and tourism, and to future surges of the pandemic because of its limited public health capacity. Disruptions to key economic sectors and to trade and investment flows stand to derail the strong growth trajectory. ADB revised its projection of Myanmar's gross domestic product (GDP) growth in 2020 from 6.8% to 1.8%—equivalent to economic losses of \$3.3 billion. COVID-19 may slow Myanmar's significant progress in poverty reduction because large poor and vulnerable populations are least able to cope. It will result in an estimated loss of 1.2 million–2.1 million jobs and is likely to increase the number of the poor by 1.3 million.<sup>2</sup> Moreover, the poor living conditions in urban areas, the porous borders with a large migrant labor pool of more than 4 million people, and limited water and sanitation infrastructure expose the country to future outbreaks.

4. The government is implementing a \$2.5 billion COVID-19 Economic Relief Plan (CERP) during fiscal years (FYs) 2020 and 2021.<sup>3</sup> The CERP was designed to raise preparedness for COVID-19 surges, mitigate the current economic impact through social assistance and support to MSMEs and workers, and help the economy bounce back. The government's total financing requirement is expected to increase from \$3.7 billion to \$4.2 billion in FY2020, and to \$4.5 billion in FY2021; of which \$1.7 billion in FY2020 and \$1.5 billion in FY2021 will be financed by concessional borrowing from development partners. The risk of public debt distress will remain low despite the COVID-19 pandemic, i.e., below the public debt sustainability threshold of the International Monetary Fund (IMF). The CARES Program is aligned with the operational priorities (OPs) of ADB's Strategy 2030 by addressing remaining poverty and reducing inequalities (OP1), accelerating progress in gender equality (OP2), promoting rural development and food security (OP5), and fostering regional cooperation and integration (OP7).<sup>4</sup> It builds upon ADB's trusted relationship with the government through continued engagement, and will supplement the ongoing health, social, and finance sector responses to the COVID-19 pandemic. Myanmar meets all the access criteria of ADB's CPRO (Table 1).<sup>5</sup>

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<sup>1</sup> ADB. 2020. *Policy Paper: ADB's Comprehensive Response to the COVID-19 Pandemic*. Manila.

<sup>2</sup> ADB. 2020. *Updated Assessment of the Potential Economic Impact of COVID-19*. Manila.

<sup>3</sup> Government of Myanmar. 2020. *Overcoming as One: COVID-19 Economic Relief Plan*. Nay Pyi Taw.

<sup>4</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>5</sup> Details on compliance with the access criteria are in Appendix 4.

**Table 1: Compliance with Access Criteria for COVID-19 Pandemic Response Option**

CPRO Access Criteria	ADB Assessment
1. Adverse impact of exogenous shocks	ADB revised Myanmar's GDP growth in 2020 from 6.8% to 1.8%, equivalent to economic losses of \$3.3 billion. Construction, manufacturing, and tourism have been hit hard. As a result, 2.1 million people may lose their jobs, pushing 1.3 million people into poverty. The fiscal deficit is expected to widen to 5.8% of GDP in FY2020, from the pre-shock estimate of 2.6%. In a more adverse scenario with wider community spread of COVID-19, GDP could contract further in 2020. The already weak health care system was considerably stretched by the pandemic, raising concerns about possible subsequent waves of the disease.
2. Countercyclical development expenditure	The government announced the CERP, a pro-poor countercyclical expenditure program of \$2.5 billion. It will support public health, social assistance through cash and in-kind support, and economic measures to contain the COVID-19 pandemic and support the poor and vulnerable groups. About 44% of the package will be in the form of health-related and social assistance expenditures. The government consulted with development partners including ADB and various stakeholders in formulating the CERP. Staff applied ADB's conflict-sensitive approach to ensure that the CERP has adequate provisions for supporting all ethnic groups living in different parts of the country without any differentiation.
3. Pre-shock record of sound macroeconomic management	Myanmar sustained strong growth, averaging 6.4% in 2015–2019, with stable inflation averaging 7.1%. It maintained sound macroeconomic conditions and desirable policies within a sound budgetary framework. Fiscal and monetary policies were moderately accommodative. Improved budget execution and debt issuances allow monetization of the government's debt by the Central Bank of Myanmar financing to be phased out in FY2021, as originally envisaged.
4. Structural reforms	Myanmar took steps to strengthen its health system, prevent the spread of COVID-19, and manage the socioeconomic impacts of the pandemic. It set up the National Central Committee on Prevention, Control and Treatment of 2019 Novel Coronavirus, chaired by the State Counsellor, to coordinate and monitor the COVID-19 responses. It tasked the COVID-19 Containment and Emergency Response Committee, chaired by Myanmar's Vice President 1, with overseeing health responses, including those in the CERP, such as community surveillance, quarantine and risk communication, public space disinfection, expanding laboratory and clinical capacity, and ensuring adequate health human resource and medical equipment and supplies.
5. Debt sustainability	Public debt will remain sustainable despite the COVID-19 pandemic. The ratio of public debt to GDP is expected to increase from 39.5% in FY2019 to 43.6% in FY2020 and 45.2% in FY2021. This is still below the IMF's public debt sustainability threshold of 55% of GDP. The proposed CPRO will increase the debt to GDP ratio by 0.38%.
6. Coordination with IMF	ADB is in close contact with the IMF on macroeconomic monitoring, particularly on the impact of COVID-19 and fiscal responses. The IMF provided an assessment letter confirming that the fiscal stimulus under the CERP will be instrumental in containing the adverse health, social, and economic impacts of COVID-19. The IMF approved the first tranche of its Rapid Credit Facility and Rapid Financing Instrument of \$356.5 million for Myanmar on 26 June 2020, and its board will consider a planned second tranche by December 2020.

ADB = Asian Development Bank, CERP = COVID-19 Economic Relief Plan, COVID-19 = coronavirus disease, CPRO = COVID-19 pandemic response option, FY = fiscal year, GDP = gross domestic product, IMF = International Monetary Fund.

Source: Asian Development Bank.



## II. PROGRAM AND RATIONALE

### A. Background and Development Constraints

5. **High risks of COVID-19 surges despite few cases.** As of 3 August 2020, Myanmar had 353 confirmed COVID-19 cases and 6 deaths. Approximately 20,000 people were under investigation and quarantined in dedicated facilities. The Yangon region accounts for 70.5% of all confirmed cases. The country's testing capacity was scaled up from 320 tests per day to 2,000 tests per day. However, the total number of tests performed per million population remains the lowest in Southeast Asia.<sup>6</sup> The risk of community outbreaks remains high among vulnerable populations including: (i) returning migrant workers; (ii) internal migrant workers and people living in overcrowded urban and peri-urban areas in Yangon; and (iii) people in conflict-affected areas who lack basic livelihood and health care services.

6. **Inadequate public health system.** The World Health Organization (WHO) assessed the ability of Myanmar's health system to detect, prevent, and respond to pandemics as limited.<sup>7</sup> The health-related public expenditure per capita stood at \$8.6 in 2017 and remained one of the lowest globally.<sup>8</sup> Most facilities operate with inadequate premises, equipment, and supplies. The shortage in and limited technical capacity of health care personnel has been a continuous challenge, particularly in hard-to-reach or conflict-affected areas. The numbers of doctors (0.68), nurses and midwives (1.0), and hospital beds (0.9) per 1,000 inhabitants are below the lower middle-income country average and WHO-recommended levels. The Health Sector Contingency Plan (HSCP) which lays out measures to improve pandemic preparedness, foresees the current health system being quickly overwhelmed if a community outbreak occurred.<sup>9</sup> It is imperative to scale up laboratory testing, clinical management capacity, and non-pharmaceutical interventions.

7. **Economic growth trends reversed.** While the full extent of the public health impact is yet to be seen, the economy will suffer from disruptions to economic activities as well as the downturn in trade and investment. ADB revised its projection of Myanmar's economic growth for 2020 to 1.8% from a pre-COVID-19 estimate of 6.8%.<sup>10</sup> The pandemic is expected to entail economic losses of \$3.3 billion, equivalent to 3.4% of GDP (footnote 2). Wider community spread and interactions with fiscal and finance sector vulnerabilities may lead to a greater contraction in growth in 2020 and a more sluggish recovery. COVID-19 has affected the economy through three primary transmission channels: (i) manufacturing and construction; (ii) tourism; and (iii) trade and investment flows, including remittances.

8. **Key affected industries.** Construction (6.1% of GDP) and manufacturing (25% of GDP) are the industries hit hardest by the COVID-19 containment measures. Output losses from the two-week lockdowns in April 2020 are estimated at 82.9% for construction and 40.7% for manufacturing.<sup>11</sup> Several construction projects and contracts had to be postponed or canceled. In manufacturing, shortages of material and order cancellations from European countries led to

<sup>6</sup> A total of 118,127 tests were conducted from 22 March 2020 to 3 August 2020 (2,064 tests per million population).

<sup>7</sup> Myanmar was rated 2 out of 5 in each capacity area. WHO. [Joint external evaluation dashboard](#) (accessed on 16 May 2020).

<sup>8</sup> World Bank. [World Development Indicators](#) (accessed 16 May 2020).

<sup>9</sup> Ministry of Health and Sports. 2020. *Health Sector Contingency Plan: Outbreak Response on COVID-19 and Other Emerging Respiratory Disease in Myanmar*. Nay Pyi Taw.

<sup>10</sup> ADB. 2020. *Asian Development Outlook 2020 Supplement*. Manila. The IMF's revised growth projection for 2020 is at 1.4% (IMF. 2020. *World Economic Outlook Update*. Washington, DC.)

<sup>11</sup> The estimates (percentage) represent the declines in sectoral outputs under the two-week lockdown in comparison with hypothetical scenarios of no lockdown measures imposed. International Food Policy Research Institute. 2020. *Myanmar: Impacts of COVID-19 on Economy, Agri-food System, Jobs and Incomes*. Yangon.

factory closures, particularly in the garment segment. By 10 May 2020, 175 out of 600 garment factories had closed because of COVID-19. In addition, travel bans, border closures, and visa suspensions directly impacted the tourism industry, which accounts for 6.8% of GDP and 5.9% of total employment, with spillover effects on hotels, restaurants, and transport services (together 15.2% of GDP). International tourist arrivals dropped by 68% year-on-year in the first quarter of 2020. The Ministry of Hotels and Tourism projected that international arrivals would fall to 2 million from the earlier estimate of more than 4 million in 2020, with significant downside risks.

9. **Disrupted trade and investment flows.** Myanmar's high reliance on international trade and investment exposes it to vulnerabilities. Exports and imports represent 52.7% of GDP. Export growth slowed to 0.13% in March 2020 from 1.7% in December 2019, especially in garment industries. Likewise, import growth declined to 0.16% in March 2020 from 1.5% in December 2019, particularly in manufacturing and construction materials. The COVID-19 pandemic also disrupted investment flows (30% of GDP). In October 2019–June 2020, the Myanmar Investment Commission approved \$4.4 billion (MK6.1 trillion) in investments. However, total new investment commitments in FY2020 will most likely miss the target of \$5.8 billion given the overall sentiment.<sup>12</sup> Further, there are also downside risks if all the approved investments will materialize given the general regional and global economic slowdown.

