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Report No: PGD475

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 187.8 MILLION (EQUIVALENT TO US$250 MILLION)

AND A

PROPOSED SHORTER MATURITY LOAN CREDIT

IN THE AMOUNT OF SDR 187.8 MILLION (EQUIVALENT TO US$250 MILLION) TO

THE PEOPLE'S REPUBLIC OF BANGLADESH

FOR THE

Second Bangladesh Green and Climate Resilient Development Credit

November 20, 2024

Environment, Natural Resources and the Blue Economy
South Asia

People's Republic of Bangladesh

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2024)

Currency Unit

US$1.00 = BDT 119.50   US$1.00 = SDR 1.33

ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Program
ADM	Adaptive delta management
APCR	Air Pollution Control Rules
AQM	Air quality management
ASA	Analytical and Advisory Services
BB	Bangladesh Bank
BDP	Bangladesh Delta Plan 2100
BEEER	Building Energy Efficiency and Environment Regulation
CCDR	Country Climate and Development Report
CEA	Country Environmental Analysis
CPF	Country Partnership Framework
DoE	Department of Environment
DPC	Development Policy Credit
DPP	Development Project Proforma
DSA	Debt Sustainability Analysis
DW	Delta Wing
ECNEC	Executive Committee of the National Economic Council
EECR	Energy Efficiency and Conservation Rules
EELAR	Energy Efficiency Labeling for Appliances Regulations
FX	Foreign exchange
FY	Fiscal Year
FYP	Five Year Plan
GCR	Green and climate resilience
GCRD	Green and Climate Resilient Development
GDP	Gross domestic product
GHG	Greenhouse gas
GRS	Grievance Redress Service
IDA	International Development Association
IGA	Infrastructure Governance Assessment
IMF	International Monetary Fund
LGI	Local government institution
MBF	Ministry Budget Framework
MEPS	Minimum Energy Performance Standards
MoEFCC	Ministry of Environment, Forest and Climate Change
MoF	Ministry of Finance
MoLGRDC	Ministry of Local Government, Rural Development and Co-operatives
MoP	Ministry of Planning
MoPEMR	Ministry of Power, Energy and Mineral Resources
MYPIP	Multi-Year Public Investment Programme
NAP	National Adaptation Plan
NCAPC	National Committee on Air Pollution Control
NDC	Nationally Determined Contributions
PC	Planning Commission
PD	Planning Division
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
RSF	Resilience and Sustainability Facility
SDR	Special Drawing Rights
SGIR	Strengthening Governance and Institutional Resilience
SLCPs	Short-lived climate pollutants
SOE	State-owned enterprise
SPP	Sustainable public procurement
ULGI	Urban local government institution
UMIC	Upper-middle-income country
WBG	World Bank Group
WSS	Water supply and sanitation

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PEOPLE'S REPUBLIC OF BANGLADESH

Second Bangladesh Green and Climate Resilient Development Credit (P180439)

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P180439	Yes	2nd in a series of 3

Proposed Development Objective(s)

To support the Government of Bangladesh to transition to green and climate resilient development by (a) enhancing public planning, financing, and delivery of green and climate resilient interventions; and (b) promoting key sector reforms for clean and resource efficient production and services.

Organizations

Borrower:	People's Republic of Bangladesh		
Contact	Title	Telephone No.	Email
Dr. Md Khairuzzaman Mozumder	Secretary of Finance	8801711566958	secretary@finance.gov.bd
Implementing Agency:	Finance Division, Ministry of Finance		
Contact	Title	Telephone No.	Email
Dr. Ziaul Abedin	Additional Secretary, Macroeconomic	8801732337765	ziaulabedin@outlook.com

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Financing	**500.00**

DETAILS

World Bank Group Financing

International Development Association (IDA)	500.00
of which IDA Recommitted	500.00
IDA Credit	250.00
IDA Shorter Maturity Loan (SML)	250.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	250.00	0.00	250.00	0.00	500.00
Total	**250.00**	**0.00**	**250.00**	**0.00**	**500.00**

PRACTICE AREA(S)

Practice Area (Lead)

Environment, Natural Resources & the Blue Economy

Contributing Practice Areas

Macroeconomics, Trade and Investment; Water; Energy & Extractives; Urban, Resilience and Land

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING

Overall Risk	Substantial

RESULTS

Baseline	Period 1	Closing Period
Pillar A - Enhancing public planning, financing, and delivery of green and climate resilient interventions		
Bangladesh's score in Dimension 1 - Budget Alignment with Climate Change Strategies of the PEFA Assessment (Text)		
Jun/2022	Jun/2025	Jun/2026
Score D	Score D	Score C
BDP projects with Development Project Proformas approved by ECNEC, based on 5-year re-prioritized investment program and ADM principles (Number)		
Dec/2022	Dec/2025	Dec/2026
1	10	15
Urban Local Government Institutions (City Corporations and Category A Pourashavas) spending more than 10 percent of block-grant resources on GCR projects (Number)		
Jun/2022	Jun/2025	Jun/2026
0	76	107
➢City Corporations (Number)		
Jun/2022	Jun/2025	Jun/2026
0	3	7
➢Category A Pourashavas (Number)		
Jun/2022	Jun/2025	Jun/2026
0	73	100
Carbon emission reduction credits registered, approved, authorized, and transferred through the domestic system (Text)		
Sep/2024	Dec/2025	Dec/2026
0	0 tons of CO2	1.1 million tons of CO2
Women-owned businesses submitting bids in public procurement per fiscal year (Percentage)		
Jun/2022	Jun/2026	Jun/2027
0	3	7
Procurement processes of selected Public-Sector Organizations using SPP rated criteria in relevant contracts per fiscal year (Amount(USD))		
Jun/2022	Jun/2026	Jun/2027
0	100 million	200 million
Industry units, project facilities and individuals inspected by DoE's Enforcement Wing and mobile courts for environmental compliance per calendar year (Number)		
Dec/2022	Dec/2025	Dec/2026
6,744	8,500	9,000
Pillar B - Promoting key sector reforms for clean and resource efficient production and services		
Households using solid fuels as primary cooking fuels (Percentage)		
Oct/2022	Dec/2025	Dec/2026
74	72	69
➢Rural households (Percentage)		
Oct/2022	Dec/2025	Dec/2026
89.50	87	85
➢Urban households (Percentage)		
Oct/2022	Dec/2025	Dec/2026
42	40	37
Cumulative energy savings from the new provisions of EECR, BEEER and EELAR (Gigawatt-hour (GWh))		
Nov/2022	Dec/2025	Dec/2026
0	200	1,000
Government expenditure in fuel subsidies for diesel (HSD), heavy fuel oil (HSFO), and octane (Amount(USD))		

Jun/2022	Jun/2025	Jun/2026
150 million	100 million	50 million
Liquid fuel (HSD and HSFO) used annually for power generation (Text)		
Jun/2022	Jun/2025	Jun/2026
4.92 million tons	4.1 million tons	3.25 million tons
New municipalities with at least 80 percent cost recovery on operations and maintenance (Number)		
Jun/2022	Jun/2025	Jun/2026
0	10	15
Total capacity of renewable energy projects that have reached financial close under the auspices of the amended RE policy (Megawatt)		
Jun/2024	Jun/2025	Jun/2027
0	0	150

IDA PROGRAM DOCUMENT FOR A PROPOSED SECOND BANGLADESH GREEN AND CLIMATE RESILIENT DEVELOPMENT CREDIT (PEOPLE'S REPUBLIC OF BANGLADESH)

I. COUNTRY CONTEXT AND OPERATION SUMMARY

1. **Bangladesh experienced rapid economic and social progress in recent decades and reached lower middle-income status in 2015. However, the pace of poverty reduction has slowed, and vulnerabilities in the financial sector have worsened.** Stable macroeconomic conditions underpinned an average annual real gross domestic product (GDP) growth of 6.4 percent between 2010 and 2023. Over the same period, poverty and extreme poverty declined by 19.6 and 6.8 percentage points to 30 percent and 5 percent, respectively.[1] However, the pace of poverty reduction has slowed, as has the pace of job creation, particularly in rural areas and among women. Furthermore, spatial disparities and urban inequality have widened. In Fiscal Year (FY)24, real GDP grew by 5 percent, driven mainly by a 5.3 percent expansion in the industrial sector. The current account deficit nearly halved to US$6.5 billion (1.4 percent of GDP), aided by improved trade and a 10.7 percent increase in remittance inflows. Inflation remained high, averaging 9.7 percent in FY24, driven by rising food prices. The events surrounding the resignation of former Prime Minister Sheikh Hasina also caused severe economic disruptions. Foreign exchange reserves stood at US$19.8 billion at the end of October 2024. The fiscal deficit narrowed to 3.7 percent of GDP in FY24, with public debt at 36.8 percent of GDP. Real GDP growth is projected to decline to 4.1 percent in FY25, with significant uncertainties due to political instability, poor corporate governance, and potential financial sector issues. While growth is expected to gradually improve with financial sector reforms and better revenue mobilization, risks such as elevated inflation, weak global demand, energy shortages, and climate shocks could further impact the economic outlook and exacerbate poverty.

2. **To achieve faster growth and transition to an upper-middle-income country (UMIC), Bangladesh needs to implement multisectoral structural reforms,** focused on building a competitive business environment, diversifying exports, increasing human capital, building efficient infrastructure, deepening the financial sector, and attracting private investment. These reforms would strengthen international competitiveness as Bangladesh prepares for graduation from least developed country status in 2026, which will reduce concessional financing and preferential market access for its exports. Currently, the Sustainable Development Finance Policy provision on debt limits does not apply to Bangladesh.

3. **Additionally, a new growth paradigm is needed to sustain the economic recovery over the medium and long term, while addressing environmental and climate challenges and contributing to poverty alleviation and better quality of life for the Bangladeshi people.** Rapid manufacturing growth and urbanization have increased pollution and natural resource depletion. Environmental degradation costs were equivalent to 17.3 percent of the GDP in 2019,[2] affecting productivity and welfare, and impairing human capital. Bangladesh is highly vulnerable to climate change, ranking as the seventh most affected country between 2000 and 2019.[3] It faces extreme weather events such as cyclones, floods, and storm surges, with recurring flooding affecting over 1 million people annually.[4] Despite improvements in adaptive capacity, internal climate and rural-urban migration put additional pressure on cities and essential services such as water supply and sanitation (WSS) and energy. Shortcomings in the legal framework and limited cost recovery hinder investment and innovation in these sectors, while creating

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[1] Based on the international poverty line of US$3.65 and US$2.15 per day (using 2017 purchasing power parity) for poverty and extreme poverty, respectively.
[2] World Bank (2023). Country Environmental Analysis. The costs of environmental degradation refer to the health effects associated with ambient and household air pollution, inadequate water supply, sanitation and hygiene, and exposure to lead (Pb).
[3] German Watch (2021). Global Climate Risk Index 2021.
[4] World Bank (2022). Bangladesh Country Climate and Development Report (CCDR).

a fiscal burden due to government subsidies. Addressing these environmental and climate risks is crucial for a greener, more resilient, and inclusive development and for preventing vulnerable groups from being left behind.

4. **The proposed Second Bangladesh Green and Climate Resilient Development (GCRD) Credit is part of a programmatic series of three development policy credits (DPCs) ("GCRD Credits" or "DPC series"). The program development objective (PDO) is to support the Government of Bangladesh (GoB) to transition to green and climate resilient development by (a) enhancing public planning, financing, and delivery of green and climate resilient interventions; and (b) promoting key sector reforms for clean and resource efficient production and services.** Under Pillar A, the DPC series supports reforms to (a) strengthen prioritization and efficiency of public investment planning as well as its implementation, at national and local levels, based on GCRD criteria; (b) increase efficiency in the Bangladesh Delta Plan 2100 (BDP) implementation to improve climate resilience; (c) expand access to carbon markets; (d) promote sustainable public procurement for clean, resource efficient and socially sustainable production and consumption; and (e) enhance environmental governance. Pillar B supports reforms to: (a) improve air quality management and reduce emissions across productive sectors; (b) increase energy efficiency; (c) reduce fiscal costs from the energy sector, by phasing out subsidies and promoting private-sector investments in renewable energy; and (d) improving efficiency of WSS services. The Program is to be financed from a proposed IDA credit for SDR 187.8 million (US$250 million equivalent) and a Performance Based Allocation Shorter Maturity Loan credit for SDR 187.8 million (US$250 million equivalent).

