



Initial Poverty and Social Analysis

Project Number: 54307-001
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Bangladesh: Sustainable Economic Recovery Program (Subprogram 1)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 March 2021)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.01181
\$1.00	=	Tk84.69

ABBREVIATIONS

ADB	–	Asian Development Bank
CMSMEs	–	cottage, micro, small, and medium-sized enterprises
COVID-19	–	coronavirus disease
FY	–	fiscal year
GDP	–	gross domestic product
PFM	–	public financial management
SDG	–	Sustainable Development Goals
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2021 ends on 30 June 2021.
- (ii) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	People's Republic of Bangladesh	Program Title:	Mitigating the Medium and Long Term Social and Economic Impact of COVID-19 Program
Lending/Financing Modality:	Policy-based loan	Department/Division:	South Asia Department (SARD)/Public Management, Financial Sector and Trade Division (SAPF)

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The proposed policy-based loan aims to help the Bangladesh economy recover from the impact of the coronavirus disease (COVID-19) pandemic by implementing urgent reforms which will alleviate the adverse impact on the poor and vulnerable and facilitate a sustainable economic recovery. The proposed program is aligned with the Eighth Five Year Plan, fiscal year (FY) 2021–FY2025 of the Government of Bangladesh, the Asian Development Bank (ADB) country partnership strategy for Bangladesh, 2016–2020, operational priorities of ADB Strategy 2030, and Sustainable Development Goals (SDGs).^a The Eighth Five Year Plan emphasizes the need to enhance the tax to gross domestic product (GDP) ratio by 3.4 percentage points by FY2025 (from 8.9% in FY2019), increase the public investment from 8.03% of GDP in FY2019 to 9.24% by FY2025, and introduce reforms in public financial management (PFM), tax policy, tax administration, and expenditure management to create sufficient fiscal headroom without affecting the fiscal deficit. It also recognizes the need to create a favorable environment for private sector investment, including a supportive legal and regulatory framework. It recognizes the importance of small and medium-sized enterprises (SMEs) in employment creation to absorb the regular accretion to the workforce and those rendered unemployed by COVID-19; the plan emphasizes adopting suitable macroeconomic policies to develop SMEs. Promoting inclusive economic growth and reducing inequality and unemployment are also key objectives. ADB support will foster macroeconomic stability by creating a conducive environment for a sustainable and broad-based economic recovery. This proposed program will create (i) fiscal space to allow the government to invest in social and economic capital, by strengthening domestic resource mobilization efforts, expenditure rationalization, and improved PFM practices; and (ii) a favorable environment for improved credit flows to underserved segments by supporting the implementation of the Small and Medium Enterprises (SME) Policy, 2019. Sources for deficit financing will be diversified by introducing sharia-compliant treasury instruments to tap Islamic banks, thereby releasing more funds for private sector financing from conventional banking system. The government's priority on access to finance will improve credit flows to underserved segments including low income earners; the cottage, micro, small and medium-sized enterprises (CMSMEs), and women. The program will support the government's efforts to progressively bring all safety net beneficiaries under the government to person payment platform. Through these activities, the program will help the country to recover from the COVID-19 pandemic and move on to an inclusive and sustainable higher economic growth path. It will support implementation of SDGs, including mobilization of resources to implement programs and policies to end poverty (SDG 1.A), promotion of gender equality (SDG 5.C), adoption of policies to achieve greater equality (SDG 10.4), and mobilize additional financial resources from multiple sources (SDG 17.3). The program will directly contribute to poverty reduction and inclusive growth aligning with ADB's Strategy 2030 operational priority 1 (addressing remaining poverty and reducing inequalities), 2 (accelerating progress in gender equality), and 6 (strengthening governance and institutional capacity).

B. Poverty Targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The program is classified as a general intervention because its proposed outputs will benefit all citizens, including the poor and vulnerable, by creating a favorable environment for private sector development in CMSMEs, spur economic growth, and create jobs, among others.

C. Poverty and Social Analysis

1. **Key issues and potential beneficiaries.** The program will benefit all citizens, including the poor and vulnerable, people unemployed because of COVID-19, and underserved segments of the market including CMSMEs. The decreasing trend of poverty incidence before the pandemic is expected to be temporarily reversed because the pandemic threatens the livelihood of many people.^b Because of weak beneficiary targeting, government's service delivery remains weak. CMSMEs remain underserved because formal financial institutions are unwilling to provide credit support to them because of credit risks. The program will benefit the poor and vulnerable segments