10. **Significant job losses.** COVID-19 has already caused dramatic declines in employment and income in many households. ADB estimates that the pandemic will result in job losses of 1.2 million–2.1 million, equivalent to 5.1%–8.7% of total employment (footnote 2). COVID-19 also exposed gender inequalities in business. Women represent 60% of employees in food and accommodation services, 70%–90% of street food vendors, and vast majorities in the garment industry. This suggests that women are more vulnerable to unpaid leave or unemployment. About 83% of the country's 24 million workers are in the informal sector, with more than half working in agriculture and small family businesses, or as own-account workers (61.8% of working women and 54.1% of working men). Informal sector workers are typically not eligible for social protection benefits, and only 37% of workers in the formal sector are covered by the social health protection scheme. Disruptions in agriculture supply chains, coupled with declining farm household incomes, also cause concern about insufficient agricultural production in the next planting season, which could seriously undermine food security in Myanmar.

11. **Disruption of remittances.** Business closures in neighboring countries, especially the People's Republic of China (PRC) and Thailand, has resulted in job losses among migrant workers. It is estimated that 4.25 million Myanmar nationals are working outside of the country, of which one-third are women. By 12 June 2020, 103,163 migrant workers had returned to Myanmar from Thailand, the PRC, and other countries.<sup>13</sup> In 2019, overseas work contributed about 50% of total new job opportunities.<sup>14</sup> Remittances, on average, contribute 44% of household income and 4.3% of GDP. The sudden absence of remittance income may result in higher poverty.

12. **COVID-19 to slow progress in poverty reduction.** The 2017 poverty headcount ratio indicates that 19.3% of Myanmar's population lived under the poverty line of \$3.2 per day. Before the pandemic, this was expected to further decline to 11.5% in 2020. ADB now estimates that the number of poor people will increase from 6.3 million to 7.6 million, and that the projected poverty

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<sup>12</sup> Ministry of Investment and Foreign Economic Relations. *Endorsed Enterprises by Myanmar Investment Commission* (June 2020). Nay Pyi Taw.

<sup>13</sup> International Organization for Migration. 2020. *COVID-19 Response Situation Report No. 8*. Yangon.

<sup>14</sup> Ministry of Labor, Immigration and Population. Nay Pyi Taw.

headcount ratio will increase from 11.5% to 13.9% in 2020.<sup>15</sup> Women are at greater risk of falling back into poverty than men because they account for the majority of workers in many economic sectors affected by COVID-19, notably manufacturing, food, accommodation, and the informal sector. Low-income and rural households also face vulnerabilities in non-income dimensions, such as access to education, social protection, and quality health care. Given that 62% of the population do not have savings, many have no buffer against COVID-19's economic shocks.<sup>16</sup>

13. **Banking system already constrained.** Myanmar's banking system has been going through reforms to better support the growing economy but still exhibits several structural vulnerabilities.<sup>17</sup> Its financial soundness indicators are lower than those of regional peers, especially capital adequacy and banking profitability. Moreover, risks remain high and could be exacerbated by the economic impact of COVID-19. In private banks, real estate and construction loans exceed aggregate capital, and commercial loans are about 7 times the aggregate equity capital. Yet, capital buffers are thin. Myanmar banking's aggregate Tier 1 regulatory capital is 10.8% of risk-weighted assets, against 15.8% on average in Southeast Asia. In 2019, the banking sector's aggregate return on assets and equity was among the lowest in the region.

14. **Fiscal deficit widening.** COVID-19 has exacerbated revenue compression, which further limits the fiscal space to counter economic impacts. The government's revenue in FY2020 is projected to decline by 18.1%, from \$12.7 billion to \$10.4 billion, with significant downside risks (Table 2). Tax and nontax revenues have declined along with economic activity and commodity (gas) prices. Public expenditure in FY2020 is projected to remain at \$14.4 billion, but that is only the result of deferring critical capital expenditures to prioritize COVID-19-related recurrent spending needs. The fiscal deficit is expected to widen to 5.8% of GDP in FY2020, from 4.0% in FY2019 and the pre-shock estimate of 2.6% in FY2020.

**Table 2: Fiscal Impacts of COVID-19**

	FY2019 (\$ billion)	FY2020			FY2021 (\$ billion)
		Pre-COVID-19 (\$ billion)	COVID-19 Adjusted (\$ billion)	Change (%)	
<b>Total government revenue</b>	<b>11.0</b>	<b>12.7</b>	<b>10.4</b>	<b>(18.1)</b>	<b>11.2</b>
Of which: Taxes	4.5	4.4	4.2	(4.6)	4.6
Nontax revenue	6.5	8.3	6.2	(25.3)	6.6
<b>Total public expenditure</b>	<b>13.7</b>	<b>14.4</b>	<b>14.4</b>	<b>0.0</b>	<b>15.6</b>
Recurrent expenditure	9.2	9.1	9.9	8.8	10.8
Of which: CERP expenditure			1.3		1.0
Capital expenditure	4.5	5.3	4.5	(18.2)	4.8
<b>Overall fiscal deficit</b>	<b>2.8</b>	<b>1.8</b>	<b>4.0</b>	<b>122.2</b>	<b>4.4</b>
<b>Share to GDP</b>	<b>4.0%</b>	<b>2.6%</b>	<b>5.8%</b>	<b>3.2</b>	<b>5.8%</b>

( ) = negative, CERP = COVID-19 Economic Relief Plan, COVID-19 = coronavirus disease, FY = fiscal year, GDP = gross domestic product.

Source: Asian Development Bank estimates based on International Monetary Fund.

15. **Initial outbreak prevention and control.** The government has taken various measures in response to COVID-19. It set up the National Central Committee for COVID-19 Prevention, Control and Treatment, chaired by the State Counsellor, to coordinate and monitor overall COVID-19 responses. The Ministry of Health and Sports (MOHS), in dialogue with ADB and other

<sup>15</sup> J. Bulan et al. 2020. "COVID-19 and Poverty: Some Scenarios." Unpublished note prepared for Economic Research and Regional Cooperation Department, Asian Development Bank.

<sup>16</sup> United Nations Capital Development Fund. 2018. *Case Studies of Savings Mobilization in Myanmar: Opportunities and Challenges*. New York.

<sup>17</sup> Currently, the system consists of 27 private banks, of which 6 are systemic, 4 are state-owned banks, and 13 are foreign branches. The 6 systemic banks account for 51% of system assets and 65% of total system lending.

development partners, formulated the HSCP in April 2020, which defines the health-related tasks of: (i) implementing travel restrictions at points of entry; (ii) closing schools and non-essential businesses, and issuing a nationwide “stay at home” order; (iii) isolating suspected cases at designated hospitals and conducting contact tracing; (iv) distributing COVID-19 information to the public, including daily updates on the MOHS website; (v) improving hygiene in public areas; and (vi) procuring essential medical products and equipment. The health-related measures in the CERP are designed to support the HSCP implementation.

16. **Strong pro-poor countercyclical expenditure plan.** The government announced the CERP on 27 April 2020 to mitigate the COVID-19 impacts and to lay the foundations for an economic recovery. The CERP comprises health, social, and economic measures. The Ministry of Planning, Finance and Industry (MOPFI) estimates that the CERP will stimulate fiscal spending by approximately \$2.5 billion, including \$203.5 million in forgone tax revenue because of tax credits and deductions. The key fiscal measures are summarized in Table 3. ADB estimates show that the \$2.5 billion fiscal package, including forgone tax revenues (3.7% of GDP), could lead to a cumulative increase in real GDP of \$3.3 billion for FY2020 and FY2021.<sup>18</sup> ADB and other development partners were consulted in the preparation of the CERP.

**Table 3: Overview of Government’s COVID-19 Economic Relief Plan<sup>a</sup>**

<b>Fiscal Response Area</b>	<b>Amount (\$ million)</b>
Social assistance provided to vulnerable groups and populations at risk	711.4
Health system strengthened for COVID-19 prevention and control	372.8
Support provided for businesses and economic recovery	1,190.0
Tax relief and credit measures, including government fee waivers	203.5
<b>Total</b>	<b>2,477.6</b>
Of which: Government revenue losses	203.5
Additional fiscal spending	2,274.1

COVID-19 = coronavirus disease.

<sup>a</sup> The detailed cost estimates by fiscal response area are in Summary of Government’s COVID-19 Economic Relief Plan (accessible from the list of linked documents in Appendix 2).

Sources: Ministry of Planning, Finance and Industry and Asian Development Bank.

17. **Strengthening public health system.** The CERP designates five investment areas to strengthen the health care system: (i) extend and improve quarantine facilities; (ii) import key medical products; (iii) improve preventive measures; (iv) improve health sector human resource capacity; and (v) upgrade existing health facilities. The government repurposed 7,772 public premises into quarantine facilities as of 15 June 2020. It is implementing the systematic disinfection of crowded public spaces where social distancing is difficult and sanitation and waste management systems are limited. Mass rapid testing options are being explored as communities and businesses reopen. States and regions will conduct human resource mapping and recruit additional health workers. Training for the workforce and volunteers will be conducted in each state and region. Finally, the government will scale up laboratory testing and health facilities, rectify the unreliable electricity supply at some state and regional hospitals, and ensure full refrigeration capacity for the storage of vaccines and special drugs.

18. **Cash and in-kind support to vulnerable populations.** The government will provide one-time cash transfers to vulnerable population segments, including: (i) \$21.50 per elderly person (80–84 years old); (ii) \$14.30 per disabled person; (iii) \$21.50 for each woman with children under 2 years of age; and (iv) \$28.50 per family covering about 5.5 million vulnerable households,

<sup>18</sup> Estimating the Overall Fiscal Impact of COVID-19 Response Packages (accessible from the list of linked documents in Appendix 2).

especially those affected by the closure of factories and businesses or without regular income.<sup>19</sup> The Ministry of Agriculture, Livestock and Irrigation plans to provide financial support to smallholder farmers who lost sales revenue or remittance income, to enable input purchases in time for monsoon planting in 2020. It will also provide support for enhancing productivity and market connectivity in the agriculture sector. The government has completed in-kind (food) transfers for 4 million vulnerable households and is coordinating the cash transfer program. It exempted 4.4 million households from electricity tariffs for up to 150 kilowatt-hours in April–June, and up to 75 kilowatt-hours in July 2020.