5. **The GCRD Credits support a highly strategic reform program to improve the policy foundations that can help address national priorities and emerging global challenges. The DPC series operationalizes the World Bank Group's (WBG) Green, Resilient and Inclusive Development (GRID) approach and key policy recommendations from the Country Climate and Development Report (CCDR) and the 2023 Country Environmental Analysis (CEA).** The CCDR highlights three priorities for climate-resilient growth in Bangladesh, namely: (a) people-centric, climate smart spatial development, such as through the BDP operationalization; (b) delivering development benefits with decarbonization, such as through solutions for increased energy efficiency; and (c) improving the enabling environment and institutional realignment, particularly regarding air quality management, natural resource management, sustainable government procurement, climate finance, and climate-related public expenditures. The GCRD Credits also promote the WBG's GRID approach, which inspired the GoB's concept of GCRD, based on the three pillars of sustainability, efficiency, and climate resilience. As a result, the program aims to deliver simultaneously inclusive local development benefits and global public goods (including environment and health outcomes, energy efficiency, and lower carbon intensity).

6. **In addition to the CCDR and CEA, other World Bank analytics underpinned the selection and design of the DPC-supported policies**, such as the 2021 Systematic Country Diagnostic Update, the 2022 Country Economic Memorandum, the 2021 Infrastructure Governance Assessment (IGA), and the FY23 Public Expenditure and Financial Accountability (PEFA). These reports strongly recommended the adoption of a multi-year planning approach and integration between planning and budgeting frameworks to ensure fiscal discipline, strategic alignment, and prioritization for environmental and climate resilient interventions. Other key Bank-financed sectoral studies and analytics from Development Partners (DPs), the GoB, and academia have informed the proposed DPC series (Annex 4).

II. MACROECONOMIC POLICY FRAMEWORK

7. **The macroeconomic policy framework is adequate for the Development Policy Financing.** Monetary policy has been tightened substantially to contain inflation, and the recent transition to market-based retail interest rates is expected to improve monetary policy transmission. Fiscal policy is also expected to be contractionary in FY25 to complement monetary policy. The May 2024 adoption of a crawling peg exchange rate

regime and the realignment of the exchange rate have strengthened external resilience and will help rebuild foreign exchange (FX) reserves. The government has been initiating reforms to address the financial sector risks. Critical reforms have included revisions to the Bank Company Act legislation, the introduction of the Prompt Corrective Action framework, restructuring of the boards of the poorly performing banks, and plans to carry out Asset Quality Review. The disruption caused by the social uprising in July–August 2024 lowered the growth outlook, but real GDP growth is projected to remain positive in FY25. The fiscal deficit is projected to remain below 5.0 percent of GDP over the medium term. However, downside risks to the outlook have increased substantially. Increased political instability, poor corporate governance, and the potential insolvency of some banks could worsen an already weak financial sector. Persistently elevated inflation, weak global demand, energy shortages, and climate shocks could lower the growth outlook further and exacerbate vulnerability to falling into poverty. External sectors remain vulnerable to shocks. The budgetary support under the DPC would provide additional buffer to this shock and reforms envisioned under the program is expected to support Bangladesh's growth in the medium term.

A. Recent Economic Developments

8. **On August 5, 2024, the former Prime Minister resigned amid sudden protests. An interim government led by civil society members and student leaders was sworn in on August 8, 2024**. The turmoil disrupted economic activity, particularly in the industrial and service sectors. Economic activity has been normalizing but downside risks prevail due to uncertainty in the political context.

9. **Real GDP growth decelerated to 5.0 percent in FY24**. On the supply side, GDP growth in FY24 was primarily driven by the industry and service sectors. The industry sector expanded by 5.3 percent, but the growth rate remained below the decade's historical average of 9.5 percent, due to energy shortages, import restrictions, and monetary tightening. The services sector grew at 5.4 percent in FY24 as domestic purchasing power declined due to persistent inflation. Agricultural growth declined marginally to 3.3 percent. On the demand side, the slowdown was driven by weak consumption and export growth.

10. **The Balance of Payment (BoP) deficit narrowed in FY24 and led to a narrowing of the current account deficit**. A decline in merchandise imports due to import suppression measures and an improvement in remittance inflows helped the current account deficit to narrow to US$6.5 billion in FY24 from US$11.6 billion in FY23. The financial account surplus narrowed to US$4.5 billion in FY24, driven by a decline in net trade credits. Overall, the FY24 BoP deficit stood at US$4.3 billion, compared to US$8.2 billion in FY23. In the first two months of FY25 (July–August), the current account balance turned into a surplus, driven by a sharp increase in remittances. In May 2024, the Bangladesh Bank (BB) adopted a crawling peg exchange rate system and devalued the exchange rate to help restore external balance and stabilize international reserves. The crawling peg band was widened in August 2024, but the exchange rate has remained unchanged at the upper limit of the band of 120 BDT/US$ for the last two months. At the end of October 22, 2024, FX reserves stood at US$19.8 billion (3.2 months of import coverage).

11. **Inflation remained elevated, averaging 9.7 percent in FY24, and increasing marginally to 9.9 percent in the first quarter of FY25.** It remained elevated due to high food and energy prices and higher import prices because of the depreciating taka. To help contain inflation, the policy rate was raised by 150 basis points in FY25 to 10 percent (525 basis points since May 2022). The cap on bank lending rates was abolished to improve monetary transmission. Import duty and VAT of several essential food items, including rice and sugar, have been reduced to help contain food prices.

12. **The fiscal deficit narrowed to 3.7 percent of GDP in FY24**. Revenue collection remains one of the lowest in the world at 8 percent of GDP. Critical reforms in domestic resource mobilization have been difficult to achieve.

The interim government has recently formed advisory committee to initiate reforms of the National Board of Revenue. Expenditure is estimated to have declined to 11.7 percent of GDP, driven by a moderation in both current and capital expenditure. The government announced that fiscal policy in FY25 would be contractionary to complement the monetary policy in tackling inflation. Government borrowing is dependent on the banking sector, and the cost of borrowing continued to rise in FY24 and FY25 Q1. The ratio of public debt to GDP declined marginally to 36.8 percent, but it remains sustainable with a low risk of debt stress.

13. **Financial sector vulnerabilities have increased and prompted new policy reforms.** The financial sector remains vulnerable to high nonperforming loans. As financial sector anomalies are being revealed with the political regime change, the volume of officially recognized stressed assets is anticipated to surge. The gross Non-Performing Loan (NPL) ratio (ratio of the NPLs to total loans) increased to 16.93 percent at the end of September 2024, compared to 12.56 percent at the end of June 2024. However, the NPL ratio understates banking-sector vulnerabilities due to lax regulatory definitions, inadequate reporting standards, repeated forbearance measures, and weak regulatory enforcement. Weak governance and political influence have exacerbated these challenges, distorting decision-making processes and hampering effective oversight in the sector. Loan-loss provisions stood at 44.3 percent of the NPLs at the end of September 2024, slightly increasing from the previous quarter. Furthermore, the NPLs are concentrated in state-owned banks, which accounted for nearly 40.35 percent of the total NPLs. The capital-adequacy ratio of the banking sector marginally declined to 10.6 percent at the end of FY24, down from 11.2 percent at the end of FY23, mainly driven by the fall of the ratio in private banks.

14. **To restore stability within the banking sector, BB has reformed boards of 11 banks and one non-bank financial institution**, replacing members in institutions where boards have been captured by business groups engaged in questionable practices, such as related party lending, violation of single borrower exposure limits, money embezzlements, and money laundering to overseas bank accounts. The BB also established a six-member task force to focus on key issues such as distressed assets, the NPLs, and governance failures. It will review the asset quality and the true extent of the capital position of the banks, particularly the weak banks, identify provisioning shortfalls, and assess liquidity conditions. Recently, the BB stopped injecting liquidity directly into the banking system.

B. Macroeconomic Outlook and Debt Sustainability

15. **Real GDP growth is projected to decline to 4.1 percent in FY25 but could range between 3.2 and 5.2 percent.** The wide range of the growth projection reflects significant uncertainties regarding the impact of the popular protests and political turmoil. These uncertainties are expected to keep investment and industrial growth subdued in the short term. Persistent inflation and subdued global growth prospects will weigh on growth in the near term as well. Recent floods are expected to moderate agriculture growth. The growth rate is expected to increase gradually in subsequent years, benefiting from critical financial sector reforms, increased revenue mobilization, improved business climate, and trade.

16. **Export growth is anticipated to remain positive, despite short-term challenges due to high input costs, weak global demand, and uncertainties within the manufacturing sector**. Remittances are projected to stay robust in FY25, supported by the adoption of the crawling peg exchange rate regime. The financial account will likely remain in surplus, supported by budget assistance from development partners. FX reserves are expected to stabilize in FY25, albeit with some downward pressure due to external payment requirements to foreign energy and fertilizer suppliers.

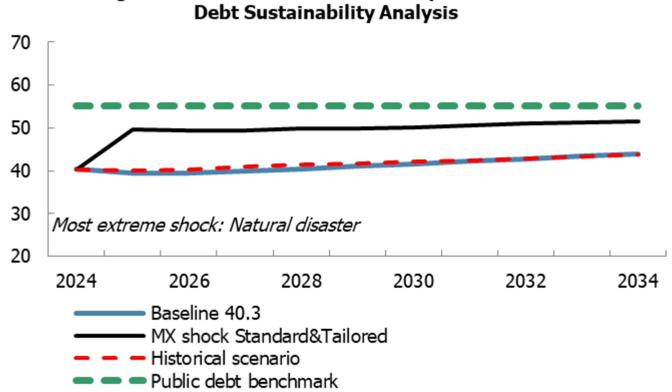
17. **The fiscal deficit is projected to remain below 5.0 percent of GDP over the medium term**. In the short term, total expenditure as a share of GDP is expected to decline due to contractionary fiscal policy. Over the

medium- to long-term, strengthening revenue performance will be crucial to expand investments in infrastructure and human capital.

18. **The risk of debt distress was assessed to be low in the latest Joint Bank-Fund Debt Sustainability Analysis (DSA) completed in June 2024, but the assessment is currently being updated for the third review of the ongoing Bangladesh International Monetary Fund (IMF) program expected in the first half of 2025.** The updated DSA will need to incorporate the impact of a substantial downward revision of export data for FY23 and FY24 and the potential for contingent liability shocks, which could worsen the risk assessment of debt distress. Total public debt in Bangladesh is estimated to have declined marginally to 36.8 percent of GDP in FY24, of which 57.0 percent is domestic. The share of non-bank debt (that is, National Savings Certificates) in total domestic debt declined, and the share of debt from banks rose. The government updated its Medium-Term Debt Strategy in June 2024 and published its debt sustainability analysis with technical support from the World Bank and the IMF. Explicit and implicit contingent liabilities associated with the financial sector, including state-owned banks, and nonfinancial state-owned enterprises (SOEs) pose additional debt-sustainability risks.

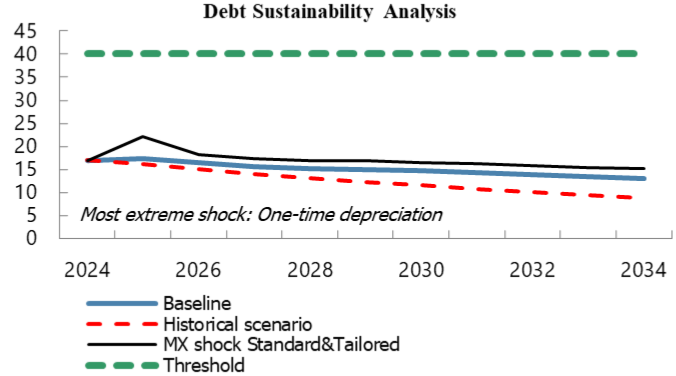
19. **Downside risks have increased, and significant uncertainties remain.** Uncertainties arise from several factors. First, contingent liability from the financial sector remains elevated. NPLs have increased, and actual scale of the NPLs could be significantly higher. Declining confidence in banking sector can have significant spillover effects on the real economy. Second, safety and security concerns persist, and this can have an impact on the full recovery of economic activities. Third, the timing of the next election has not been defined. As requested by political parties, it is important that the roadmap to elections is announced by the interim government to avoid an increase of political tensions.