<p>of the population through improved targeting of the delivery of social safety net payments. The general population, including the poor and vulnerable, will be indirectly benefited by the program interventions to enhance credit flows to CMSMEs and the creation of additional fiscal space through improved revenue mobilization and PFM which will facilitate higher public investment in social and economic public goods.</p>
<p>2. Impact channels and expected systemic changes. Generally, the key anticipated impact on poverty will be through (i) enhanced economic growth stemming from higher public expenditure on social and economic infrastructure and facilitated by improved fiscal headroom and better PFM; and (ii) enhanced credit flow to underserved segments of the market through new products developed for financing start-up CMSME borrowers and an improved credit guarantee regime.</p>
<p>3. Focus of (and resources allocated in) the project preparatory technical assistance or due diligence. The team will review poverty and social issues during program design such as the state of poverty and unemployment caused by the pandemic in Bangladesh, particularly among workers in CMSMEs and/or the informal sector. In addition, the team will also explore impacts of the pandemic on operation of CMSMEs, including extent of suspension of activities or closure of business. The program incorporates a policy action to improve targeting of social safety net payments through direct bank transfers to verified bank or mobile financial services accounts.</p>
<p>4. Specific analysis for policy-based lending. The policy actions will broaden the tax base, improve digitalization of tax administration, and contribute to an increased tax–GDP ratio. Sources for deficit financing will be diversified by introducing sharia-compliant treasury instruments to tap Islamic banks. Combined with expenditure rationalization, additional fiscal space will be created to allow higher expenditure on social and economic infrastructure, thereby stimulating aggregate demand. Social safety net payments will be better targeted through direct transfer to verified bank accounts. The financial sector intervention will have impact through enhanced credit flow to CMSMEs. Short term (1–2 year) impacts include (i) recovery of the CMSME sector and gradual reduction of unemployment in the sector; (ii) reduction in leakages for social safety net payments; and (iii) increase in domestic resource mobilization. Over the next 3 to 5 years (i) a vibrant CMSME sector will generate broad-based employment opportunities and bring economic prosperity; and (ii) better revenue mobilization will facilitate greater allocation to development projects and social safety net programs. These medium-term impacts will have a significant impact in reducing poverty.</p>
<p>II. GENDER AND DEVELOPMENT</p>
<p>1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Women will benefit from the proposed project through improved access to finance for CMSME. The proposed project will promote gender equality and women’s empowerment through (i) access to credit from the formal banking channels and (ii) participation in decision-making process. The Government of Bangladesh, Bangladesh Bank, and the Small and Medium Enterprise Foundation have several schemes to benefit women. The current status of women and gender development priorities can be found in “Gender Equality and Women’s Empowerment: Suggested Strategies for the Seventh Five Year Plan.”^c During due diligence, the team will assess whether the loan can effectively be considered as <i>some gender elements</i>.</p>
<p>2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women’s access to and use of opportunities, services, resources, assets, and participation in decision making? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Please explain. The feasibility of including gender related indicators into the program design and monitoring framework will be assessed during due diligence.</p>
<p>3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please explain. The program will create a favorable environment for access to credit and financial inclusion, which will benefit all segments of the population without discrimination.</p>
<p>4. Indicate the intended gender mainstreaming category: <input type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming) <input checked="" type="checkbox"/> SGE (some gender elements) <input type="checkbox"/> NGE (no gender elements)</p>
<p>III. PARTICIPATION AND EMPOWERMENT</p>
<p>1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. The main stakeholders of the program will be government agencies, which will implement the agreed policy actions. They were consulted during the preparation of the program. The program is intended to create a favorable environment for enhanced business opportunities and financial inclusion of the poor and vulnerable segments of the population.</p>
<p>2. How can the program contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?</p>

<p>The consultation with the government agencies has identified the policy actions that can empower the beneficiaries. Needs for empowering government agencies were also discussed and attached technical assistance (TA) will support the efforts of the government agencies.</p>
<p>3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design? Key, active and relevant civil society organizations include microfinance nongovernment organizations such as Buro Bangladesh, BRAC, and Proshika. However, opportunity for direct civil society organization participation in project design is limited. <input checked="" type="checkbox"/> Information generation and sharing (L) <input type="checkbox"/> Consultation (N/A) <input type="checkbox"/> Collaboration (N/A) <input type="checkbox"/> Partnership (N/A)</p>
<p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>IV. SOCIAL SAFEGUARDS</p>
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>
<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>
<p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>V. OTHER SOCIAL ISSUES AND RISKS</p>
<p>1. What other social issues and risks should be considered in the project design? <input checked="" type="checkbox"/> Creating decent jobs and employment (M) <input type="checkbox"/> Adhering to core labor standards (N/A) <input type="checkbox"/> Labor retrenchment (N/A) <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS (N/A) <input type="checkbox"/> Increase in human trafficking (N/A) <input type="checkbox"/> Affordability(N/A) <input type="checkbox"/> Increase in unplanned migration (N/A) <input type="checkbox"/> Increase in vulnerability to natural disasters (N/A) <input type="checkbox"/> Creating political instability (N/A) <input type="checkbox"/> Creating internal social conflicts (N/A) <input type="checkbox"/> Others, please specify _____</p>
<p>2. How are these additional social issues and risks going to be addressed in the project design? N/A</p>
<p>VI. TRANSACTION TECHNICAL ASSISTANCE OR DUE DILIGENCE RESOURCE REQUIREMENT</p>
<p>1. Do the terms of reference for the transaction technical assistance (or other due diligence) contain key information needed to be gathered during due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not applicable (there is no transaction technical assistance)</p>
<p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the transaction technical assistance or due diligence? The program loan will be assessed with staff resources during due diligence.</p>

^a Government of Bangladesh. 2020. *Eighth Five Year Plan, July 2020–June 2025: Promoting Prosperity and Fostering Inclusiveness*. Dhaka; ADB. 2016. *Country Partnership Strategy: Bangladesh, 2016–2020*. Manila; and ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and Pacific*. Manila.

^b Bulan, J., R. Hasan, A. Martinez, and I. Sebastian. 2020. *COVID-19 and Poverty: Some Scenarios*. Unpublished note prepared for Asian Development Bank. It is estimated that the head count ratio in international moderate poverty (\$3.20/day) could increase to 33.3% of total population, compared with the 31.5% under the scenario without COVID-19 in 2020.

^c Begum. 2014. *Gender Equality and Women's Empowerment: Suggested Strategies for the 7th Five Year Plan*. Dhaka. (online resource is no longer available).