19. **Fiscal measures to safeguard small businesses and workers.** The government set up a \$71.7 million COVID-19 Fund to provide working capital to the most affected MSMEs, such as cut–make–pack manufacturing, hotels, and tourism businesses, at a rate of 1% for 1 year.<sup>20</sup> It provided working capital to 3,000 MSMEs, of which 30% are owned by women, totaling \$65 million as of June 2020. It plans to increase the COVID-19 Fund by \$358 million. The government will also develop a credit guarantee scheme by the end of 2020.<sup>21</sup> The scheme will guarantee 50% of bank loans to enterprises (up to a turnover of MK1 billion) that are not beneficiaries of the COVID-19 Fund, conditional upon maintenance of staff employed as of 1 February 2020.<sup>22</sup>

20. **Tax measures to improve liquidity.** Through the CERP, the government will provide tax relief and tax credits to increase the liquidity of businesses and individuals. It will waive the 2% withholding tax on exports and specific goods, customs duties, and the commercial tax on critical medical supplies and products related to the prevention, control, and treatment of COVID-19. Moreover, the government will provide a 10% nonrefundable tax credit for incremental wage bills and incremental investments in capital equipment. It will grant a deduction equal to 125% of wages paid and a one-time increase in depreciation equal to 125% of actual depreciation for 2020. To relieve the financial burden on local businesses, the government will exempt lease fee charges for 3–6 months for MSMEs that have leased state-owned factories for manufacturing and waive or reduce toll fees for cargo trucks on major roads and bridges. The total forgone revenue from all these measures is estimated at \$203.5 million.

21. **Coordinated monetary and banking responses.** The government initiated monetary and banking system stimulus measures to respond to the economic impacts of COVID-19. The Central Bank of Myanmar (CBM) reduced banks' deposit and lending rates by 3% and their minimum reserve requirement by at least 150 basis points.<sup>23</sup> It plans to establish an asset management company before the end of 2020 to manage the nonperforming loans of the banks. The CBM also arranged to negotiate with private financial institutions to give more flexibility to households that are most negatively affected by COVID-19. The CBM's financing of the fiscal deficit is limited to \$932 million in the FY2020 supplementary budget (37% of domestic financing)

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<sup>19</sup> The cash transfer program for pregnant women and children under 2 years of age is an extension of the ongoing Maternal and Child Cash Transfer Program. For the cash transfers to 5.5 million households, the Ward and Village Tract Administrators will conduct means-tests to identify vulnerable households.

<sup>20</sup> The eligibility criteria apply to businesses that (i) are affected by COVID-19, (ii) can restart their business once the loan is provided, (iii) obtained business permits before 31 March 2018, (iv) have had annual profits over the last 2 years, (v) have capacity to repay the loan, (vi) will use the loan only for the payment of salaries and operational costs, (vii) are not on any of the government's black lists, and (viii) have paid the business tax.

<sup>21</sup> The ADB is also preparing the Enhancing Financial Access through Public Credit Guarantee Scheme Project, which will provide support for the government to set up a new government credit guarantee corporation, with due regard to bank credit risk practices and reporting.

<sup>22</sup> To be financed by the government's funds or by funding sources from other development partners.

<sup>23</sup> In 2020, the CBM cut its policy interest rate by 0.5% on 12 March, 1.0% on 24 March, and 1.5% on 28 April. The minimum deposit rates were reduced from 8% to 5%, the maximum lending rates from 13% to 10% for collateralized loans, and from 16% to 13% for uncollateralized loans.

and will be gradually phased out as the economy begins to recover. Box 1 provides a snapshot of the COVID-19 impact and summarizes the key response measures taken by the authorities.

22. **Lessons learned.** The proposed CARES Program takes into account the experience and lessons from other CARES Programs in the region, notably that (i) budget support for the countercyclical expenditure program is necessary to mitigate the adverse impact on health and socioeconomic outcomes and to reinstate market confidence, and (ii) ADB's continued engagement through regular policy dialogue and investment programs is instrumental in managing the unfolding impacts of COVID-19. The CARES Program will also include a comprehensive monitoring and reporting framework involving committees and technical working groups (TWGs) under the government and engage the private sector and stakeholders throughout its implementation. It was designed in close consultation with other development partners, such as the IMF, Japan International Cooperation Agency, the WHO, and the World Bank.

#### **Box 1: Snapshot of COVID-19 Impact in Myanmar**

##### **Myanmar's vulnerabilities in the pandemic situation**

- (i) While the COVID-19 infection rate has been low so far, the poor living conditions in urban areas and the porous borders with a large migrant labor pool of more than 4 million people, all in the context of a weak health system, considerably expose Myanmar to future outbreaks.
- (ii) The economic impact is unprecedented—job losses of 1.2 million to 2.1 million are expected, and the number of the poor is likely to increase by 1.3 million people. More than 25% of manufacturing establishments have already shut down, and more such closures are expected. Since more than 80% of the labor force is employed in the informal sector, 70% of them women, the social impact will be quite severe.
- (iii) Conflict-affected areas are likely to be more vulnerable if large-scale outbreaks occur.
- (iv) Recovery in low-value manufacturing businesses, construction, and tourism is likely to be slow and highly dependent on regional recovery. Knock-on effects are likely to be felt in the banking industry.
- (v) The fiscal impact of the crisis is severe—a sharp revenue compression will lead to the fiscal deficit widening to 5.8% of GDP and net financing needs increasing to \$4.18 billion.

##### **Measures taken by the authorities**

- (i) First-phase response to shore up the country's health facilities, with ADB support
- (ii) Design of the CERP in a comprehensive manner, with a focus on social, economic, and fiscal-financial aspects, and keeping an eye on facilitating a swift recovery
- (iii) Senior leadership engaged in the design, implementation, and monitoring of the CERP
- (iv) Commitment to ensure that the CERP support will be distributed in an equitable manner across all ethnic groups and regions, including in areas where internally displaced people live
- (v) Concerted dialogue and partnership with development partners, including the International Monetary Fund by seeking \$700 million Rapid Credit Facility and Rapid Financing Instrument assistance and initiating discussion on debt service suspension

ADB = Asian Development Bank, CERP = COVID-19 Economic Relief Plan, COVID-19 = coronavirus disease.  
Source: Asian Development Bank.

## **B. Proposed Program, Impacts, and ADB's Value Addition**

23. The CARES Program is aligned with ADB's country partnership strategy for Myanmar, 2017–2021, by supporting sustainable and inclusive economic development, and job creation for poverty reduction.<sup>24</sup> The impact of the program will be to mitigate the adverse impacts of COVID-19 on health, livelihoods, and the economy. The outcome of the program will be the COVID-19

<sup>24</sup> ADB. 2017. *Country Partnership Strategy: Myanmar, 2017–2021—Building the Foundations for Inclusive Growth*. Manila.

outbreak effectively controlled and its adverse effects on the poor and vulnerable population and businesses reduced. The program has three outputs: (i) social assistance provided to the poor and vulnerable groups and populations at risk; (ii) health system strengthened for COVID-19 prevention and control; and (iii) MSMEs safeguarded and workers supported during the economic downturn. The design and monitoring framework is in Appendix 1.

24. **ADB's value addition.** The CARES Program leverages ADB's continued engagement with Myanmar and complements its projects for health, social assistance, and job creation. The program will be complemented by technical advice and knowledge support under the country engagement framework.<sup>25</sup> In addition, ADB serves as a catalyst for development coordination and parallel financing. It closely engages with the MOPFI to jointly monitor the socioeconomic impacts of the pandemic. Through a regional technical assistance, ADB will provide policy and technical advice to the government to effectively implement the CERP.<sup>26</sup> The program also adheres to ADB's conflict-sensitivity approach (Box 2).

#### **Box 2: Conflict-Sensitivity Approach of the Program**

##### **Objectives of conflict-sensitive approach**

ADB applies a conflict-sensitive approach to all its operations in Myanmar. This seeks to ensure that ADB assistance will (i) not exacerbate ongoing conflicts, (ii) contribute to inclusive development with equitable benefits to all communities, and (iii) not be disrupted by local conflicts. A panel of conflict advisors advises ADB on the evolving political, economic, ethnic, and other conflict-related situations.

##### **Application of conflict-sensitive approach to the program**

- (i) The government has provided full assurances in its development policy letter that the CERP resources will be channeled to all segments of the vulnerable population of Myanmar, without any differentiation or discrimination. Those with the utmost needs will be supported, regardless of who the beneficiaries are including the most vulnerable and ethnic minorities, as well as those living in areas affected by past and current conflicts.
- (ii) The government has deployed rapid response teams to manage outbreaks and operate mobile clinics to deliver life-saving health care services in conflict-affected areas.
- (iii) The Maternal and Child Cash Transfer Program and cash and in-kind (food) transfers to vulnerable households and populations at risk include internally displaced persons in camps.
- (iv) A country engagement framework will be established as part of the CARES Program to enable (a) policy dialogue between the government and ADB, (b) monitoring, and (c) updating on the government's countercyclical measures, which will ensure equitable coverage of the CERP for all states and regions.

ADB = Asian Development Bank, CERP = COVID-19 Economic Relief Plan, COVID-19 = coronavirus disease.  
Source: Asian Development Bank.

25. ADB supports all three areas of the CERP. First, ADB reprogrammed the ongoing Greater Mekong Subregion Health Security Project totaling \$6.6 million to support the early COVID-19 response, and is preparing \$30 million in additional financing to implement the HSCP.<sup>27</sup> ADB procured medical supplies and equipment amounting to \$1.7 million to address the outbreak.<sup>28</sup> Myanmar participates in the Greater Mekong Subregion Health Cooperation Working Group, a

<sup>25</sup> Country Engagement Framework for COVID-19 Response (accessible from the list of linked documents in Appendix 2).

<sup>26</sup> ADB. 2020. *Technical Assistance for Policy Advice for COVID-19 Economic Recovery in Southeast Asia*. Manila.

<sup>27</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Grant to the Kingdom of Cambodia, Lao People's Democratic Republic, Republic of the Union of Myanmar, and Socialist Republic of Viet Nam for the Greater Mekong Subregion Health Security Project*. Manila.

<sup>28</sup> ADB. 2020. *Technical Assistance for Regional Support to Address the Outbreak of Coronavirus Disease 2019 and Potential Outbreaks of Other Communicable Diseases*. Manila.

regional policy dialogue mechanism supported by ADB. Second, ADB's ongoing projects will provide small loans (\$300/year/household) to farmers to buy seeds and fertilizer and support farm mechanization.<sup>29</sup> They will also support the cash-for-work program in the CERP action plan to promote rural employment among laid-off workers and returning migrants.<sup>30</sup> Finally, ADB will help the government establish a public credit guarantee scheme to benefit MSMEs (footnote 21).

### C. Development Financing Needs, Budget Support, and Debt Sustainability

26. The government's total financing requirement is expected to increase by 13.0%, from \$3.70 billion to \$4.18 billion in FY2020, of which \$2.50 billion will be financed by domestic borrowing. The government plans to mobilize \$1.68 billion through concessional borrowing from development partners and multilateral financial institutions, in line with the IMF recommendation (Table 4). The IMF itself plans to provide \$700 million through its Rapid Credit Facility and Rapid Financing Instrument, and its board approved the first tranche of \$356.5 million on 26 June 2020.