Figure 1: Overall Public and Publicly Guaranteed Debt Sustainability Analysis



Source: Debt Sustainability Analysis (June 2024)

Figure 2: External Public and Publicly Guaranteed Debt Sustainability Analysis



Source: Debt Sustainability Analysis (June 2024)

Table 1 – Selected Economic and Financial Indicators

	FY22	FY23	FY24	*FY25e*	*FY26f*	*FY27f*	*FY28f*
		Actual			*Projections*		
National Accounts		*Annual percentage change, unless otherwise indicated*					
GDP at constant prices (%)	7.1	5.8	5.0	*4.1*	*5.4*	*6.1*	*6.5*
Consumption	7.5	2.0	3.8	*4.0*	*4.8*	*5.5*	*6.0*
Investment	11.7	2.2	4.6	*3.2*	*6.5*	*7.1*	*7.5*
Exports of goods and services	29.4	8.0	2.7	*2.1*	*4.5*	*5.2*	*6.0*
Imports of goods and services	31.2	-9.8	-2.5	*0.4*	*5.1*	*6.1*	*6.5*
Sectoral Contributions to Growth							
Agriculture (ppts)	0.4	0.4	0.4	*0.3*	*0.3*	*0.3*	*0.3*
Industry (ppts)	3.4	3.0	1.9	*1.3*	*2.0*	*2.2*	*1.8*
Services (ppts)	3.1	2.7	2.7	*2.4*	*3.0*	*3.5*	*4.4*

Inflation										
GDP Deflator			5.0	6.9	9.8	*2.1*	*7.2*	*5.3*	*5.5*	
CPI (year-average)			6.1	9.0	9.7					
Selected Monetary Account (% of GDP)										
Banks' credit to the government	8.1	9.6		9.5						
Banks' credit to the private sector	34.0	33.3		32.8						
Broad money (M2)	9.4	10.5		7.7						
External Sector (%GDP)										
Exports fob	12.6	11.5		*10.2*			*10.2*	*9.6*	*9.1*	*8.5*
Imports fob	20.6	18.5		*15.9*			*15.7*	*14.5*	*13.8*	*13.0*
Terms of trade (annual percentage change)	0.0	0.0		*-2.1*			*-0.2*	*2.4*	*0.0*	*-0.2*
				Percent of GDP, unless otherwise indicated						
Current Account Balance	-4.0	-2.7		*-1.4*			*-0.9*	*-0.5*	*-0.5*	*-0.7*
Foreign Direct Investment	0.4	0.4		*0.5*			*0.5*	*0.6*	*0.7*	*0.7*
Debt										
Public debt (external and domestic)	33.8	37.0		36.8			*40.1*	*41.2*	*42.7*	*44.7*
External Debt	12.5	15.0		15.4			*17.3*	*18.1*	*19.1*	*20.8*
Debt service	48.4	51.4		51.4						
Fiscal Accounts										
Total Revenue and grants	8.5	8.2		*8.0*			*8.4*	*8.7*	*8.9*	*9.2*
Total Expenditures	13.0	12.8		*11.7*			*12.7*	*13.2*	*13.7*	*13.9*
Overall Fiscal Balance (with grants)	-4.6	-4.6		*-3.7*			*-4.3*	*-4.5*	*-4.7*	*-4.7*
Memorandum Items										
GDP per capita (%)	6.1	4.8		3.5			*2.6*	*3.9*	*4.6*	*5.0*
Gross reserves (US$ millions, EOP)	33386	24754		21686						
In months of next year's imports)	4.9	4.1		3.6						
Nominal GDP (billion LCU)	39717	44908		50011						
GDP (in billion US$)	430	414		450						

Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Ministry of Finance, IMF, and World Bank.
1/ Bangladesh Bank adopted BPM6 from FY22 onwards.

Table 2. Key Fiscal Indicators (Percent of GDP)

	Actual			*Projections*			
	FY22	FY23	FY24e	*FY25f*	*FY26f*	*FY27f*	*FY28f*
Total Revenues and Grants	8.5	8.2	*8.0*	*8.4*	*8.7*	*8.9*	*9.2*
Revenue							
Tax revenues	7.5	7.3	*7.1*	*7.3*	*7.6*	*7.8*	*7.7*
Direct taxes	2.4	2.4	*2.4*	*2.3*	*2.5*	*2.5*	*2.6*
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	*0.0*
Non-tax revenues	0.9	0.9	0.8	*1.0*	*1.0*	*1.1*	*1.4*
Grants	0.1	0.1	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Total Expenditures	13.0	*12.8*	*11.7*	*12.7*	*13.2*	*13.7*	*13.9*
Current expenditures	7.7	8.0	7.6	*8.3*	*8.9*	*9.2*	*9.1*
Wages and salaries	1.6	1.4	*1.3*	*1.3*	*1.5*	*1.5*	*1.7*
Goods and services	0.8	0.8	*0.8*	*0.6*	*0.8*	*0.9*	*1.1*
Subsidies and transfers	3.4	3.7	*3.3*	*3.4*	*3.6*	*3.8*	*3.6*
Interest on debt (interest payments)	2.0	2.1	*2.2*	3.0	*3.0*	*2.9*	*2.7*
Capital Expenditure	4.6	4.3	3.7	*3.9*	*3.9*	*4.0*	*4.1*
Overall fiscal balance (incl. grants)	-4.6	-4.6	*-3.7*	*-4.3*	*-4.5*	*-4.7*	*-4.7*
Primary balance	-2.6	-2.5	*-1.4*	*-1.3*	*-1.6*	*-1.8*	*-2.0*
Financing	4.5	4.5	3.6	*4.3*	*4.6*	*4.7*	*4.5*
Domestic (net)	2.9	2.8	*2.0*	*2.3*	*2.6*	*2.7*	*2.6*
External (net)	1.6	1.8	*1.6*	*2.0*	*2.0*	*2.0*	*1.9*

General Government Debt	33.8	37.0	36.8	*40.1*	*41.2*	*42.7*	*44.7*
External debt	12.5	15.0	15.4	*17.3*	*18.1*	*19.1*	*20.8*
Domestic debt	21.3	22.0	21.4	*22.7*	*23.0*	*23.6*	23.9

Source: Ministry of Finance, IMF, and World Bank.
Note: 1/ Including block allocations, food account balance, and non-Annual Development Plan capital expenditures

Table 3. External Financing Needs and Sources (US$, millions)

	Actual				*Projections*		
	FY22	FY23	FY24	*FY25e*	*FY26f*	*FY27f*	*FY28f*
Financing Requirements	**20075**	**13247**	**8989**	**6756**	***5157***	***6203***	***7319***
Current Account Deficit	18533	11633	6512	4127	*2431*	*3038*	*4060*
External Debt Amortization	1542	1614	2477	2629	*2726*	*3165*	*3259*
Available Financing	**20075**	**13247**	**8989**	**6756**	***5157***	***6203***	***7319***
Foreign Direct Investment (Net)	1827	1649	554	600	*620*	*677*	*740*
Portfolio Investment (Net)	-158	-30	2101	2200	*3138*	*3710*	*4311*
Capital Grants	181	475	-62	-100	*10*	*100*	*300*
Debt Disbursement	6352	5690	6679	8365	*9198*	*10310*	*10819*
Other flows (net)*	7296	1195	-1695	-3000	*-3800*	*-4000*	*-3600*
Change in Reserve Assets (-=Increase)	5274	8222	4300	-809	*-3509*	*-4095*	*-4751*
Errors and Omissions	-5761	-3954	-2888	-500	*-500*	*-500*	*-500*

*Include grants, donations, asset sales, non-core activity revenues, and foreign exchange gains.

C. IMF Relations

20. **The IMF concluded the second review of an ongoing Bangladesh program in June 2024**. An IMF program for Bangladesh was approved by the Executive Board in January 2023 to help preserve macroeconomic stability and lay the foundation for inclusive, sustainable growth. The 42-month program includes financing arrangements under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) (US$3.3 billion) and the Resilience and Sustainability Facility (RSF) (US$1.4 billion). Along with the GCRD Credit, the RSF supports enabling reforms for attracting additional climate finance for Bangladesh. Both programs support reforms to strengthen Bangladesh's resilience to climate change, advance the decarbonization of the economy, and manage the transition risk. The World Bank has provided substantial inputs to the IMF program by sharing the Bangladesh CCDR, preliminary results of the CEA and the policy matrix of the GCRD Credits. The IMF held a fact-finding mission in late September 2024 to assess the impact of the social uprising in July-August on the macroeconomic framework. The third review of the IMF program is scheduled for the first half of December 2024.

III. PROPOSED OPERATION

A. Link to Government Program, CPF, other WBG operations, and Corporate Priorities

21. **Bangladesh's 8th Five-Year Plan (FY21–25) (FYP) charts an ambitious course towards eliminating extreme poverty, reaching UMIC status by 2031, and high-income country status by 2041**. The 8th FYP targets comprehensive structural reforms to accelerate sustainable growth, while building climate resilience across the economy, enhancing the provision of public services, and promoting a better managed environment and natural resources to support productivity and growth. The BDP, the updated Nationally Determined Contributions (NDCs) to the Paris Agreement (2021), and the National Adaptation Plan 2023–2050 (NAP) reflect Bangladesh's commitment to build climate resilience while stimulating sustainable and inclusive economic growth. Anchored in those strategies, as part of DPC1 the GoB consolidated its commitment to a green development pathway in the "Supplementary Guideline for Green and Climate Resilience (GCR) in Public Investment Projects," setting forth its concept of GCRD.

22. **The DPC series supports priority areas of the Government Program**. Under Pillar A, contributions to the 8th FYP, BDP, NAP (Goals 3 and 5) and NDCs are expected by: (a) integrating planning and budgeting process and incorporating green and climate resilience (GCR) priorities in public investment planning at national and local levels; (b) incentivizing locally led actions for GCRD through fiscal transfers to Urban Local Government Institutions (ULGIs); (c) enabling access to carbon markets; (d) incentivizing sustainable public procurement (SPP); and (e) setting the legal and institutional framework to effectively implement the BDP. In Pillars A and B, other reforms contribute to the 8th FYP's sector development strategies in (a) "environment and climate change," through strengthened environmental governance and improved air quality management (AQM); (b) "power and energy," through increased energy efficiency and reduced fiscal costs from the energy sector; and (c) "water resources management", through improved efficiency in WSS services.

23. **This DPC series is aligned with the WBG Country Partnership Framework (CPF) FY23–FY27 (No. 181003-BD) discussed by the World Bank Board of Executive Directors on April 27, 2023**. Specifically, the proposed reform program will contribute to CPF Objectives 7 (Improved effectiveness of delta management to accelerate climate-resilience building) and 8 (Enhanced sustainability and productivity in the use of natural capital for climate-smart green growth) under the CPF's Higher Level Objective (HLO) C (Enhanced climate and environmental resilience). The DPC series is also aligned with Objective 3 (Improved effectiveness of public institutions to deliver better services to citizens and businesses) under HLO A (Increased private-sector jobs). The DPC series is aligned with the WBG Climate Change Action Plan 2021–2025, and the WBG Action Plan on Adaptation and Resilience. The Program is also informed by the Country Private Sector Diagnostic and the dialogue with the International Finance Corporation. Overall, the DPC supports the maximization of finance for development (MFD) that could lead to improved private-sector investments in green housing, municipal solid waste management, WSS, and energy-sector development. Additionally, the Second GCRD Credit will contribute to narrow gender gaps by (a) promoting participation of women-owned businesses in the bidding process (PA# 5), and (b) improving women's health, productivity and time availability for education and paid work, through the clean cooking activities under the National Air Quality Management Plan (NAQMP) (PA #7).

24. **This operation is aligned with the goals of the Paris Agreement.** Drawing from the CCDR, this DPC is consistent with the country's climate commitments, including the NDCs and NAP. None of the operation's prior actions (PAs) are likely to cause a significant increase in greenhouse gas (GHG) emissions or any persistent barriers to transition to low-GHG emissions. The DPC supports Bangladesh's mitigation and adaptation commitments, by promoting reforms for energy efficiency, phasing out fossil fuel subsidies, air pollution control (including short-lived climate pollutants, SLCPs), and resilient urban infrastructure. The risks from climate hazards are not likely to have significant adverse effect on the PAs' contribution to the PDO, considering in some cases the mitigation measures envisaged in the policy reforms (Annex 2).