**Table 4: Financing Needs and Support for in FY2020 and FY2021**

Item	(\$ billion)		Change (%)	FY2021
	FY2020 Pre-COVID-19	FY2020 COVID-19 Adjusted		
<b>Total financing requirement (net)</b>	<b>3.70</b>	<b>4.18</b>	<b>13.0</b>	<b>4.54</b>
<b>Domestic borrowing</b>	<b>2.70</b>	<b>2.50</b>	<b>(7.4)</b>	<b>3.01</b>
<b>Foreign borrowing</b>	<b>1.00</b>	<b>1.68</b>	<b>68.0</b>	<b>1.53</b>
<b>COVID-19 Financing</b>		<b>1.09</b>		<b>0.82</b>
ADB (CPRO)				0.25
G20 Debt Service Suspension Initiative		0.32		0.10
European Union		0.06		0.06
International Monetary Fund (RCF/RFI)		0.35		0.35
Japan International Cooperation Agency		0.28		
World Bank		0.08		0.06
<b>Other Financing Sources</b>	<b>1.00</b>	<b>0.59</b>	<b>(41.0)</b>	<b>0.71</b>

( ) = negative, ADB = Asian Development Bank, COVID-19 = coronavirus disease, CPRO = COVID-19 pandemic response option, FY = fiscal year, RCF = Rapid Credit Facility, RFI = Rapid Financing Instrument.

Source: Asian Development Bank estimates based on International Monetary Fund.

27. The government has requested a concessional loan of \$250,000,000 from ADB's ordinary capital resources to help finance the anticipated deficit from the pandemic response and countercyclical support expenditure. The loan will have a 24-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the draft loan agreement. The loan is expected to have two equal disbursements in October and December 2020. The total loan size is based on Myanmar's development spending requirements related to the CERP and its financing needs.

28. **Debt sustainability.** Risks of external and overall debt distress are assessed as low.<sup>31</sup> Total public debt stood at 39.5% of GDP in FY2019, of which domestic public debt was 62.5% and external public debt was 37.5%. Domestic debt comprises treasury bills and bonds, a large share of which is held by the CBM. The largest share of external public debt is held by bilateral creditors, of which the PRC and Japan are the largest. International Development Association

<sup>29</sup> ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to the Republic of the Union of Myanmar for the Climate-Friendly Agribusiness Value Chains Sector Project*. Manila.

<sup>30</sup> ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Grant, and Administration of Grant to the Republic of the Union of Myanmar for the Resilient Community Development Project*. Manila.

<sup>31</sup> IMF. 2020. *Myanmar: 2019 Article IV Consultation*. Washington, DC.



and ADB are the largest multilateral creditors. Prior to the COVID-19 outbreak, the ratio of public debt to GDP was expected to decline from 39.5% of GDP in FY2019 to 36.9% in FY2020, and then increase to 37.2% in FY2021. Given the COVID-19 pandemic, the public debt trajectory is now expected to rise to 43.6% of GDP in FY2020 and to 45.2% in FY2021—but still below the IMF’s public debt sustainability threshold at 55% of GDP. The \$250 million CARES Program will have only a small impact, adding about 0.38% to the debt to GDP ratio, which remains sustainable.<sup>32</sup>

#### D. Development Partner Coordination

29. ADB coordinates its COVID-19 response support closely with other development partners and the government’s Development Aid Coordination Unit, chaired by the State Counsellor. The WHO supported the formulation of the HSCP and helped coordinate between United Nations agencies and nongovernment organizations. ADB is coordinating with the IMF, which provided support through its Rapid Credit Facility and Rapid Financing Instrument, and the World Bank to conduct macroeconomic monitoring and to support the government’s economic stimulus programs. This coordination also extends to assessing the impact of COVID-19 and designing the proposed CARES Program, for which the IMF provided an assessment letter.<sup>33</sup> ADB is working closely with Agence Française de Développement, the European Union, the IMF, Japan International Cooperation Agency, the United States Agency for International Development, and the World Bank, and is exploring financing opportunities to help implement the CERP.

#### E. Implementation Arrangements

30. The MOPFI will be the executing agency for the program. The government and ADB agreed to establish a country engagement framework (footnote 25) covering policy dialogue, monitoring, and reporting on the government’s countercyclical measures. It will enable ADB to support the government through technical assistance to ensure the effective implementation of the CERP (footnote 26). The framework comprises a steering committee to guide and monitor the overall implementation of the CERP. The TWGs will support the committee with inputs for monitoring the government’s overall COVID-19 response. They will also facilitate the government’s engagement with the private sector, stakeholders, and other ministries. Government representatives on the TWGs will include officials from the Ministry of Investment and Foreign Economic Relations, the MOPFI, and other ministries. The TWGs will meet at least once every quarter. The program implementation period is from September 2020 to September 2021. The proceeds of the loan will be withdrawn in accordance with ADB’s *Loan Disbursement Handbook* (2017, as amended from time to time).

### III. DUE DILIGENCE

31. **Governance.** The government has improved governance and transparency through wide-ranging reforms.<sup>34</sup> With the support of ADB and other development partners, it modernized its public financial management (PFM) systems. The MOPFI introduced an automated financial information reporting system for the Treasury. A unified chart of accounts was developed to support the automation and close gaps with international reporting standards. The modernization of the PFM law will continue to drive this process over the medium term. ADB provided assistance

<sup>32</sup> Debt Sustainability Assessment (accessible from the list of linked documents in Appendix 2).

<sup>33</sup> IMF Assessment Letter (accessible from the list of linked documents in Appendix 2).

<sup>34</sup> PEFA Secretariat. 2012. *Republic of the Union of Myanmar: Public Financial Management Performance Report*. Washington, DC.

to develop the financial audit guidelines, which are aligned with International Standards for Supreme Audit Institutions. ADB will continue to boost the capacity of the Office of the Auditor General, which will improve the financial audit, governance, and transparency of COVID-19-related public expenditures.<sup>35</sup> ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

32. **Poverty and inequality.** The COVID-19 pandemic will have a devastating and long-term impact on much of the population, particularly on the poor and vulnerable groups. Many households have experienced sharp declines in employment and income. Rural households are suffering from a decline in remittances from migrant workers affected by the crisis both in-country and abroad. Poverty incidence will worsen with 1.3 million people expected to fall into poverty (para. 12). While the CERP lays out measures to contain COVID-19, minimize socioeconomic impacts, and help vulnerable groups, its adequate resourcing and effective implementation will be critical to avert a sharp escalation in poverty and minimize short- and long-term social impacts.

33. **Gender.** The CARES Program is categorized as *effective gender mainstreaming*. It will address the gender-specific impacts of COVID-19 through three channels. First, the government will target at least 50% female beneficiaries in vulnerable households through various social assistance programs.<sup>36</sup> Second, the MOHS will continue to mainstream gender into health planning and service delivery by ensuring that communities have access to gender-responsive COVID-19 quarantine centers that are segregated, secure, and accessible for all patients; and that health care workers (65% of whom are women) (i) undergo routine testing to reduce asymptomatic transmission, and (ii) receive \$35.80 in supplementary compensation. Finally, the government has provided working capital loans and tax credits to MSMEs (of which 30% are owned by women) to ensure access to credit during the recovery period.

34. **Safeguards.** In compliance with ADB’s Safeguard Policy Statement (2009), the program is classified *category C* for environment, involuntary resettlement, and indigenous peoples. The program is not expected to have any environmental or social safeguard impacts within the meaning of the Safeguard Policy Statement.

35. **Risks and mitigating measures.** Major risks and mitigating measures are summarized in Table 5 and described in detail in the risk assessment and risk management plan.<sup>37</sup>

**Table 5: Substantial Risks and Mitigating Measures**

Risk Description	Mitigation Measures
<p><b>Prolonged outbreak and resurgence of confirmed cases deepen the economic downturn.</b> Myanmar has imposed several movement restrictions, such as the “stay at home” order, and curfews in Yangon and a few other states and regions since 19 April 2020. However, the unfolding health impact of COVID-19 may exacerbate the economic downturn, affecting more vulnerable households and at-risk populations.</p>	<p>The CERP includes action plans that build on the government’s cash and in-kind transfers to vulnerable households and populations at risk, including women, children, the elderly, and people with disabilities. It will ramp up public health capacity by improving testing, quarantine, and intensive care facilities, and medical staffing. In addition, financial assistance packages such as working capital loans and tax relief will improve the liquidity of MSMEs and workers. ADB will provide support for the government to set up a new government credit guarantee corporation, with due regard to bank credit risk practices and reporting.</p>

<sup>35</sup> ADB. 2014. *Technical Assistance for Enhancing Roles of Supreme Audit Institutions in Selected Association of Southeast Asian Nations Countries*. Manila.

<sup>36</sup> The criteria used to identify vulnerable households center on: (i) whether homes are rented or owned and the types of construction materials used; (ii) whether incomes are informal or precarious; (iii) whether dependency ratios are greater than 4; and (iv) the migrant status of households.

<sup>37</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risk Description	Mitigation Measures
<p><b>Limited capacity and resources for effective public health responses and the implementation of the CERP.</b> The health system has a chronic shortage of medical and other staff because of limited permanent staff positions and low compensation levels.</p>	<p>The MOHS plans to: (i) temporarily transfer health personnel from unaffected areas to support affected areas such as Yangon; (ii) mobilize community health volunteers, medical volunteers, and medical students; and provide training on essential COVID-19 responses, including surveillance, laboratory testing, and clinical care; and (iii) engage development partners to provide technical and operational support to the MOHS, such as for procurement of medical products and civil works, and community mobilization.</p>
<p><b>Banking system vulnerabilities worsen economic and financial shocks.</b> The banking sector is constrained by relatively low capital adequacy and profitability, which may impair its ability to help restart the economy, thereby deepening the economic downturn.</p>	<p>The CBM introduced coordinated monetary policies to mitigate the pressure on banks' liquidity. It reduced banks' deposit and lending rate ceilings by 3.0% and their minimum reserve requirement by at least 150 basis points in March–April 2020. The CBM allowed the banks to restructure and reschedule loans already extended to MSMEs. It targets to conduct credit auctions, as necessary, to inject more liquidity into the finance sector. Before the end of 2020, the government plans to temporarily reduce treasury bond and bill auctions to allow for an effective expansionary fiscal stance.</p>
<p><b>Limited governance and transparency of public expenditures dilute effectiveness of health and fiscal responses.</b> Concerns regarding governance and budget transparency, and public expenditure accountability may undermine the overall effectiveness of health and fiscal responses to COVID-19.</p>	<p>The government will convene quarterly meetings with development partners and stakeholders to monitor the CERP implementation progress. The technical working groups will be tasked to engage with stakeholders and ensure effective and transparent implementation of CERP. CERP expenditures will be published quarterly, and audited financial statements, within 6 months of each fiscal year. In addition, the government plans to unify the automated budget and financial reporting systems, which will be critical in enhancing transparency and accuracy of financial information for monitoring and reporting on the CERP. ADB helped develop the financial audit guidelines aligned with International Standard for Supreme Audit Institutions and will continue providing support.</p>

ADB = Asian Development Bank, CBM = Central Bank of Myanmar, CERP = COVID-19 Economic Relief Plan, COVID-19 = coronavirus disease, MOHS = Ministry of Health and Sports, MSMEs = micro, small, and medium-sized enterprises.

Source: Asian Development Bank.

#### IV. ASSURANCES

36. The government has assured ADB that the implementation of the CARES Program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender equality, procurement, financial management, consulting services, and disbursement as described in detail in the loan documents.

#### V. RECOMMENDATION

37. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$250,000,000 to the Republic of the Union of Myanmar for the COVID-19 Active Response and Expenditure Support Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per year during the grace period and 1.5% per year thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa  
President

4 August 2020

### DESIGN AND MONITORING FRAMEWORK

<b>Country's Overarching Development Objectives</b> Adverse impacts of COVID-19 on health, livelihoods, and economy mitigated (COVID-19 Economic Relief Plan) <sup>a</sup>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p><b>Effect of the program</b> COVID-19 outbreak effectively controlled and adverse effects on the poor and vulnerable population and businesses reduced<sup>b</sup></p>	<p><b>By December 2021:</b> a. Poverty and unemployment indicators return to the pre-shock levels of 11.5% and 1.6%, respectively (2020 baseline: poverty at 13.9% and unemployment at 3.1%–5.4%)  b. Myanmar's preparedness capacity, assessed by the Operational Readiness Index, increased by at least 5 points to 69% or more (2018 baseline: 64% compliance)</p>	<p>a. World Bank's poverty data and International Labour Organization's employment data  b. Operational Readiness Index published by the World Health Organization</p>	<p>Worsening conditions in international commodity and financial markets put further downward pressure on the economy and government revenues.</p>
<p><b>Outputs</b> 1. Social assistance provided to the poor and vulnerable groups and populations at risk</p> <p>2. Health system strengthened for COVID-19 prevention and control</p>	<p><b>By December 2020:</b> 1.1 To support input purchases in time for monsoon planting, cash or in-kind support provided to at least 1.55 million smallholder farmer families (with at least 50% female household members) who have lost sales revenue or remittance income (Baseline: no smallholder farmer families receiving cash or in-kind support)  1.2 To help cope with COVID-19, 457,000 pregnant women and children under 2 years of age received one-off \$21.50 cash transfer (June 2020 baseline: 242,000)  1.3 At least 5.5 million vulnerable households (at least 50% of which are female household members), especially poor people without regular income, received one-off \$28.50 cash transfer (June 2020 baseline: 25,000 households)  2.1. At least 9,000 community quarantine centers for COVID-19 operationalized and supported in compliance with gender-responsive standard operational guidelines<sup>c</sup> (April 2020 baseline: 6,808)  2.2 The number of intensive care beds for COVID-19 at (a) the state</p>	<p>1.1 Progress report from the Ministry of Agriculture, Livestock and Irrigation  1.2 Progress report from the Ministry of Social Welfare, Relief and Resettlement  1.3 Progress report from the General Administration Department under the Ministry of the Office of the Union Government  2.1–2.4 Progress report from the Ministry of Health and Sports</p>	<p>Gaps in technical capacity limit the ability of government agencies to implement the health-related responses effectively.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
3. MSMEs safeguarded and workers supported during the economic downturn	<p>and regional hospitals (200 beds and above) and (b) the six designated COVID-19 hospitals increased to a total of 500 (April 2020 baseline: 200)</p> <p>2.3. Daily laboratory testing capacity increased to 3,010 (June 2020 baseline: 1,500)</p> <p>2.4. At least 80% of health personnel at the six designated COVID-19 hospitals (at least 65% of whom are women) trained in COVID-19 management protocols and standard operation procedures, including the special guidelines for the management of COVID-19 during pregnancy<sup>d</sup> (April 2020 baseline: 0 staff trained)</p> <p>3.1 At least 7,000 affected MSMEs, of which 30% are owned by women,<sup>e</sup> received working capital (June 2020 baseline: 3,000)</p> <p>3.2 To encourage firms to retain workers, at least 30,000 MSMEs (of which at least 30% are owned by women<sup>e</sup>) received 10% nonrefundable tax credits on the incremental wage bill and 125% tax deduction of the wage bill (January 2020 baseline: no MSMEs received tax credit or 125% tax deduction on the wage bill)</p>	3.1–3.2 Reports from the Ministry of Planning, Finance and Industry	
<p><b>Budget Support</b> Asian Development Bank: \$250,000,000 (loan)</p>			

COVID-19 = coronavirus disease, MSMEs = micro, small, and medium-sized enterprises.

<sup>a</sup> Government of the Republic of the Union of Myanmar. 2020. *Overcoming as One: COVID-19 Economic Relief Plan*. Nay Pyi Taw.

<sup>b</sup> Because it is uncertain how the COVID-19 outbreak and its economic impact will unfold and because new data collection and reporting systems to monitor the crisis are still being developed, it is not possible to set program targets that are more specific and realistic than those presented in the design and monitoring framework. Additional indicators to measure the effects of the program will be identified at a later stage and used to report on the program's effectiveness as comprehensively as possible in the program completion report.

<sup>c</sup> Being gender-responsive refers to meeting the safety and security needs of both male and female patients, including separate rooms or wards and segregated toilets, bathing, and disinfection facilities. In addition, the Ministry of Health and Sports developed separate guidelines for the management of a COVID-19 infection during pregnancy.

<sup>d</sup> Gender-responsive management protocols demonstrate an awareness of different health, hygiene, and safety needs of female health care workers and the need to control transmission between asymptomatic health care workers.

<sup>e</sup> Women-owned MSMEs are defined as enterprises with fewer than 300 employees and/or capital of less than MK1 billion, where at least one owner is a woman.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=54255-001-3>

1. Loan Agreement
2. Sector Assessment (Summary): Health
3. Development Coordination
4. Country Economic Indicators
5. International Monetary Fund Assessment Letter
6. Summary Poverty Reduction and Social Strategy
7. Risk Assessment and Risk Management Plan
8. List of Ineligible Items
9. Debt Sustainability Assessment
10. Gender Monitoring Matrix

### **Supplementary Documents**

11. Summary of Government's COVID-19 Economic Relief Plan
12. Employment and Poverty Impact Assessment
13. Regional Cooperation and Integration Assessment Summary
14. Country Engagement Framework for COVID-19 Response
15. Estimating the Overall Fiscal Impact of COVID-19 Response Packages
16. Summary of Strategies Related to COVID-19
17. Summary Cross-Country Comparison of COVID-19 Related Data and Effects

**DEVELOPMENT POLICY LETTER**

**THE GOVERNMENT OF THE REPUBLIC OF THE UNION OF MYANMAR**  
**MINISTRY OF PLANNING, FINANCE AND INDUSTRY**

**DEVELOPMENT POLICY LETTER**

Mr. Masatsugu Asakawa  
 President  
 Asian Development Bank  
 Manila, Philippines

July, 29, 2020

**Subject: COVID-19 Pandemic Response Option (CPRO) under the Countercyclical Support Facility, (COVID-19 Active Response and Expenditure Support (CARES) Program)**

Dear Mr. President:

On behalf of the Government of Myanmar, we would like to express our appreciation for the continuous commitment and support of the Asian Development Bank (ADB) towards our overall reform efforts and national development agenda. This development policy letter expresses our interest in obtaining, as well as our commitment in fulfilling all the requirements for, a \$ 250 million loan in the United States dollars under the Countercyclical Support Facility-COVID-19 Pandemic Response Option (CPRO) for the COVID-19 Active Response and Expenditure Support (CARES) program.

While the full extent of the impact on public health is yet to be seen, the COVID-19 pandemic has certainly reversed Myanmar's economic growth trajectory. As of 27th July 2020, Myanmar had officially confirmed 350 cases, 6 deaths from COVID-19, and approximately 20,000 suspected cases being observed in dedicated quarantine facilities. The government has taken measures to contain the pandemic, such as the stay-at-home order, closure of non-essential businesses, and disruptions to international transport and travel. But, the COVID-19 pandemic has severely disrupted our country's course of economic progress and reforms. Our economy has been hit quite hard. Real Gross Domestic Product (GDP) growth in 2020 is expected to decline sharply with downside

risks of GDP slipping into a contraction if there is a widespread community transmission. Manufacturing, tourism, construction sectors, which altogether account for 38% of GDP, were the hardest hit by the containment measures. The country's reliance on international trade and investment also points to a sharp economic slowdown underway.

Moreover, the containment measures have put Myanmar's progress toward poverty reduction at risk. The impact on the real sector has in turn been felt negatively in terms of employment and income in many poor, marginally poor and vulnerable households. The outbreak could exert major and far-reaching social impacts, particularly if the epidemic expands in Myanmar and is prolonged. For example, the garment sector has been particularly hard-hit, resulting in significant layoffs especially among young women. While agriculture work has not yet been affected significantly, many rural households suffer from decreased remittances from migrant workers in manufacturing and service sector jobs in-country and abroad, which had been critical in increasing and diversifying rural income.

Recognizing an urgent need to address these immediate and daunting challenges, the Government of Myanmar, on 27 April 2020, rolled out the COVID-19 Economic Relief Plan (CERP). The economic stimulus plan seeks to mitigate the inevitable economic impact posed by the COVID-19 pandemic, while establishing foundations that will facilitate Myanmar's rapid economic recovery, using all available policy instruments to the fullest possible extent, and as part of a coordinated whole-of-nation response. The government plans to reallocate the budget in FY2020 around MMK 1.3 trillion to create fiscal space for COVID-19-related responses and investment outlays, and additional MMK 3.5 trillion fiscal spending will be required to finance pro-poor countercyclical development expenditure programs under the CERP.

First and foremost, fiscal spending is geared toward protecting vulnerable households, smallholder farmers, and the population at risk. The government has introduced in-kind (food) and cash transfers to vulnerable households and at-risk populations, especially poor households without regular income. The government has completed in-kind food transfers to more than 4 million vulnerable households and at-risk populations. In addition, the government will carry out multi-tranche cash transfers of MMK 40,000 through the Electronic Cash Payment System in selected areas as well as direct payment through the General Administration Department to each of 5.5 million vulnerable



families, especially those affected by the closure of factories and business or without regular income, including internally displaced persons (IDPs). The existing social assistance programs will also be strengthened to protect women, children, the elderly, people with disabilities, and IDPs at this difficult time. In particular, the cash transfer program for mothers and children will also be expanded nation-wide to improve nutritional outcomes for mothers and children during the critical first 1,000 days of life. Each pregnant woman will be provided MMK 30,000 per person as one-time payment. The government will provide one-time payment of MMK 30,000 to each elder people who are between 80 years to 84 years old, on top of regular social pension for elder persons who are at least 85 years old. Also, the disabled people will be provided MMK 20,000 as one-time allowance. The government also plans to provide cash and in-kind support to smallholder farmer families which have lost sales revenue or remittance income to support input purchases in time for monsoon planting by the end of 2020. The government announced to exempt electricity tariffs for the households, firms, religious organizations, and humanitarian organizations on 6 May 2020. The government allowed the exemption up to 150 electric units in April-June and extended this exemption with the reduction of 75 units in July.