25. **Some PAs and triggers will be supported by ongoing sector-level technical assistance or investments under various engagements in the existing portfolio in Bangladesh**. These Analytical and Advisory Services (ASAs) and operations include, for example, the Bangladesh Environmental Sustainability and Transformation Project, the Climate Support Facility – Bangladesh, Bangladesh Climate and Carbon Finance for Renewable Energy, the Sustainable Energy Support Program PASA, and the proposed Bangladesh Clean Air Project (Annex 4). These ASAs and operations are sequenced to support the design of PAs and triggers and implementation of policy reforms.

26. **The proposed DPC series considered lessons from earlier DPCs in Bangladesh and Green Developing Policy Financing operations in other countries**. Lessons included the need to (a) base policy actions on strong analytical foundations, including examples from other countries; (b) identify a lead agency and champions at sectoral agencies who can push for long-needed reforms; (c) keep adequate intervals between operations and take into account the time needed to achieve results over the long-term; (d) complement the DPC series with a

package of advisory services and investment projects to ensure active engagement and ownership by line ministries; (e) coordinate among DPs to maximize benefit of joint inputs; (f) strengthen high-level engagement focusing on outcomes and impacts of policies; and (g) target an appropriate level of reform.

B. Prior Actions, Triggers, Expected Results and Analytical Underpinnings

Pillar A – Enhancing public planning, financing, and delivery of green and climate resilient interventions

Policy Track 1. Embedding green and climate resilient growth in planning and budgeting at the national level

DPC1 Prior Action #1. To strengthen public investment management with green and climate resilient development (GCRD) criteria, the Recipient, through the Planning Division of the Ministry of Planning, has issued an addendum to integrate GCRD goals to the Guidelines for the Preparation, Processing, Approval and Revision of Projects in the Public Sector, as evidenced by the Supplementary Guideline issued by the Government Circular dated February 13, 2023.

DPC 2 Prior Action #1. To integrate GCR goals in planning and budgeting, (i) the Planning Commission (PC) of MoP has adopted the Multi-Year Public Investment Programme (MYPIP) Guidelines for key sectors, integrated with the Medium-Term Budget Framework through the PC Circulars[5], and (ii) key sectoral agencies have incorporated GCR objectives and results indicators in MYPIPs and MBFs, through FD Circular and corresponding MBFs[6]

DPC 3 (Indicative) Trigger #1. To embed GCR principles in the state-owned enterprises (SOEs), the MoF has (i) formulated a policy requiring climate risk management for SOEs; and (ii) institutionalized a GCR-related Independent Performance Evaluation Guidelines.

27. **Reforms under policy track (PT) #1 will establish a government-wide foundation for the GoB's GCRD policies and investments by incentivizing the ministries to allocate more resources to green and climate related activities and improving their planning and execution.** GCRD priorities are embedded in Bangladesh's major development strategies and global commitments such as 8th FYP, BDP, NAP, and NDCs. However, the GoB faces challenges in implementing key GCRD interventions under these plans due to: (a) the lack of adequate prioritization of public investments under the Annual Development Program (ADP), managed by the Ministry of Planning (MoP); and (b limited coordination of the ADP formulation process with the annual budget process, managed by the Ministry of Finance (MoF). These shortcomings have limited the effectiveness of the country's public investment management (PIM), as reflected in insufficient budgetary allocations to investment projects and their low execution rate. Climate-related allocations comprise only 7.5 percent of the total budget or 0.8 percent of GDP (Climate Fiscal Framework 2020), and budget allocation for non-climate GCRD interventions is not measured or reported. Bangladesh scored "D" in the dimension on budget alignment with climate change strategies under the 2021 Climate Responsive PEFA Assessment, fulfilling only four out of 12 assessed elements.[7]

28. **In the PT #1, the GoB's has integrated GCR goals in the country's core public investment planning instruments.** These are essential measures to implement CCDR recommendations (Pillar 3) for improved coordination and strengthened public finance management to build an enabling environment for climate action. In DPC1, the GoB revised the requirements for public agencies to formulate and process Development Project

[5] PC Circular No. 20.06.0000.633.14.039.24-29 dated May 16, 2024, and PC Circulars No. 20.06.0000.633.14.039.24-31 (MYPIP for the Local Government and Rural Development sector), No. 20.06.0000.633.14.039.24-32 (MYPIP for the Power and Energy sector), and No. 20.06.0000.633.14.039.24-33 (MYPIP for the Health sector) dated May 30, 2024.
[6] FD Circular dated September 29, 2024, and 2024-2025 MBFs of Ministry of Science and Technology, Power Division, Energy and Mineral Resources Division, Local Government Division, Rural Development and Co-operatives Division, and Health Services Division published on September 29, 2024.
[7] The list of 12 elements assessed for Dimension 1 (Budget alignment with climate change strategies) is available in the PEFA "Supplementary Framework for Assessing Climate-Responsive Public Financial Management."

Proforma (DPP) in accordance with GCR goals[8] as outlined in the 8th FYP. As a result, all proposals for public investment projects must include sector-wise description and analysis of the projects' contribution to GCR goals.

29. **In DPC2, PA #1 has strengthened integration between planning and budgeting processes for key GCRD sectors, as recommended by the 2021 IGA, 2022 PEFA, the Framework for Implementing Green Growth in Bangladesh (2023).** The GoB started this process by adopting MYPIPs[9] for (a) Power and Energy; (b) Local Government and Rural Development, and (c) Health,[10] all of them integrated with the Medium-Term Budget Framework through common three-year resource allocation data at the project level. Also under PA #1, GCR goals and results indicators are included in MYPIPs and the Ministry Budget Frameworks (MBFs). These instruments require sectors and line ministries to prepare realistic expenditure plans based on available budgetary resources and ensure strategic alignment with national development and GCRD objectives. This reform will enhance GCR prioritization by strengthening the monitoring and evaluation of GCR goals throughout project implementation. In DPC 3, GCR principles will be embedded in SOEs. The MoF will require climate risk management for SOEs and will institutionalize GCR-related Independent Performance Evaluation Guidelines. The expected results will be measured by Bangladesh's score in Dimension 1 - Budget Alignment with Climate Change Strategies of the PEFA Assessment (from Score D in GoB FY22 to Score C in GoB FY26).

DPC2 Prior Action #2. To effectively implement the Bangladesh Delta Plan (BDP) 2100 for increased climate resilience, the Planning Division (PD) of the MoP has adopted the Delta Appraisal Framework, setting appraisal criteria on adaptive delta management and specific procedures for the preparation, processing, approval and revision of BDP-related projects, through PD Circular[11].

DPC3 (Indicative) Trigger #2. To provide the long-term legal and institutional arrangements for implementing the BDP, the Government has enacted the Delta Ordinance vetted by the President.

30. **The BDP is a comprehensive climate adaptive delta management (ADM) strategy.[12] Given its centrality to the country's climate resilience agenda, PT #1 supports the GoB to establish the authorizing environment and better inter-ministerial coordination for effective BDP implementation.** The Plan outlines priority programs by 2030 to achieve a safe, climate resilient, and prosperous Delta. However, the BDP implementation has been slow due to technical, institutional, and financial constraints. As a result, only 28 out of 80 priority programs have approved DPPs. Because of financing constraints, the GoB needs to re-prioritize investments to select the most needed projects among the BDP list of investments. Additionally, key agencies that are supposed to design and implement those projects do not have adequate capacity for such mandate, especially for applying an ADM approach in their proposals. The Planning Commission (PC) under MoP also struggles to review, prioritize and approve BDP-related DPPs. Efficient implementation of the BDP requires a high level of institutional, multi-sectoral

[8] The GCR priority actions cover adaptation and mitigation activities such as rainwater harvesting, flood control and management, early warning and dissemination services for climate change induced hazards, and afforestation.

[9] The MYPIP is a programming tool that allows the budgeting of development projects from a medium-term perspective. It provides information on both resource availability and requirements for the upcoming budget year and two outer years, allowing the Government to estimate the fiscal space for each sector, including its Ministries/Divisions, to take up new projects.

[10] Specific GCR indicators for these sectors include: (a) power generation from renewable sources and energy efficiency, measured by reduced CO_2 emissions, (b) construction, rehabilitation, and maintenance of climate resilient rural infrastructure, including bridges, roads, pathways, and culverts; and (c) established community clinics in climate vulnerable areas; waste management plans and solar power generation installed in health care facilities; training and detection of climate-driven infectious diseases; climate adaptation strategy for public health; and emissions reduction from health sector.

[11] PD Circular No. 20.00.0000.404.14.061.2020 (Part-II), 184 dated November 7, 2024.

[12] The BDP aims to "ensure long term water and food security, economic growth and environmental sustainability while effectively reducing vulnerability to natural disasters and building resilience to climate change and other delta challenges through robust, adaptive and integrated strategies, and equitable water governance." The BDP identifies climate vulnerabilities such as floods, cyclones, drought, river erosion, sea level rise, salinity intrusion as "Delta Challenges". The BDP strategies for climate risk management have been developed based on economic development without degrading the environment, and climate resilience through optimal use of natural resources and participatory processes.

coordination and financing, as well as enabling regulations and planning guidelines for the PC. As a first step, the GoB established the multi-sector Project/Program Selection Committee (PPSC), which will validate the selection and prioritization of BDP projects in line with multi-sectoral and climate resilience perspectives.

31. **PA #2 will support the GoB to improve inter-ministerial coordination for effective preparation, selection and implementation of BDP projects, which are essential for the country's climate resilience agenda.** To enhance quality and expedite approval of BDP-related DPPs, the GoB adopted technical criteria on ADM[13] and a multi-sectoral screening process for appraisal of BDP projects, complementing the requirements of the Guidelines for the Preparation, Processing, Approval and Revision of Projects in the Public Sector. In parallel, the GoB assigned permanent staff to the Delta Wing (DW), a specialized unit established at the PC's General Economics Division to coordinate and oversee the BDP implementation, including the selection and prioritization of BDP projects; budget proposals; technical guidance for line agencies in DPP formulation; monitoring and evaluation of the BDP implementation. In DPC3, the Government will enact the Delta Ordinance to ensure continuity and stability to achieve the BDP's goals, setting permanent institutional, technical, and financial arrangements, such as a permanent DW, for the continued implementation of BDP. Those policies will enhance the effectiveness of BDP implementation. As the execution of most BDP projects will be completed after the timeframe of the DPC series, the expected results will be measured by the number of BDP projects with DPPs approved by Executive Committee of the National Economic Council (ECNEC), based on 5-year re-prioritized investment program and ADM principles (from 1 in December 2022 to 15 in December 2026).

Policy Track 2. Enhancing local planning and financing of green and climate-resilient priorities

DPC1 Prior Action #2. To incentivize locally led actions for GCRD, the Recipient, through the Local Government Division of the Ministry of Local Government, Rural Development and Co-operatives (MoLGRDC), has introduced a Block Grant System to ensure resources for GCRD priority activities to Urban Local Government Institutions (ULGIs), as evidenced by Government Circulars dated February 9, 2023. **DPC2 Prior Action #3.** To strengthen locally led actions for GCRD, the MoLGRDC has adopted new guidelines for ULGIs to apply GCR criteria in local planning, financing, and implementation of their investments and services financed by discretionary resources, through LGD Office Order[14]. **DPC3 (Indicative) Trigger #3.** To incentivize locally led actions for GCRD, the MoLGRDC has adopted performance criteria in the block grant system to incentivize GCR priority expenditures at ULGIs.

32. **PT #2 aims to strengthen institutions' delivery of GCR services at the local level by enhancing financing, planning, and implementation of GCR investments by local government institutions.** The CCDR stressed the importance of locally adapted and locally led solutions for building climate resilience. Local governments are vital implementers of GCR activities because of their mandate to provide essential services. The GCR priorities for the Local Government Institutions (LGIs) are also outlined in Bangladesh's major development plans (BDP, PP 2041, 8th FYP, NAP), and Climate Fiscal Framework 2020. However, LGIs face significant constraints in implementing this mandate due to weak financing and planning systems—from uncertainties in the intergovernmental fiscal transfer system to constraints in technical capacity for designing priority interventions, financial reporting, and public participation in decision-making. Transfers of resources from the central government to LGIs for the latter's discretionary use, in the form of block grants, are limited to about 12 percent of total expenditures by LGIs in Bangladesh.