Second, public health capacity to cope with the future resurgence of the COVID-19 pandemic needs to be ramped up. To do so, the government aligned the CERP with the Health Sector Contingency Plan (HSCP) by putting emphasis on: (i) extending and improving quarantine services; (ii) importation of key medical products; (iii) improving preventive measures; (iv) improve health sector human resource capacity; and (v) upgrading existing health capacities. Effective quarantine is a critical intervention to stop the virus from further spreading. Importation of key medical products based on the forecasted consumption levels is urgent and vital. The government has set up a mechanism to monitor the progress of procurement and the contribution of development partners to the HSCP, together with the World Health Organization. Given the current volatile market, the government could consider engaging with credible international procurement agent to tap into the wider global supply chain. While mass rapid testing options are still being explored, it will become important as the society and businesses reopen. Necessary training on standard operating procedures for isolation facilities, laboratory testing, and clinical management of COVID-cases for the additional workforces and volunteers will be conducted in each state and region. The plan also included a surge plan for laboratory staff in case of increased needs for testing. Finally,

the government is seeking to scale up the capacity of laboratories and hospital clinical management for COVID-19 and other similar severe respiratory diseases.

Last but not least, to help micro, small and medium-sized enterprises (MSMEs) and workers at this difficult time, the government has established a COVID-19 Fund, amounting to MMK100 billion, to provide working capital to the most affected industries such as cutting, making, and processing (CMP) enterprises, MSMEs, and retail, hotel and tourism businesses. The interest rate for the working capital loans is 1% and the loan period is 1 year. The government plans to increase the fund size by MMK 200-500 billion depending on market response during 2020. The government is planning to roll out the Credit Guarantee Schemes, with the support of ADB's project loan, by the end of 2020. Through the credit guarantee scheme, the government will provide guarantees of any new loans made by banks to Myanmar enterprises (up to a turnover of MMK1 billion) for working capital, as long as the enterprises are not beneficiaries of the COVID-19 Fund, and conditional upon the maintenance or rehire of staff employed as of 1 February 2020. To help MSMEs engaging in exports and imports, the government will use its own fund to support trade financing through establishment a MMK100 billion fund to designated commercial banks before end of 2020. In addition, the government has granted tax reliefs and credits to local businesses and individuals to improve liquidity. The government will waive the 2% withholding tax on exports and specific goods tax, customs duties and commercial tax for critical medical supplies and products related to the prevention, control and treatment of COVID-19. Moreover, the Government targets to provide: (i) 10% non-refundable tax credits on the incremental wage bill and for incremental investments on capital equipment; (ii) tax deduction equal to 125% of wages paid; and (iii) a one-time increase in depreciation equal to 125% of depreciation for the current year.

The following CERP action plans will not be supported by the CPRO but will be financed by the government's internal funds, other ADB projects, and/or other development partners: (i) the cash-for-work program to promote rural employment among laid-off workers and returning migrants through community infrastructure; (ii) low-cost funding for small borrowers through microfinance; (iii) expanding pilot commercial lending programs to affected townships; (iv) government guarantee of 50% of loans to MSMEs affected by COVID-19; and (v) MMK100 billion fund to support trade financing.

**Conclusion**

The Government is fully committed to achieving the countercyclical development expenditure programs outlined above and to implement reform efforts already instituted. We also want to give our full assurances that the Government's social assistance and stimulus support will be channeled to all segments of the vulnerable population of Myanmar, without any differentiation or discrimination. Those with the utmost needs will be supported, regardless of who the beneficiaries are including the most vulnerable and ethnic minorities, as well as those living in areas affected by past and current conflicts. The Ministry of Planning, Finance and Industry will work closely with ADB, development partners and key stakeholders in maintaining a regular and dedicated policy dialogue in the implementation and monitoring of the Government's countercyclical support program.

We would appreciate your prompt consideration of this loan. In closing, Mr. President, the CARES program will enable the Government of Myanmar to take decisive and rapid action to finance the significant deficit and also to support the implementation of countercyclical support programs while strengthening our partnership with ADB to meet the development objectives of our country.

Sincerely,



Soe Win  
Union Minister



**ASSESSMENT OF COMPLIANCE WITH ACCESS CRITERIA FOR THE  
COUNTERCYCLICAL SUPPORT FACILITY AND COVID-19 PANDEMIC RESPONSE OPTION**

CPRO Access Criteria	ADB Staff Assessment
<p><b>1. Adverse impact of exogenous shocks</b></p>	<p>On 11 March 2020, the WHO declared the COVID-19 outbreak a global pandemic. As of 3 August 2020, the WHO reported 17,396,943 million confirmed COVID-19 cases and 675,060 deaths from COVID-19 globally.<sup>a</sup> In Myanmar, 353 positive cases and 6 deaths have been reported as of 3 August 2020.</p> <p><b>Impact on economic growth.</b> Prior to the COVID-19 outbreak, GDP growth in FY2020 was projected at 6.8%, sustained at the same level as in FY2019. The pre-outbreak outlook was attributable to robust growth in garment manufacturing and construction sectors, coupled with a recovery in the agriculture sector. ADB revised GDP growth for FY2020 downward to 1.8%—equivalent to economic losses of \$3.3 billion—with downside risks from possible surges in infected cases. This compares to 6.8% as forecast in 2019 and 4.2% as projected in March 2020</p> <p><b>Impact on key economic sectors.</b> There are three main transmission mechanisms through which the COVID-19 pandemic poses short- to medium-term economic challenges. First, labor-intensive manufactures have seen the biggest impact. The manufacturing purchasing managers' index sank to 29.0 in April 2020 from 45.3 in February 2020. This is the third straight month of contraction in the sector and the steepest on record. Output, new orders, purchasing, and employment all contracted at record rates as demand evaporated and workers returned to their hometowns. The garment manufacturing sector, which employs around 1.1 million workers nationwide and accounts for 24.2% of total exports (\$4.6 billion), is particularly vulnerable as it relies on foreign markets for both imported materials and exports. Of those workers in the garment manufacturing sector, 350,000 are at risk of either being suspended without pay or losing their jobs permanently. Second, the COVID-19 pandemic has disrupted domestic and foreign investment flows. From October 2019—June 2020, the Myanmar Investment Commission had approved \$4.4 billion (MK6.1 trillion) in domestic and foreign investments. However, total new investment commitments in FY2020 will likely miss the target of \$5.8 billion due to the sudden disruption in trade and manufacturing and construction delays arising out of the lockdowns and closures of non-essential business activities. Lastly, the tourism sector, which accounts for 6.8% of GDP and 2.7% of total employment (800,000 jobs), is expected to be hard hit by the COVID-19 pandemic. The Ministry of Hotels and Tourism projected international arrivals to fall to 2 million international travelers from the earlier estimate of more than 4 million for 2020 due to international travel restrictions and trip cancellations. Even this projection is likely to be highly optimistic.</p>

CPRO Access Criteria	ADB Staff Assessment
	<p><b>Financial sector vulnerabilities.</b> The banking system consists of 27 private banks, of which 6 are systemic, 4 are state-owned banks, and 13 are foreign bank branches. The 6 systemic banks account for 51% of system assets and 65% of total system lending. Total banking system assets aggregate to MK63 trillion (approximately \$42 billion) and represent approximately 60% of GDP. The banking sector has been characterized by structural vulnerabilities prior to the onset of the COVID-19 pandemic. Moreover, risk remains high due to relatively low capital adequacy and bank profitability. In private banks, real estate and construction loans exceed aggregate capital, and commercial loans account for approximately 7-times the aggregate equity capital. Yet capital buffers are thin. Aggregate banking sector Tier 1 regulatory capital is 10.8% of risk weighted assets. For FY2019, prior to the COVID-19 pandemic, Myanmar banking sector's aggregate returns on assets and equity were among the lowest in the region. In recognition of all these challenges, the banking sector has recently been under a modernization process.</p> <p><b>Widening fiscal deficit.</b> The weakened economic environment and the required policy response to contain the pandemic will widen the fiscal deficit. The necessary additional spending on health and targeted transfers to vulnerable households and firms will raise expenditures, while weaker economic activity, reduced gas revenues, and targeted tax revenue relief will lower government revenue. The budget deficit is expected to widen significantly to 5.8% of GDP in FY2020, an increase from 2.6% prior to the COVID-19 pandemic and 4.0% in FY 2019. In a scenario with widespread community transmission and even weaker economic activity, even higher revenue losses and additional expenditures could further increase the deficit. Due to the adverse impact of COVID-19 and the government's development expenditure program, the total financing requirement is expected to increase by 13.0% from \$3.7 billion to \$4.18 billion in FY2020.</p> <p><b>Social impact.</b> Despite the relatively limited outbreak to date, COVID-19 has already caused severe declines in employment and income in many households. For example, the garment sector has been particularly hard-hit, resulting in significant layoffs. ADB estimates that the COVID-19 pandemic will result in 1.2 million–2.1 million jobs loss, equivalent to 5.1%–8.7% of total employment.<sup>b</sup> The employment impact of COVID-19 also exposed gender inequalities in the business sector. Women represent 60% of employees in food and accommodation services and 70%–90% for street food vendors. Women also constitute a majority of employees in the garment industry. This suggests that women are more vulnerable to unpaid leave or unemployment. 83% of the country's 24 million workforce are in the informal sector, with more than half working in agriculture, small family business, or as own account workers (61.8% for working females and 54.1% for working males). Informal sector workers are typically not eligible for social protection benefits and only 37% of workers in the formal sector are covered by the social health protection scheme. It is estimated that 4.25 million Myanmar nationals are working outside of the country. More than 0.9 million are migrant workers, mainly from Mon State, Kayin State, and Shan State, who cross borders to work in the</p>

CPRO Access Criteria	ADB Staff Assessment
	<p>PRC and Thailand. The official overseas employment constituted more than 50% of total job creation in 2019, and remittances constituted 4.3% of GDP in 2019 and contributed, on average, 44% of household income. The closing of businesses in the neighboring countries, especially the PRC and Thailand, has brought about job losses among migrant workers. As of 12 June 2020, 103,163 migrant workers have returned to Myanmar from Thailand, the PRC, and other countries.</p> <p>COVID-19 may slow Myanmar's significant progress in reducing poverty, with large poor and vulnerable populations least able to cope with the impact of COVID-19. The most recent (2017) poverty headcount ratio indicated that 19.3% of Myanmar's population lived under the \$3.2 per day poverty line and projected the ratio to decline to 11.5% in 2020 in the absence of the COVID-19 pandemic.<sup>c</sup> ADB staff estimates that COVID-19 is likely to increase the number of the poor from 6.3 million to 7.6 million people in 2020, and that the projected poverty headcount ratio will increase from 11.5% to 13.9% in the same year. In addition, large portions of the population (particularly low-income and rural households) face deprivations and vulnerabilities in non-income dimensions such as access to employment opportunities, social protection, and quality health care. Finally, only 17% of all Myanmar households have a bank account, and lower income and rural households have particularly limited savings and access to formal financial institutions (e.g., 12.4% of poor households experienced health shocks in 2017 versus 10.6% for non-poor). In view of such factors, COVID-19 could cause major and far-reaching social impacts, particularly if the epidemic expands and is prolonged.</p> <p><b>Health impact.</b> As of 3 August 2020, Myanmar had officially confirmed 353 cases and 6 deaths from COVID-19. At the same time, approximately 20,000 people are quarantined in dedicated isolation facilities. Although confirmed cases have been reported from other states and regions as well, the epicenter of the COVID-19 outbreak in Myanmar is the Yangon region, where 70.5% of all cases (249 out of 353) were recorded.<sup>d</sup> The country has implemented intensified public health measures such as closing of borders, suspension of visa, travel restrictions, screening incoming travelers at all points of entry, quarantining individuals with travel history to affected countries and contact history with confirmed cases, and isolating suspected cases at designated hospitals. Since the onset of the outbreak, the government has set up community quarantine centers by repurposing public premises (7,772 as of 15 June 2020). The country's testing capacity has been scaled up from 320 tests per day to 2,000 tests per day by June 2020. These measures, in theory, will help flatten the curve of the spread of the disease, so the health system can better manage the outbreak.</p> <p>Myanmar is at a high risk of significant COVID-19 impact despite officially reporting a moderate number of confirmed cases. Notable vulnerabilities include: (i) a large influx of returning migrants from the PRC and</p>