[13] The technical criteria includes the following: (a) Climate vulnerability and risk, requires identification of key risks such as flood, salinity, groundwater depletion, drainage congestion, and water quality and availability; (b) Cost of Delta Component, which requires that at least 60 percent of the total project cost be allocated to address climate related challenges such as flood, cyclonic storm surge, drought, freshwater scarcity, riverbank erosion and sediment management; (c) Cost of climate change component, with a higher prioritization for those with over 30 percent incremental adaptation; (d) robustness; and (e) flexibility and scalability considering medium term (2050), moderate, and extreme climate change scenarios.
[14] LGD Office Order No. 46.00.0000.070.22.005.22-584 dated June 3, 2024.

33. **PA #3 will continue strengthening the capacity of ULGIs[15] in local financing, planning, and implementation of GCR investments, to ensure that GCR solutions are adapted to the local context and complement national interventions**. In DPC1, the GoB reformed the block-grant system to require ULGIs to use at least 10 percent of those fiscal transfers from the national government for GCR priority activities.[16] There are no legal constraints preventing ULGIs from allocating additional funds to GCR activities. However, there is a clear need for enforceable guidelines to effectively plan and implement these initiatives within their jurisdiction. Despite the recognition of climate-change concerns in various national policy documents, ULGIs have not consistently pursued efforts to enhance climate resilience over the years. In DPC2, the GoB adopted guidelines requiring ULGIs to (a) incorporate GCR technical criteria into planning, financing, and implementation of investments and services that are financed with discretionary resource—ADP block grants, other non-earmarked grants, and own source revenues— ensuring that funds are channeled to green and climate-resilient infrastructure and services; and (b) ensure citizen participation and GCR-related financial reporting. This will contribute to improving citizen-driven accountability and building a more rigorous budgeting, disclosure, and monitoring system. In DPC3, the GoB will further incentivize ULGIs to invest in GCR interventions by introducing performance criteria linked to GCR spending for allocating overall block grants. Altogether, reforms under PT #2 are expected to expand GCR oriented expenditures at the local level and to establish a development planning that is more prioritized to pivot the economy towards greener, more resilient services and programs. Expected results will be measured by the number of ULGIs (City Corporations and Category A Pourashavas) spending more than 10 percent of block-grant resources on GCR projects (from 0 in GoB FY22 to 7 City Corporations and 100 Category A Pourashavas in GoB FY26).[17]

Policy Track 3. Expanding access to carbon markets

DPC2 Prior Action #4. To promote access to international carbon markets, the Ministry of Environment, Forest and Climate Change (MoEFCC) has established the Designated National Authority with the mandate to approve, authorize and track carbon credit transfers under the Article 6 of the Paris Agreement, through the MoEFCC Notification[18].
DPC3 (Indicative) Trigger #4. To promote access to international carbon markets, the MoEFCC has (a) established the domestic core policy and regulatory systems to register, approve, authorize and transfer high integrity carbon emission reductions, and (b) regulated the ownership of emissions reductions across renewable energy project participants and procedures to tap the voluntary and compliance markets.

34. **PT #3 supports the GoB to enable the environment for mobilizing climate finance**. According to the 2021 NDC, Bangladesh needs US$32 billion to meet unconditional mitigation objectives, and an additional US$143.8 billion to meet conditional objectives over the period 2021–30. However, the utilization of international carbon market mechanisms and climate finance has been limited. As of 2024, Bangladesh accessed the international carbon market under the Clean Development Mechanism (CDM) by having 21 projects registered with the CDM Executive Board, securing a US$200 million grant. Under Article 6 of the Paris Agreement (A6), a new framework offers significant potential for countries to cooperate through compliance-based international carbon markets. To

[15] To factor in LGIs' capacity constraints in implementing reforms, this DPC series focus on ULGIs– City Corporations and Pourashavas – whose capacity is less constrained compared to rural LGIs and face more immediate needs to promote GCR activities given the rapid urbanization in the country. Rural LGIs are Union Parishads (4562), Upazila Parishads (495), and Zila Parishads (64). ULGIs are City Corporations (12) and Pourashavas (330). Among the Pourashavas, 198 are considered as Category A.

[16] GCR priorities in the block grants are (i) development of climate-resilient and flood-resistant infrastructure; (ii) reduction of pollution; (iii) proper drainage and sewerage systems; (iv) increasing access to safe water, sanitation, and hygiene; (v) enhanced use of energy-efficient appliances in the official, residential, and commercial buildings; (vi) solid waste management; (vii) environmental and ecological restoration and protection of forest and water bodies, among others. Additionally, the block grant funds must be implemented by ULGIs in alignment with Bangladesh's policies for gender-responsive budget.

[17] This indicator will be verified through the Annual Reports on Green and Climate Expenditures required from ULGIs.

[18] MoEFCC Notification No. 22.00.0000.085.24.003.24-148 dated June 27, 2024.

access international compliance-based carbon markets under the A6, the GoB must set up the relevant governance structure, with ground rules and institutions to ensure strict quality and integrity standards, preventing double-counting. Although voluntary carbon markets can become an important source of financing for green private investment, they need to be better regulated, avoiding low-quality carbon credits with dubious environmental benefits.

35. **PA #4 has a direct implication on the pace of Bangladesh's access to carbon finance by supporting the GoB in setting up the required governance structure to tap international carbon markets under the Paris Agreement**. The GoB has established the Designated National Authority (DNA) for A6, with the MoEFCC leading the Governing Body (GB). The DNA is equipped with capacities to approve, authorize and track international carbon market credits. Each entity under the DNA has clear roles and responsibilities to support operationalizing A6-related activities in Bangladesh. In DPC3, as per the country-owned A6 Readiness Roadmap, the GoB will adopt the core policy and regulatory systems to register, approve, authorize, and transfer high-integrity carbon-emission reductions. The GoB will also address loopholes in carbon accounting, using the renewable energy as an entry point. For that, the MoEFCC will regulate the ownership of emissions-associated reductions among RE project participants, and pilot a carbon transaction aligned with A6 to showcase Bangladesh's readiness.[19] Together, these reforms will establish a national registry for emission-reduction credits, a compilation of nationally approved methodologies, and a robust nation-specific MRV system—all of which are high integrity requirements for carbon market access.

36. **Overall, PT #3 will contribute to mobilize carbon markets to finance Bangladesh's NDC goals while incentivizing investments in RE and, in the long run, other low carbon initiatives.** For that reason, the policies will generate co benefits in electricity supply, urban mobility, and clean air, and will support the local exporting industry meeting the increasing regulatory review coming from international markets. Expected results will be measured by the carbon emission reduction credits registered, approved, and transferred to the domestic system (from 0 in 2023 to 1.1 million tons of CO_2 in 2026).

Policy Track 4. Promoting social and environmentally sustainable procurement

DPC2 Prior Action #5. To incentivize environmentally and socially sustainable businesses and public investments, the MoP has adopted the Sustainable Public Procurement (SPP) Guide, to gradually incorporate environmental and social sustainability principles in standard bidding documents of targeted sectors, including gender criteria for fostering participation of women-owned businesses in public procurement, through BPPA Order[20]. **DPC3 (Indicative) Trigger #5.** To consolidate the legal coverage of SPP, the MoP has amended the Public Procurement Rules to incorporate relevant SPP provisions, based on lessons learned from the application of the SPP Guide in targeted sectors.

37. **As recommended by the CCDR, PT #4 focuses on promoting SPP by incorporating economic, social, and environmental considerations in the public procurement (PP) framework.** Bangladesh spends more than US$25 billion on PP annually (about 33 percent of its annual budget) (BPPA 2023). However, SPP is yet to be incorporated in the legislation and practices to shift from only seeking the lowest cost to achieving value for money (VfM), to also incentivize environmentally, climate-smart, and socially sustainable businesses. SPP would, for example, promote participation of SMEs, start-ups, and women-led businesses in the bidding process. It is estimated that only about 7.2 percent of MSMEs, which comprise over 99 percent of businesses in Bangladesh, are owned by women (UN Women 2020). Globally, only 1 percent of the $11 trillion spent annually on PP is awarded to women-owned businesses. In Bangladesh, the situation is believed to be worse, and there are no sex-disaggregated PP data. Furthermore, women-owned firms have not historically had the capacity, size, or network to submit public

[19] The country has already garnered interest from international donors for purchasing ITMOs from Bangladesh. The country will be able to capitalize on these expressions of interest quickly, mobilizing carbon finance for its NDC goals.
[20] BPPA Order No. 21.00.0000.363.22.141.23(01)-94 dated September 11, 2024.

procurement bids, which has deemed it almost completely inaccessible. Given the Government's massive public expenditure on infrastructure, there is a unique opportunity to use SPP as an engine for more inclusive economic growth, innovation and green jobs. To start integrating SPP into the PP framework, the GoB developed its first SPP Policy, setting time-bound strategic actions and corresponding targets to progressively integrate social and environmental sustainability principles and procedures in its public procurement framework. This phased approach allows the private sector to gradually develop the supply of sustainable goods and services.

38. **PA #4 adopts requirements for incorporating environmental, climate[21], and social sustainability principles in standard bidding documents of targeted sectors in a phased approach.** The SPP Guide, which is legally binding, sets the definition of sustainable products, services and/or supplier operations, rated selection criteria, and monitoring, evaluation, and enforcement mechanisms. The Guide will promote participation of SMEs, start-ups, and women-owned businesses in the bidding process by introducing prequalification criteria, flexible procedures, bids divided into smaller lots, among other measures to facilitate participation. This PA supports women's economic empowerment by providing greater opportunities and enhanced capacity to access previously inaccessible contracts and resources and helping them refine their business strategies, build networks, and enhance their visibility. Based on a lifecycle approach, the PA promotes climate adaptation and mitigation by reducing GHG emissions, waste, and resource depletion in all stages of the productive chain. It encourages the use of resilient, low-impact materials and technologies, reducing climate vulnerability. In DPC3, the GoB will consider lessons learned from the application of the SPP Guide and amend the Public Procurement Rules, 2008, to fully regulate SPP in all sectors. The expected results will be measured by (a) the percentage of women-owned businesses submitting bids in public procurement per fiscal year (from 0 in GoB FY27 to 7 percent in GoB FY27), and (b) the amount (in US$) of procurement processes of selected Public-Sector Organizations using SPP rated criteria in relevant contracts per fiscal year (from 0 in GoB FY22 to US$200 million in GoB FY27).[22]

Policy Track 5. Strengthening environmental governance

DPC1 Prior Action #3. To strengthen environmental management for cleaner and more resilient investments, the Recipient, through the Ministry of Environment, Forest and Climate Change (MoEFCC), has reformed the environment clearance process to ensure timely, adequate assessment and mitigation of environmental and social impacts of industrial units and projects, as evidenced by the amendment to the Environmental Conservation Rules, published in the Official Gazette dated March 5, 2023.
DPC2 Prior Action #6. To enhance pollution control, the MoEFCC has adopted environmental enforcement guidelines, with provisions for (i) applying the polluter pays principle with rules-based, progressive sanctions; (ii) using remote, digital information tools, and (iii) fostering cooperation among public agencies, and citizen-driven accountability, through MoEFCC Circular[23].
DPC3. (Indicative) Trigger #6. To enhance enforcement of environmental regulations, the MoF has amended the Environmental Protection Surcharge Rules 2017 to (i) strengthen the criteria for including companies in the list of non-compliance, (ii) set procedures for regular update of such list, and (iii) establish a formula for applying the surcharge rate.

39. **PT #5 aims to strengthen environmental governance to reduce Bangladesh's environmental pollution and depletion of natural resources and to increase climate resilience.** Major environmental health risks are associated with 275,000 premature deaths, 5.2 billion days lived with illness annually, and impaired intelligence among children amounting to a loss of 20 million IQ points.[24] The country's significant environmental degradation

[21] Within the environmental and climate principles, the policy adopts a lifecycle approach. This includes consideration to the energy use and source, water use, resource use (including identification of non-renewable ones), volume and type of waste, end of life options (recyclability, resource recovery), and CO_2 emissions.
[22] The target is based on the implementation of the SPP Guide in selected sectors and first year of the implementation of the amended SPP Rules. Therefore, this initial target reflects a small share of total public procurement volume in Bangladesh (US$25 billion). The GoB estimates that such share will increase exponentially in the medium-term once the country expand its capacity to supply SPP goods and services. For that reason, the Bank team may revisit and increase ambition of this target in DPC3.
[23] MoEFCC Circular No. 22.00.0000.075.06.001.19.458 dated October 23, 2024.
[24] 2023 CEA. See footnote 4 *supra*.

is linked to constraints in environmental governance. Those shortcomings include imprecise regulations, limited coordination across agencies, limited public participation and transparency in monitoring and oversight, and ad hoc application of the polluter pays principle with sanctions that are not able to deter polluting activities. These constraints also affect business development through delays in the environmental clearance (EC) processes, arbitrary decisions, lack of legal certainty, and limited access of local enterprises to international markets, since they do not comply with environmental standards.