CPRO Access Criteria	ADB Staff Assessment
	<p>Thailand, many of whom are crossing informal borders; (ii) high population density in urban and peri-urban areas with weak water and sanitation infrastructure; and (iii) IDP camps that lack basic livelihood and medical care supplies and are prone to conflict situations. The HSCP for COVID-19 and other emerging respiratory diseases projected that, if widespread community transmission of COVID-19 occurred, Myanmar could have 356,821 total confirmed cases and nearly 75,000 active cases at the peak. This is based on the assumption that mitigation measures are taken and reduce the transmission rate by two-thirds. The country's healthcare system capacity remains one of the weakest in the region. Myanmar already faces a severe shortage of professional health staff, with only about 6.8 doctors (57% female) and 10 registered nurses and midwives (96% female) per 10,000 population in 2018. The country has 0.9 hospital beds per 1,000 people, compared with 2.4 on average in lower-middle income countries, and has only about 200 equipped and functional intensive care beds. In the case of widespread community transmission, the healthcare system can be easily overwhelmed, resulting in a lack of access to services and a high mortality rate. Capacity to meet any surge in COVID-19 cases is urgently needed for surveillance and diagnosis, prevention and control, and case management. Existing and newly recruited health staff and volunteers need rapid training on personal protection, field laboratory work, risk communication, and patient management.</p>
<p><b>2. Countercyclical development expenditures</b></p>	<p>On 27 April 2020, the government announced the CERP. The economic stimulus plan seeks to mitigate the economic impact of the COVID-19 pandemic, while establishing foundations to facilitate Myanmar's economic recovery as part of a coordinated whole-of-nation response. The CERP comprises seven goals: (i) improve the macroeconomic environment through monetary stimulus; (ii) ease the impact on the private sector by enabling investment, trade, and the banking sector; (iii) ease the impact on laborers and workers; (iv) ease the impact on households; (v) promote innovative products and platforms; (vi) strengthen the healthcare system; and (vii) increase access to COVID-19 financing. The MOPFI estimated that around \$2.5 billion in fiscal spending will be required. To finance the government's efforts to contain the COVID-19 pandemic and stabilize the economy, the CERP aims to reallocate the budget in FY2020 to create fiscal space for COVID-19-related responses and investment outlays. In addition, concessional financing will be raised through development partners and international financial institutions, in line with IMF recommendations. The proposed CARES Program, under the CPRO, will help the government fund and implement the CERP. The government has consulted with development partners, including ADB, as well as private sector and stakeholders in formulating the CERP. ADB staff have applied a conflict sensitivity approach to ensure that the CERP has adequate provisions for supporting all ethnic groups living in different parts of the country without any differentiation.</p> <p><b>Strengthening healthcare system.</b> The health sector response is guided by the HSCP: Outbreak Response for COVID-19 and other Emerging Respiratory Disease in Myanmar. The CERP has incorporated</p>

CPRO Access Criteria	ADB Staff Assessment
	<p>Goal 6 of this contingency plan: strengthening healthcare systems and a strategy to promote healthcare through increased government spending and regulatory reform. The strategy has 5 action plans and 16 actions, which are aligned with the HSCP, with emphasis on: (i) increasing the number and capacity of quarantine facilities by turning available public buildings into quarantine centers, recruiting medical staff and volunteers to serve in quarantine facilities, and ensuring sufficient supplies of protective equipment and medical supplies; (ii) immediately procuring the required medical products for COVID-19 prevention, control, and treatment with an expedited procurement process; (iii) strengthening community preventive measures including establishing hand-washing stations at convenient and accessible locations, deploying mobile disinfection teams to increase coverage of disinfection, deploying mobile teams for distribution of masks, and distributing information pamphlets to the public; and (iv) upgrading existing health facilities including laboratories, hospitals, and healthcare centers at various levels.<sup>e</sup> The country had only one national laboratory (BSL2) for COVID-19 testing in the beginning of 2020. The plan is to establish point-of-care testing sites at state and regional levels and expanding COVID-19 testing capacity in the Mandalay Public Health Laboratory and the Department of Medical Research, Yangon. The total target capacity is 3,010 tests per day. The HSCP also includes upgrading and expanding ICU capacity at public hospitals (8 central level hospitals and 43 hospitals at the State and regional level), which will also be supported by a World Bank project. The MOHS aims to increase the number of ICU beds from the current 200 beds to 500 beds. These challenges have been complicated by a shortage in human resource and limited basic infrastructure such as unreliable electricity and water supply in many parts of the country.</p> <p><b>Social assistance provided to vulnerable groups and populations at risk.</b> The government’s CERP has established action plans to provide cash and in-kind transfers to vulnerable households and farmers. The government will also exempt public, religious organizations, and humanitarian organizations from electricity tariffs: specifically, the government allowed an exemption of up to 150 kilowatt-hours in April–June and up to 75 kilowatt-hours in July 2020. The government has also provided in-kind food transfers to vulnerable households and at-risk populations, especially poor people without regular income. The General Administration Department under the Ministry of the Office of the Union Government was mainly responsible for the dissemination of food support.<sup>f</sup> In addition, the government has announced implementation of cash transfers of MK40,000 (\$28.50) per household to about 5.5 million vulnerable families, especially those affected by the closure of factories and businesses or without regular income. The existing social assistance programs will be scaled up. The Ministry of Social Welfare, Relief and Resettlement will expand the MCCT Program nationwide, which aims to improve nutritional outcomes for mothers and children during the critical first 1,000 days of life. The MCCT Program has been ongoing in Chin State since 2017 and was subsequently expanded to Rakhine State and Naga Self-Administered Zone of the Sagaing Region in 2018.<sup>g</sup> Under the MCCT Program, each pregnant woman and under 2-year old</p>



CPRO Access Criteria	ADB Staff Assessment
	<p>child will be provided MK30,000 (\$21.50) as one-time payment. In addition to the MCCT Program, the government will provide one-time payment of: (i) MK30,000 (\$21.50) to each elderly person between 80–84 years old, on top of the regular social pension for elderly persons who are at least 85 years old; and (ii) MK20,000 (\$14.30) to disabled people as one-time allowance. To strengthen agriculture value chains and promote income generation and retention, the MOALI will also support farmers, seed farmers, small agri-processors, and agri-businesses. To support input purchases in time for monsoon planting by the end of 2020, MOALI plans to provide cash or lending support to smallholder farmers who have lost sales revenue or remittance income. MOALI also committed to offer complementary support by the end of 2020, providing advice to enhance productivity and market connectivity.</p> <p><b>Providing working capital for MSMEs.</b> The government had established a MK100 billion (\$71.7 million) COVID-19 Fund comprised of MK50 billion drawn from State’s Revolving Fund and MK50 billion from the Social Security Fund, to provide low interest working capital to the most affected industries such as cutting, making, and processing enterprises, MSMEs, and hotel and tourism businesses. The interest rate is 1% for a period of 1 year. Working capital has been provided to the enterprises which meet the pre-structured criteria established by the government.<sup>h</sup> Loans have been provided to nearly 3,000 MSMEs totaling \$65 million as of June 2020. The government plans to increase fund size by MK200 billion—MK500 billion (\$143.4 million—\$358.4 million), depending on the evolving needs from MSMEs. Also, the government plans to expand existing pilot commercial lending programs to those townships that are most economically affected. The government has also arranged to offer credit guarantee schemes by the end of 2020, with the support of ADB. Through the credit guarantee scheme, the government will provide guarantees covering 50% of any new loans made by banks to Myanmar enterprises up to a turnover of MK1 billion (\$720,000) for working capital, as long as the enterprises are not beneficiaries of the COVID-19 Fund and conditional upon maintenance or rehire of staff employed as of 1 February 2020. Moreover, the government has committed to promote trade financing for designated commercial banks through the establishment of a MK100 billion (\$71.7 million) fund before the end of 2020.</p> <p><b>Social protection and reemployment of workers.</b> The government extended healthcare benefits to unemployed SSB members from 6 months to 1 year from the date of unemployment, with medicine benefits. The Ministry of Social Welfare, Relief and Resettlement allowed employers to defer their employees’ SSB contributions for 3 months. Under the CERP, the government has committed to implement labor-intensive community infrastructure before the end of 2020 to ease unemployment triggered by the COVID-19 outbreak. With ADB’s ongoing support under the Resilient Community Development Project, the CERP includes action plans for extending labor benefits and for implementation of labor-intensive community infrastructure for the purpose of easing the impact on laborers.</p>

CPRO Access Criteria	ADB Staff Assessment
	<p><b>Tax relief and tax payment deferral to increase liquidity among businesses and individuals.</b> The government has deferred the payment of corporate income tax (Q2 payments expiring on 31 March and Q3 payments expiring on 30 June) and commercial tax (payable every 3 months) up to 30 September 2020. The government waived the 2% withholding tax on exports and goods tax, customs duties, and commercial taxes on critical medical supplies and products related to the prevention, control, and treatment of COVID-19. Moreover, the government expects to provide a 10% nonrefundable tax credit on incremental wage bills and incremental investments in capital equipment. A tax deduction equal to 125% of wages paid and 125% of capital depreciation will be provided to increase liquidity among MSMEs. The government estimates that tax revenues will decrease from 5.7% of GDP prior to COVID-19 to 4.2% of GDP in FY2020. However, actual tax revenues may be even lower than this primary estimation due to the economic impacts of COVID-19 and tax reliefs measures for COVID-19 response.</p> <p><b>Monetary policy and banking sector measures.</b> The government has initiated monetary and banking sector stimulus measures in the run-up to launching the CERP. The CBM reduced the minimum reserve requirement on banks by 150 basis points to better align with market conditions. The CBM allowed banks to restructure and reschedule existing loans extended to MSMEs that regularly pay interest and principal on a timely basis for a period no longer than 3 years. The CBM will conduct credit auctions as necessary to inject more liquidity into the banking and financial sector. It has also arranged to negotiate with private financial institutions to give more flexibility related to interest and mortgage payments for households that are most negatively affected by the COVID-19 pandemic. Finally, the government will allow the CBM to finance the fiscal deficit as necessary, up to a suitable level consistent with its target for growth in the money supply.</p>
<p><b>3. Pre-shock record of generally sound macroeconomic management</b></p>	<p>Prior to the COVID-19 pandemic, GDP growth was expected to pick up to 6.8% in 2020 from the average of 6.4% in 2015–2019, with stable inflation rate of 7.1% on average. Robust economic growth has been supported by two key sectors: industry and services. Industry grew by 8.4% in 2019 as garment manufacturing and construction expanded, while services saw moderate growth of 8.3% in 2019. The pickup in GDP growth in the run-up to the outbreak was accompanied by an increase in the inflation rate from 5.9% in 2018 to 8.6% in 2019 as prices for food and imported fuel rose.</p> <p><b>The external position is broadly in line with economic fundamentals.</b> The current account deficits were modest at an average of 4.3% of GDP in 2015–2019 due to lower FDI-related imports, including a decline in iron and steel imports due to a slowdown in construction and one-off factors related to changes in automobile import regulations. In contrast, the exports held up, led by garment manufacturing and natural gas, amid global trade tensions, and the economic slowdown in the PRC. The narrower deficit offset weaker FDI and other inflows. This allowed a modest buildup of foreign exchange reserves via auctions to about \$6.0 billion in April 2020, equivalent to 5 months of imports coverage.</p>