40. **Building on the Environmental Conservation Rules (DPC1) that strengthened the EC process, PA #6 sets guidelines for increasing effectiveness of oversight activities, with a transparent, rule-based system for applying the polluter pays principle**. At inspections, the Department of Environment (DoE) checks the facilities' compliance with all requirements of the EC certificate, including climate mitigation and adaptation measures (e.g. emissions standards, abatement technologies, building materials)**.** DoE inspections also cover restrictions on vegetation and hill cutting, inadequate waste management, and other requirements to reduce flooding and other climate-change impacts. The harmonized procedures for enforcement activities will reduce errors and arbitrary decisions; increase transparency; provide legal certainty to business developers; and decrease appeals of sanctions. Along with the amended ECR, this PA aims to improve efficiency, performance, and public participation in Bangladesh's environmental management. In DPC3, the GoB plans to amend the Environmental Protection Surcharge Rules 2017, which will systematically strengthen the application of surcharges to non-compliant companies.

41. **Altogether, these policies will allow the GoB to use more effective environmental instruments, such as fiscal and citizen-based instruments**. Bangladesh will shift to a transparent and more accountable rules-based system for managing important commons, while making the playing field more predictable and efficient for private-sector actors. In the medium to long term, the PT will contribute to reduce environmental degradation and associated health effects and will contribute to climate mitigation and resilience. The expected results will be measured by number of industry units, project facilities and individuals inspected by DoE's Enforcement Wing and mobile courts for environmental compliance per calendar year (from 6,744 in 2022 to 9,000 in 2026).[25]

Pillar B – Promoting key sector reforms for clean and resource efficient production and services

Policy Track 6. Improving air quality management across productive sectors

DPC1 Prior Action #4. To improve air quality management and contribute to reduce short-lived climate pollutants, the Recipient, through MoEFCC, has adopted (i) air pollutants standards; (ii) established the National Committee on Air Pollution Control (NCAPC) as the main decision-making body for air quality management; and (iii) set forth mandates and key management tools for controlling outdoor and indoor air pollution across sectors, as evidenced by the Air Pollution Control Rules (APCR) published in the Official Gazette dated July 26, 2022.
DPC2 Prior Action #7. To improve air quality management and contribute to reducing short-lived climate pollutants, the MoEFCC has adopted, with endorsement from NCAPC, the National Air Quality Management Plan, ordering a set of coordinated multi-sector actions to reach World Health Organization Interim Target 1 for annual $PM_{2.5}$, through MoEFCC Circular and NCAPC Minutes[26].
DPC3 (Indicative) Trigger #7. To improve compliance with emissions standards, the MoEFCC has established a continuous emissions monitoring program (CEMP) to track air pollutant emissions from major point sources (stacks), combined with regular disclosure of preliminary data and immediate enforcement of emissions standards by DoE.
DPC3 (Indicative) Trigger #8. To reduce emissions from the transport sector, the Ministry of Road Transport and Bridges (MoRTB) has adopted a scrappage and retrofitting policy, with time-bound measures to phase out highly polluting motor vehicles.

[25] The indicator refers to unannounced enforcement inspections performed by the DoE through its Enforcement Wing and mobile courts. The latter inspect industries, projects, and individuals for compliance with environmental regulations on (a) the polythene ban, (b) vehicle emissions standards, (c) brick kilns, and (d) construction materials. The Enforcement Wing carries out compliance inspections for all other matters, such as effluent treatment and emissions limits from industries.

[26] MoEFCC Circular No. 22.00.0000.075.22.001.19 (Part-1).353 dated July 30, 2024, and Minutes of the Third Meeting of the NCAPC dated September 22, 2024.

42. **PT #6 aims to improve air quality management across economic sectors.** The annual cost of health effects from air pollution in Bangladesh was equivalent to 8.3 percent of country's GDP (2019), considering 160,000 premature deaths and 2.6 million of days of illness. Major sources of air pollution in Bangladesh are residential cooking with solid fuels, power generation, brick kilns and heavy industry, open burning of solid waste, road dust and transport.[27] Despite initial interventions such as installation of air quality monitoring stations and policies on brick kilns, Bangladesh lacked a comprehensive, multi-sectoral policy and institutional framework for AQM – in both households and outdoor environments. Because of that, the MoEFCC and the DoE have managed air quality mainly through ad hoc activities, without adequate coordination with relevant sectors. AQM in Bangladesh has relied mostly on the EC process, rather than oversight and enforcement and more effective policy instruments such as market-based, information/stakeholder policies. With cost-effective policies, however, the GoB could reduce premature deaths from air pollution by 44–50 percent (nearly 1 million lives) up to 2030, with complete elimination of mortality and morbidity related to air pollution by 2041.

43. **Building on the Air Pollution Control Rules (APCR) 2022 (DPC1), in PA #7 the MoEFCC adopted, with endorsement from the NCAPC, the National Air Quality Management Plan.** This adoption set coordinated multi-sector actions for Bangladesh to meet the WHO Interim Target 1 for annual $PM_{2.5}$ of 35 $\mu g/m^3$.[28] Based on an airshed-based approach, the Plan envisages cost-effective interventions to enhance the GoB's capacity for AQM and control emissions in critical sectors such as power generation, residential cooking, industry and transport. Through its monitoring and evaluation (M&E) system, the Plan describes clear roles and responsibilities across relevant agencies, outputs, timeline, and results indicators. As part of this system, the MoEFCC, DoE, and all sector agencies must report to the NCAPC on the implementation of their assigned interventions. Periodic progress reports must be disclosed to the public. Based on CCDR and CEA recommendations, the Plan would also help decrease the import bill for fuels and reduce GHG and SLCPs emissions.[29,30] In DPC3, the GoB will establish a continuous emissions-monitoring program (CEMP) to track air-pollutant emissions from major point sources (stacks), combined with regular disclosure of preliminary data and immediate enforcement of emissions standards by the DoE. In addition, a scrappage and retrofitting policy with time-bound measures to phase out highly polluting motor vehicles will be adopted to reduce emissions from the transport sector. The expected results will be measured by the percentage of rural and urban households using solid fuels as primary cooking fuels (from 89.5 percent and 42 percent of rural and urban households, respectively, in 2022, to 85 percent and 37 percent of rural and urban households, respectively, in 2026).

[27] World Bank. 2023. Country Environmental Analysis.

[28] $PM_{2.5}$ means fine particulate matter that are 2.5 microns or less in diameter. These particles pose the greatest risk on human health.

[29] AQM interventions can reduce CO_2, black carbon, and CH_4, respectively, in (a) power and heating plants (reduction up to 20 $MtCO_2$ emissions by 2030), industrial combustion, and industrial processes; (b) residential combustion (reduction up to 30 kilo tons by 2030), agriculture, heavy duty vehicles (diesel), and industrial combustion; and (c) agriculture (reduction up to 768 kilo tons by 2030), waste (reduction up to 122 kilo tons by 2030 and 540 kilo tons by 2040), and residential combustion sector (reductions up to 150 kilo tons by 2030) (World Bank CCDR and 2023 CEA).

[30] Activities to reduce SLCPs include clean cooking, reduced open burning of waste and crop residue, reducing vehicular emissions, and promoting biogas. Addressing SLCPs significantly aids climate mitigation by reducing warming in the near term, as these pollutants are many times more potent than CO_2 but remain in the atmosphere for a shorter duration. Air pollution is likely to intensity over time driven by climate change and compounded by contributing factors like urbanization, which will aggravate the associated health risks. Thus, tackling SLCPs and other pollutants also supports climate adaptation by improving air quality and reducing health risks, which in turn strengthens community resilience to climate impacts and reduces stress on ecosystems that are already vulnerable to changing climate conditions.

Policy Track 7. Increasing energy efficiency

DPC1 Prior Action #5. To systematically assess energy saving potential and improve the energy efficiency of the largest consumers, the Recipient, through the Power Division of the Ministry of Power, Energy and Mineral Resources (MoPEMR), has adopted an amendment to the Energy Efficiency and Conservation Rules, with provisions, *inter alia*, on annual energy consumption reports; periodic energy audits; and capacity development, as evidenced by the Official Gazette dated February 1, 2023.
DPC2 Prior Action #8. To increase energy efficiency, the Power Division of the MoPEMR, has adopted (i) the Energy Efficiency Labeling for Appliances Regulations (EELAR), setting Minimum Energy Performance Standards (MEPS) to prevent commercialization of inefficient appliances, through the Official Gazette[31], and (ii) the Building Energy Efficiency and Environment Regulation (BEEER) to benchmark and certify energy and environmental performance of buildings, through the Power Division Circular[32].
DPC3 (Indicative) Trigger #9. To increase energy efficiency, the Recipient, the Power Division of the MoPEMR has established energy efficiency standards and a labeling system for air conditioners and other selected appliances, to promote energy efficient appliances and help consumers in choosing higher efficiency products.

44. **PT #7 focuses on energy end-users and aims to untap low abatement cost potential by increasing energy efficiency in industries, buildings, and appliances.** Short-term, cost-effective measures can be taken to improve energy efficiency, reduce the energy sector's carbon intensity, and improve low-carbon competitiveness (2022 CCDR). Despite impressive gains over recent decades to expand energy access, power outages remain common in Bangladesh. Economic losses from unreliable electricity to households and firms are estimated at US$3.3 billion (1.5 percent of GDP) annually. The lack of cost recovery and energy inefficiency in the energy value chain are holding back investment and innovation in the value chain. Subsidized fuel prices and suboptimal gas-allocation practices amplify the problem, with inefficient public power plants and energy-intensive facilities, such as fertilizer plants, receiving gas allocations. Further downstream in the energy value chain, gas use in Bangladesh has never been metered for residential consumption. Power generation asset utilization remains low—at below 50 percent—due to fuel shortages, poor dispatch, and transmission constraints. To address those challenges, energy tariffs and fuel prices (targeted in PT# 8) need to adequately reflect cost to incentivize energy efficiency and invite investments in less carbon-intensive generation, and system operation needs to improve. Additionally, demand-side energy efficiency in various end-user segments, such as industry, buildings, and appliances, represents a significant and often low-cost opportunity. For example, as per the GoB's Energy Efficiency and Conservation Master Plan (EECMP), energy-efficiency solutions can reduce energy consumption in the ready-made garment and textile sector by around 30 percent and increase productivity by 10–15 percent.

45. **PA #8 will improve the energy efficiency of buildings and appliances, incentivize the construction sector to become greener by applying sustainable building practices, and improve building users' awareness of the benefits of energy efficiency and sustainable habitats.** The GoB has adopted (a) the BEEER to benchmark the energy and environmental performance of buildings based on the Bangladesh National Building Code (2020), and (b) the Energy Efficiency Labeling for Appliances Regulations (EELAR) that ensures minimum energy efficiency standards to perform a specific task and prohibit the marketing of equipment and appliances that do not meet the required performance level. In DPC3, the GoB will also establish specific energy-efficiency standards and a labeling system for air conditioners and other appliances in the subsequent operation. Reforms in this PT are expected to improve the energy efficiency of industrial activities and buildings, incentivize the construction sector to become greener by applying sustainable building practices, and improve awareness of building users and appliance consumers of the benefits of energy efficiency and sustainability. By reducing energy consumption, which in Bangladesh is mostly generated from fossil fuels, this PT will also contribute to reduce GHG and air pollutant emissions. The expected results will be measured by the cumulative energy savings from the new

[31] SRO No. 248/Law/2023 published in Official Gazette dated November 13, 2023.

[32] Power Division Circular No. 27.00.0000.094.22.006.21-22 dated March 31, 2024.

provisions of Energy Efficiency and Conservation Rules (EECR), BEEER and EELAR (from 0 in 2022 to 1,000 GWh in 2026).[33]

Policy Track 8. Reducing the fiscal costs of the energy sector

DPC1 Prior Action #6. To reduce supply costs and enhance the financial sustainability of the power sector, the Recipient, through the Power Division of the MoPEMR, has issued a circular prohibiting minimum capacity charge in the contract renewal of any existing rental power plant, as evidenced by BPDB Circular dated January 8, 2023.

DPC2 Prior Action #9. To ensure cost reflective fuel prices and avoid subsidies, the Energy and Mineral Resources Division of the MoPEMR has adopted a formula based and market-linked periodic automatic price adjustment system for diesel, heavy fuel oil and octane, through the Official Gazette[34].

46. **PT #8 targets a reduction in the fiscal costs of liquid fuel-based generation and fossil fuel subsidies, and efficient operation of power generation system** – two major recommendations of the CCDR. Based on an emergency legislation, Bangladesh has procured generation capacity from quick rental power plants to close gaps in generation, particularly in demand peaks. Contracts for these fossil-fuel rental plants included minimum capacity charges to enable operators to recover investment costs. In parallel, expenditures in electricity subsidies through the Bangladesh Power Development Board (BPDB) increased by 34.1 percent to BDT 120 billion in FY22. Furthermore, Bangladesh maintains substantial subsidies on fossil-fuel use, which create disincentives for decarbonization and affect fiscal sustainability. The use of fixed (administered) energy prices in Bangladesh has resulted in unpredictable implicit subsidy costs in the budget (as transfers from the GoB to the Bangladesh Petroleum Corporation), depending on the gap between international and domestic prices. Retail fuel prices have been administered on a discretionary basis, instead of market-linked or formula-based. For many fuel types, prices were kept below import costs. Another challenge is the non-transparent and inefficient dispatch of power generation assets in the system. The non-automated dispatch that is not based on clear economic merit order leads to inefficiencies, suboptimal cost of power supply, and reduced confidence of private-sector investors, including renewable energy project sponsors.

47. **To address these challenges, PA #9 established a market-linked price-adjustment system for high-speed diesel (HSD), high-sulfur fuel oil (HSFO), and octane prices**. The pricing formula is based on the import costs of fuels and adjusted monthly. This policy will contribute to sustained reduction of fossil fuel subsidies, increasing the efficient use of energy commodities and reducing carbon emissions through behavior change in energy consumption and transport modes.[35] The share of total liquid fuel-based generation (both from rental and non-rental plants) would also need to be reduced to lower reliance on expensive imported fuels and avoid related emissions. The expected results will be measured by (a) the government expenditure in fuel subsidies for diesel (HSD), heavy fuel oil (HSFO), and octane (from US$150 million in GoB FY22 to US$50 million in GoB FY26); and (b) liquid fuel (HSD and HSFO) used annually for power generation (from 4.92 million tons in GoB FY22 to 3.25 million tons in GoB FY26).

DPC2 Prior Action #10. To improve the financial sustainability of the energy sector, the President has reinstated the mandate of the Bangladesh Energy Regulatory Commission (BERC) in end-user electricity tariff setting, through the Ordinance[36].

DPC3 (Indicative) Trigger #10. To improve transparency and financial sustainability in the energy sector, the BERC has regulated the criteria and procedures for setting cost-reflective tariffs across all segments of the electricity supply value chain, including a methodology for periodic end-user tariff review.

DPC3 (Indicative) Trigger #11. To increase the share of renewables in the energy mix while ensuring financial sustainability, the MoPEMR has (a) amended the Renewable Energy Policy to promote private sector investments in renewables, and allow direct supply of electricity from renewable energy power generators to large power consumers, and (b) adopted standard Power Purchase Agreements for RE projects with clauses to access green and carbon credits.

[36] Ordinance No. 07, 2024 published in the Official Gazette on August 27, 2024.

48. **PT #8 also seeks to reduce the fiscal burden of electricity supply, which is crucial for effective climate change adaptation and mitigation, as it ensures the alignment of energy pricing with actual costs and encourages investments in low-carbon infrastructure. As a first step towards this goal, the GoB needs to strengthen the role and independence of the electricity regulator, the Bangladesh Energy Regulation Commission (BERC).** This is essential to determine efficient sector costs and their allocation across the various segments of the electricity sector (generation, transmission, and distribution), as per the agreed pre-determined formula and in a periodic manner. However, stemming from the need for the GoB to reduce the fiscal burden of electricity subsidies, the GoB amended the BERC Act in 2022 to transfer to the MoPEMR the authority to set prices independent of the standard regulatory process and stakeholder consultations. This weakened the role of the regulator and hampered independent oversight or control over the evolution of sector costs and the end user tariff that would be required to meet the sector's revenue requirements.

49. **In PA #10, the GoB has reinstated the mandate of BERC as the independent and impartial regulator for end-user fuel and electricity-tariff setting**. This will strengthen the capacity and independence of the regulator to implement a transparent tariff-setting process, balancing the interests of the various stakeholders (consumers, utilities, investors) and maintaining the principle of economic efficiency.[37] In DPC3, the BERC will set out the criteria and procedures for the periodic and systematic setting of cost reflective tariffs across the value chain to ensure the financial sustainability of the electricity sector. This would clearly depict the gap (where necessary) between the annual revenue requirement of the utilities and the end-user tariff. Additionally, the MPEMR will amend the RE policy to promote private-sector investments and allow direct supply of electricity from renewable energy power generators to large power consumers. In parallel, the MoPEMR will encourage carbon finance through the adoption of green/carbon market-related clauses in standard Power Purchase Agreements for RE projects. These reforms will contribute to Bangladesh's energy-transition targets, strengthen energy security, reduce reliance on fossil fuel-based power generation, and reduce average generation costs in the energy mix. The expected results will be measured by the total capacity of renewable energy projects that have reached financial close under the auspices of the amended RE policy (from 0 in FY24 to 150 MW in FY27).

Policy Track 9. Improving efficiency of water supply and sanitation (WSS) services

DPC1 Prior Action #7. To increase access to quality, efficient and climate resilient Water Supply and Sanitation (WSS) services, the Recipient, through the Local Government Division of the MoLGRDC, has established WSS services principles for ULGIs, setting service quality and efficiency standards, cost-efficient tariffs principles, and provision for private sector participation in the sector, as evidenced by WSS Guidelines issued by the Government Circular dated March 13, 2023.
DPC3 (Indicative) Trigger #12. To ensure enhanced access to efficient and climate resilient WSS services, the LGD under the MoLGRD has established a unit to advise on tariff rationalization and establish and monitor service standards and performance of WSS providers, including WASAs.

50. **Under the GCRD Credits, the GoB will adopt complementary reforms to address the major bottlenecks in WSS services at the national and local levels.** Despite high levels of access to improved drinking water supply, the quality and reliability of services are still poor in Bangladesh. Despite that, there is neither a central legislation nor a central institution governing the entire WSS sector in the country. LGIs conduct WSS functions in a disconnected and uncoordinated manner, based on local regulations and with no formal authority to monitor service standards and performance of service providers. Tariff schemes are not conducive to meeting the full

[34] Official Gazette dated February 29, 2024.
[35] This is expected from increased prices in the costs of producing goods and services with high lifecycle GHG emissions.
[36] Ordinance No. 07, 2024 published in the Official Gazette on August 27, 2024.
[37] The activity is expected to increase the effective prices paid by end-users for fossil fuels – except for the lifeline tariff. A well-regulated and independent system can also help reduce reliance on fossil fuel subsidies, and create a stable environment for integrating clean energy, which is key to achieving long-term resilience against climate impacts.

operational, maintenance, and upgrading needs of existing capital stock (such as pipe and sewer networks). This limited cost recovery has led to underperformance by WSS providers and limited private-sector investments in the sector. In DPC 1, the GoB has regulated the planning and provision of WSS services by Pourashavas, covering private-sector participation in the construction and operation of WSS facilities; criteria and procedures for setting tariffs and service fees; consumer-oriented operational procedures; and quality and efficiency standards of services. In DPC 3, the government will establish a unit to advise on tariff rationalization and establish and monitor service standards and the performance of WSS providers, including WASAs. This reform is key to improving service quality and encouraging private-sector investment in the sector. Improved financial sustainability through tariff reforms and the establishment of a sector advisory and monitoring function will free up resources and substantially improve the enabling environment for private-sector investment. This also contributes to improving the operational performance of utilities, such as by reducing coping costs from fossil-fuel-intensive pumping of groundwater by domestic consumers, adopting energy-efficient measures, and ensuring continuity of services during crises. The expected results will be measured by the number of new municipalities with at least 80 percent cost recovery on operations and maintenance (from 0 in GoB FY22 to 15 in GoB FY26).[38]

C. Consultations and Collaboration with Development Partners

51. **The reforms supported by the DPC derive from GoB's 8th FYP and sectoral strategies, which went through an extensive nationwide consultation process**. **Additionally, each prior action has been submitted to stakeholder consultations. The Bank has coordinated closely with development partners (DPs).** The GoB has a well-established approach to stakeholder consultation for the FYPs and for any major sectoral strategies. These involve public meetings with stakeholders including from the private sector, civil society, and DPs. For most strategies, consultations are held at the district level across the country. New rules, as well as amendments to existing rules, require a formal stakeholder-consultation process and an interministerial meeting before submitting the draft regulation to the Legislative Division or the Cabinet. Documentation of how those consultations have been reflected in the proposed regulations is required prior to approval. The GoB followed those procedures for all prior actions, including interministerial meetings and workshops with public agencies at national and local levels, academia, practice sector, and nongovernmental organizations. World Bank staff joined most of those activities as a relevant stakeholder. Additionally, the World Bank is coordinating closely with DPs in Bangladesh, including the IMF, the French Development Agency, the Asia Development Bank, and the Japan International Cooperation Agency, which are also financing budget support operations with reforms well aligned with the CCDR and CEA. Building on the RSF arrangements, the GCRD Credits and other policy engagement, the GoB and Development Partners are setting up the Bangladesh Climate and Development Platform (BCDP), including a multi-donor project-preparation facility to attract private investments across Bangladesh.

IV. OTHER DESIGN AND APPRAISAL ISSUES

A. Poverty and Social Impacts

52. **The proposed PAs are expected to initially have neutral impacts on poor households and vulnerable groups, with positive effects emerging in the medium to long term**. These actions, guided by the Poverty and Social Impact Analysis (PSIA) according to Bank guidelines, aim to enhance household welfare, employment, and resilience to economic and environmental shocks. In the short term, Pillar A policies may not significantly affect welfare, yet they promise long-term contributions to poverty reduction and improved access to public goods and

[38] As the target is based on the first years of implementation of the WSS Guidelines, it reflects a small share of Pourashavas (330) and City Corporations (12). However, the number of ULGIs with water tariffs are expected to increase exponentially in the medium term. For that reason, the Bank team may revisit and increase the ambition of this target when preparing DPC3.

services. Specifically, PAs #1 to #6 are expected to create jobs, enhance public service access, and foster resilience and environmental sustainability over the long run. For instance, integrating GCR goals at national and local governments (PAs #1 and #3) and implementing the BDP (PA #2) are expected to boost employment with green infrastructure, promote climate resilience and better environmental quality. That will contribute to reduce climate shocks and pollution, which disproportionally affect the health, productivity and livelihoods of the poorest groups. Similarly, actions like promoting access to international carbon markets (PA #4) and adopting sustainable procurement practices (PA #5) aim to transition to a greener economy and support sustainable business practices, respectively. As some initiatives may pose short-term challenges, such as job transitions in polluting sectors due to climate and environmental regulations (PAs #4, #6 and #7), support programs for retraining and job placement must be implemented to mitigate these impacts, emphasizing the development of green industries. The SPP policies (PA #3) can play a crucial role in this process, fostering sustainable business practices, promote efficient public spending, and support women-owned businesses. Other Government initiatives have supported MSMEs to adjust their processes to the environmental standards and for workers affected by environmental regulations. MoEFCC and DoE are also planning awareness campaigns, technical assistance, and other incentives to encourage businesses to adopt eco-friendly practices early, potentially avoiding layoffs.