CPRO Access Criteria	ADB Staff Assessment
	<p><b>Fiscal policy was moderately accommodative with improved budget execution and PFM.</b> In the run-up to the COVID-19 pandemic, the fiscal deficit was estimated at 2.6% of GDP in FY2020, narrowed slightly from 4.0% in FY2019, and was considered an appropriate fiscal policy stance. Improved budget execution and debt issuances had allowed the prospect of phasing out CBM's debt monetization by FY2021. The declining trend in the revenue-to-GDP ratio from 18.8% of GDP in FY2018 to around 18.0% in FY2019–FY2020 needs to be reversed, and a medium-term revenue strategy with specific targets is needed to meet SDG-related spending needs under the Myanmar Sustainable Development Plan. This would involve modernizing the tax system to raise revenues while improving PFM systems for more efficient and responsive fiscal spending. The government has taken several actions to improve procurement and budget disbursement for the COVID-19 responses. For example, the MOHS has enhanced procurement of the required medical products for COVID-19 prevention, control, and treatment with an expedited procurement process. The MOPFI has waived customs duties and commercial tax related to the importation of critical medical supplies and products related to the prevention, control, and treatment of COVID-19. The MOPFI has introduced the automated financial information reporting system for the Treasury (FIRST). To improve PFM systems, the MOPFI will move to the second phase of automation to unify budget and financial reporting. The development of a unified chart of accounts would also support the automation and close gaps with international reporting standards. The modernization of the PFM law, building on preliminary findings of the PEFA, has made significant efforts to improve governance and transparency and fight corruption through wide-ranging economic, social, institutional, and governance reforms and would support the PFM reform process over the medium-term. ADB support will continue to be provided to improve financial management capacity of the OAGM. ADB has helped develop the financial audit guidelines aligned with International Standard for Supreme Audit Institution and will continue to provide support to improve financial management capacity of the OAGM, especially for financial audit, governance, and transparency of COVID-19-related public expenditures.</p> <p><b>Broad monetary aggregates and the exchange rate remained stable.</b> Reserve money growth picked up at the end of FY2019 due to increased monetary financing but remained within target as net foreign assets remained broadly stable. Moreover, growth in broad money aggregates, the intermediate objective, moderated from 19.0% in FY2018 to 15.5% in FY2019 as targeted. Treasury and deposit auction rates have also remained relatively stable as excess reserves of the banking system were seasonally low and reserve money growth has moderated to about 6% year-on-year since September 2019. The nominal and real effective exchange rates have been broadly stable since the CBM formally adopted a market-determined reference exchange rate. The move has better anchored market expectations and reduced the informal market spread with limited one-way foreign exchange intervention.</p>

<b>CPRO Access Criteria</b>	<b>ADB Staff Assessment</b>
<b>4. Structural reforms</b>	<p>The government has formed the National Central Committee for COVID-19 Prevention, Control and Treatment chaired by the State Counsellor, to coordinate and monitor the overall COVID-19 responses. The COVID-19 Containment and Emergency Response Committee chaired by Myanmar's Vice President 1 has also been established and tasked to oversee health responses, including those in the CERP. The MOHS has announced the HSCP, estimated to cost \$300 million, covering two phases: the immediate to short-term (April 2020–December 2021) and the short- to medium-term (January 2022–December 2024). During the immediate and short-term, the focus is on community surveillance, active case detection, quarantine measures, risk communication and community engagement, non-pharmaceutical interventions, strengthening laboratory supplies, protection of healthcare workers, and improving clinical capacity. Over the short- to medium-term, the focus will be on strengthening the resilience of the health system and its preparedness for future outbreaks and other emergencies (see Criteria 2 above on countercyclical development expenditures).</p> <p>In early May 2020, the government announced the COVID-19 National Response and Recovery Plan for the Education Sector (May 2020–October 2021). The plan includes two phases: phase 1 or response phase (May 2020–September 2020) and phase 2 or recovery phase through the reopening of education institutions (October 2020–October 2021). The holistic plan covers all states and regions in Myanmar and all education subsectors under the Ministry of Education. The plan includes a framework of strategies and interventions for (i) ensuring continuity of education for all learners in Myanmar, (ii) ensuring that the reopening of education institutions is planned properly, and (iii) contributing to safer and more resilient education environments.</p>
<b>5. Debt sustainability</b>	<p>The IMF's Staff Report for the 2019 Article IV Consultation noted that Myanmar's risks of external and overall debt distress continue to be assessed as low. Myanmar's total public debt is estimated to be 39.5% of GDP as of FY2019. Public domestic debt accounted for 62.5% of total public debt in FY2019 and external public debt stood at 37.5% of total public debt in FY2019. Domestic debt comprises treasury bills and bonds, a large share of which—mostly 3-month treasury bills—is held by the CBM. The largest share of PPG external debt is held by bilateral creditors, amongst which the PRC and Japan are the largest creditors. The International Development Association and ADB are the largest multilateral creditors. Gross official reserves stood at \$6.0 billion (5 months of imports equivalence) in April 2020, up from \$5.7 billion in FY2019.</p> <p>Prior to the COVID-19 outbreak, the public debt to GDP ratio was expected to decline from 39.5% in FY2019 to 36.9% in FY2020 and edge up to 37.2% in FY2021. COVID-19 will affect the public debt to GDP ratio by (i) increasing public debt levels as the result of higher budget deficit, and (ii) contracting GDP. ADB estimates that the COVID-19 pandemic will increase the public debt to GDP ratio from 39.5% in FY2019 to 43.6% in FY2020 and 45.2% in FY2021—still well below IMF's debt sustainability threshold of 55%. The</p>

CPRO Access Criteria	ADB Staff Assessment
	CARES Program under the CPRO (\$250 million) is estimated to generate only a small impact, adding around 0.38% to the public debt to GDP ratio. Therefore, the existing debt ratio and projected public indebtedness, including the potential impact of the proposed CPRO borrowing, are sustainable.
<b>6. Coordination with International Monetary Fund</b>	ADB is closely coordinating with the IMF on macroeconomic monitoring and is assessing the impact of COVID-19 on the economy and government finances of Myanmar. The government and the IMF have an agreement in place for budget support using the Rapid Credit Facility and Rapid Financing Instrument worth up to \$700 million in response to the pandemic. The first tranche of \$356.5 million was approved by the IMF's Board on 26 June 2020 and disbursed on 2 July 2020. The IMF's Board will consider a planned second tranche of about \$350 million by December 2020. ADB has been in close contact with the IMF on the proposed CARES Program. The government is also requesting financial assistance from other development partners and ADB is closely coordinating, and exploring parallel opportunities, with other development partners such as the Japan International Cooperation Agency, the European Union, and the World Bank. The IMF has provided an assessment letter (circulated to ADB's Board of Directors on 16 June 2020) confirming that the fiscal stimulus under the CERP will be instrumental in containing the adverse health, social, and economic impacts of COVID-19.

ADB = Asian Development Bank, CARES = COVID-19 Active Response and Expenditure Support, CBM = Central Bank of Myanmar, CERP = COVID-19 Economic Relief Plan, COVID-19 = coronavirus disease, CPRO = COVID-19 pandemic response option, FDI = foreign direct investment, FY = fiscal year, GDP = gross domestic product, HSCP = Health Sector Contingency Plan, ICU = intensive care unit, IDP = internally displaced person, IMF = International Monetary Fund, MCCT = Maternal and Child Cash Transfer, MK = Myanmar kyat, MOALI = Ministry of Agriculture, Livestock and Irrigation, MOHS = Ministry of Health and Sports, MOPFI = Ministry of Planning, Finance and Industry, MSMEs = micro, small, and medium-sized enterprises, OAGM = Office of the Auditor General of the Union of Myanmar, PEFA = Public expenditure and Financial Accountability, PFM = public financial management, PPG = public and publicly guaranteed, PRC = People's Republic of China, Q = quarter, SDG = Sustainable Development Goals, SSB = Social Security Board, WHO = World Health Organization.

<sup>a</sup> [WHO Coronavirus Disease \(COVID-19\) Dashboard](#).

<sup>b</sup> ADB. 2020. *Updated Assessment of the Potential Economic Impact of COVID-19*. Manila.

<sup>c</sup> World Bank's PovCalNet database available at: <http://research.worldbank.org/PovcalNet/povOnDemand.aspx>.

<sup>d</sup> Including Chin, Sagaing, Bago, Shan (North), Shan (East), Mandalay, Nay Pyi Taw, Mon, and Magway.

<sup>e</sup> For the medium-term, mass testing is an aspirational goal for Myanmar as the exact technology to be used and implementation plan are yet to be decided. Areas with limited sanitation and hygiene infrastructure require urgent work to improve solid waste and wastewater management systems, and the drainage system needs to be cleaned. The quality and number of health sector professionals also need to be improved.

<sup>f</sup> The in-kind food transfers include 4.4 kilograms of rice, 815 grams of cooking oil, 815 grams of salt, 1.63 kilograms of lentils, and 1.63 kilograms of onions for each household.

<sup>g</sup> Cash transfers to mothers and children under CERP builds upon the existing mechanism of the MCCT Program supported by the World Bank. The impact evaluation study by UNICEF concluded that the MCCT achieved desirable outcomes for women and children, especially nutritional and health outcomes. United Nations Children's Fund (UNICEF). 2020. *Country-led Formative Evaluation: The Maternal and Child Cash Transfer Programme in Chin and Rakhine States in Myanmar*. Yangon.

<sup>h</sup> The eligibility criteria include: (i) are affected by COVID-19; (ii) can restart their business once the loan is provided; (iii) obtained business permits before 31 March 2018; (iv) have had annual profits over the last 2 years; (v) have capacity to repay the loan; (vi) will use the loan only for the payment of salaries and operational costs; (vii) are not on any of the government's black lists; and (viii) have paid the business tax.

Source: Asian Development Bank.