53. **The prior actions under Pillar B have some neutral or negative impacts on more vulnerable populations in the short term if they are not accompanied by proper compensation measures**. Yet, they are expected to be mixed in the long term. The coordinated multi-sector actions under the NAQMP (PA #7) could have mixed short-term impacts on poverty and inequality. Initiatives like promoting clean cooking can improve household air quality for low-income households, but stricter emissions standards may lead to job losses in highly pollution sectors and higher transportation costs, potentially exacerbating inequalities. However, improved air quality will benefit health, cognition, and productivity in the long run, provided the policies are effectively implemented and monitored. In addition, the NAQMP can create new job opportunities in greener sectors. The EELAR and the BEEER (PA #8) are expected to yield favorable distributional outcomes in the medium to long term by encouraging energy efficiency, reducing energy costs, and fostering energy security. These measures will particularly benefit low-income households. Reinstating the BERC for tariff determination (PA #10) will not impact welfare in the short run, yet the overall net effect remains uncertain in the medium and longer run.

54. **PA #9 on the market-linked price-adjustment system for diesel, heavy fuel oil, and octane is not expected to significantly affect the welfare of the bottom 40 percent directly**. In case of a sharp increase in fuel prices, the policy allows the GoB to reduce margins of the Bangladesh Petroleum Corporation and other marketing companies. Additionally, BERC's reinstated mandate (PA #10) will ensure that (i) costs involved in the fuel supply chain are assessed in energy prices adjustments; (ii) energy tariff determination, including for lifeline consumers, is based on clear criteria and includes stakeholder participation (through public hearings). However, eliminating fuel subsidies could still adversely affect the poor, unless accompanied by additional policies to offset inflation, transportation and electricity costs. Targeted subsidies or compensatory transfers will be essential to prevent negative distributional impacts and protect the welfare of vulnerable populations. The GoB will continue consultations with key stakeholders to identify new or complement current mitigation measures, combined with regular communications with the public throughout implementation of those measures. The World Bank will continue to follow up with the GoB on those mitigation measures.

B. Environmental, Forests, and other Natural Resources Aspects

55. **Overall, the PAs are likely to have positive or neutral effects on Bangladesh's environment, forests, and other natural resources, including climate mitigation and adaptation.** None of the PAs is likely to have significant negative environmental effects. PAs #1, #2, #3, #4 and #5 will promote more and better investments that will

support environmental sustainability, climate resilience, and low carbon growth. PA #1 will incentivize the ministries to prioritize and allocate more resources to GCR activities. Similarly, PA #2 is likely to improve resilience to climate change and enhance environmental management in the long run. PA #3 will provide technical guidelines for selecting and implementing GCR interventions financed through fiscal transfers to ULGIs, including environmental and social criteria. PA #4 is likely to have significant positive impacts, since the institutional reforms will improve access to international carbon markets to create incentives and drive adoption of solutions to reduce carbon emissions. PA #5 may have a positive impact on the environment, since the SPP Guide incorporates environmental considerations in the public procurement framework and promote acquisition of high-quality goods and works that are resource efficient, low carbon, and environment friendly. PA #6 (Enforcement Guidelines) may have significant positive effects by increasing effectiveness of oversight activities. PA #7 may have medium- and long-term positive impacts by improving AQM through time-bound, cost-effective interventions to control emissions across economic sectors. PA #8 is likely to have significant positive effects since the proposed policy instruments will promote short-term, cost-effective measures to improve energy efficiency, PA #9 will contribute to sustained fuel-subsidy reduction, increasing the efficient use of energy commodities. PA #10 will support tariff determination and rationalization to improve the financial sustainability of the energy sector and enhance energy efficiency, balancing financial recovery with social and environmental considerations.

56. **Some GCR activities of PAs #1, #2, and #3 are expected to also incentivize infrastructure projects, which could cause negative environmental impacts**, such as temporary effects on air pollution resources (for example, during construction) if not well managed. Although these potential impacts are not expected to be significant, the team assessed the country's environmental governance system to address those effects. Those potential infrastructure projects must be aligned with GCR principles and comply with environmental regulations, especially the reformed ECR provisions (DPC1) for environmental clearance and subsequent monitoring. Despite shortcomings in the clearance process and enforcement, the GoB has worked to improve its environmental management capacity, by (a) adopting the enforcement guidelines (PA #6) and other regulations, (b) investing the analytical equipment, automated systems and training for monitoring and oversight, (c) increasing transparency of DoE's activities, among other. The Bank has financed some of those activities and will continue to follow up with the GoB the improvements in the country's systems.

C. PFM, Disbursement, and Auditing aspects

57. **Over the past two decades, Bangladesh has improved its Public Financial Management (PFM) systems as part of overall governance reforms, although challenges remain.** The 2016 PEFA assessment noted strong aggregate fiscal discipline, improved fiscal risk oversight, and progress with accounting-systems implementation through iBAS++. The 2021 PEFA suggests that certain pillars of PFM performance are good or above average, while others have lower scores. Strengths include comprehensive budget documentation, e-procurement covering 70 percent of public procurement, and independent review boards for complaints management. Weaknesses include delayed financial reporting, deviation from the initial budget, underachievement of revenue targets, and limited monitoring of extra-budgetary operations. The GoB has adopted measures to address these shortcomings through recent and ongoing PFM reform actions.

58. **The GoB PFM Action Plan (2018–23)[39] guided the implementation of the PFM Reform Strategy (2016–23).** A new PFM Reform Action Plan (2024–28) based on PEFA 2021 was approved in February 2023, and the third PFM Reform Strategy (2024–2028) is now underway.[40] The interim government is supportive of the reform actions

[39] The GoB is preparing the new GoB PFM Action Plan for 2024–28. The draft Plan is currently under public consultation.

[40] The Strengthening PFM Program to Enable Service Delivery Program-for-Results (P167491) is supporting the PFM Action Plan components directly led by the Finance Division. The Bank-executed Strengthening Public Expenditure Management Program Multi-Donor Trust Fund

taken based on PEFA 2021. Key progress stated in the PEFA report includes (a) a macro-forecasting model to make revenue projections and expenditure allocations more realistic; (b) preparation of a medium-term revenue strategy and a medium-term budget framework; (c) debt Bulletin, annual budget, and budget execution reports published on the Finance Division's website; (d) reducing the timeline from three months to one month for the release of budget to 56 percent of drawing and disbursing officers; (e) 100 percent electronic funds transfer to pensioners; (f) SOEs Independent Performance Evaluation Guideline to develop turnaround strategies; and (g) rollout of iBAS++ in all ministries and all the 541 account offices throughout the country under the Controller General of Accounts, among others. Under the recently approved 2024–28 Action Plan, time-based reform targets will increase the flexibility and transparency of information systems. This will help ensure improved reporting, integration, and interoperability, with a clear linkage between service-delivery data and financial information.

59. **Over the last decade, Bangladesh has strengthened its public procurement system.** The key interventions include bringing the procurement process online through the e-GP, implementing an extensive capacity-development program for procurement, introducing citizen engagement in public procurement, approving the SPP Policy and Guide, and contract implementation monitoring. Bangladesh's e-GP system is a good example of the use of disruptive technology that has contributed an estimated average annual saving of 6 percent (approximately US$1.1 billion). During the COVID pandemic, the e-GP system provided continuity of operations in Bangladesh. The World Bank's support to strengthen the public procurement system will continue through the Bangladesh Institutions Strengthening for Transparency and Accountability Project (P506691), which also supported the expansion of e-GP.

60. **Fund flow arrangement and foreign exchange control environment**. BB's autonomy continues undermined as the present legal framework allows for considerable government influence over bank operations. As a mitigation measure, a Dedicated FX Account will be required for the two IDA credits of this DPC, based on experience from the Bangladesh Programmatic Jobs DPCs and the First GCRD Credit. The GoB will open a dedicated United States Dollar foreign currency account with the BB into which the proceeds of the credits will be disbursed on a single tranche basis. The account will be used exclusively for the proceeds of the credits and will form part of GoB FX reserves. A withdrawal application for payment should be made after the submission of the authorized signatories' letter under both credits with the respective credit payable in US dollars. The GoB will make internal withdrawals from this dedicated foreign currency account either directly for budgetary expenditures in foreign currency or transfer the resources in the local currency to the consolidated fund to finance budgeted expenditures in the local currency. Disbursement from the dedicated foreign currency account will not be tied to any specific purchases, and no special procurement requirement will be needed. Within thirty days of the withdrawal of the DPC proceeds, the GoB will provide written confirmation as provided in the Financing Agreement, including that the credits have been received in the dedicated foreign currency bank account and that they have been accounted for in the GoB's integrated budget and accounting system. The program's closing date is January 15, 2026. The World Bank will reserve the right to have the dedicated foreign currency account audited by independent auditors acceptable to the World Bank. The GoB will not use the credits proceeds to pay for expenditures included in the World Bank's standard negative list. If any portion of the credits is used to finance ineligible expenditures as defined in the Financing Agreement, the World Bank will require the GoB to refund the amount, and refunded amounts for ineligible expenditures would be canceled. An IMF Safeguards Assessment was completed in 2022. The BB published audited financial statements for FY2023, which were issued with an unqualified audit opinion.

(SPEMP-DMTF, P167491) is also supporting timely and quality technical assistance and providing several studies to help enhance understanding of key public resource management constraints at the central or sectoral levels.

D. Monitoring, Evaluation, and Accountability

61. **The MoF leads the effort in coordinating the overall implementation of the DPC.** The Ministry is experienced with World Bank policies and procedures through lending and technical assistance operations. The World Bank team will continue to provide support in monitoring the reform progress and results. This will be facilitated by regular engagement of the teams implementing technical assistance and investment operations in support of the reforms in this DPC series.

62. ***Grievance Redress.*** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

V. SUMMARY OF RISKS AND MITIGATION

63. **The overall residual risk rating is Substantial**. Table 4 represents the residual risk ratings by category. **Political and governance risks are substantial**. The interim government has prioritized law and order, but safety and security concerns persist until law enforcement is fully operational. Through several commissions, the interim government is identifying critical reforms to be adopted prior to holding elections. The incumbent 24-member cabinet, which includes representatives from civil society and youth, is prioritizing economic, institutional, and political reforms as prerequisites for a free and fair election. As requested by political parties, it will be important that the roadmap to elections is announced to avoid an increase of political tensions. The political risks are partially mitigated by the continuous engagement between DPs and the GoB to (a) follow up on the work of the reform commissions, (b) support the interim government to deliver priority reforms, such as through the proposed Strengthening Governance and Institutional Resilience (SGIR) DPC,[41] and (c) ensure that the commission's recommendations are followed by a roadmap of the critical reforms and a timetable for the elections.

64. **Macroeconomic risk is substantial**. Downside risks have increased, related to uncertainties in the political process and the security situation, which impact the recovery of economic activities. The financial sector remains vulnerable with deviations from international regulatory and supervisory standards, and weak corporate governance. Despite recent improvements, the BoP remained in deficit and the FX reserves remained under pressure. The macroeconomic risks are partially mitigated by the GoB's reform program (see Section II on Macroeconomic Policy Framework), supported by the IMF arrangements, ongoing World Bank and other DPs policy lending. Additionally, the risks will be partially mitigated through key reforms under the proposed SGIR DPC.

[41] The proposed SGIR DPC pursues reforms on the financial sector (e.g. on asset classification and non-performing loans), revenue generation (e.g. strengthened tax policymaking) and expenditure (e.g. more transparent tax expenditures, e-GP for public procurement, and digitally authenticated dynamic registry for social programs), and data production and dissemination (e.g. open-data policy and codifying the independence of BBS in releasing unbiased data).

65. **Stakeholder risks are high.** Some reforms may face resistance from interest groups, particularly on fuel pricing and stricter environmental regulations. To mitigate these risks, the GoB will continue consultations and awareness activities to implement the approved policies. With support from DPs, including the World Bank, the GoB will improve stakeholder engagement and communications on the government's measures to mitigate potential negative effects from increased fuel prices, enhance its enforcement capacity, adopt incentives to stakeholders for compliance with new regulations.

66. **Technical design, institutional capacity and fiduciary risks are substantial.** Several PAs are complex and innovative. Limited technical capacity to implement those reforms, a complex organizational structure, and weak interagency coordination pose additional risks to the achievement of the PDO. Risk mitigation, which is supported by the World Bank's existing and upcoming operations, includes strong government ownership of the proposed reforms and commitment to (a) stakeholder engagement, (b) enhanced regulatory and enforcement capacity of relevant authorities through training, and (c) additional interventions to support stakeholders' compliance with regulations. Fiduciary risks are substantial, including FX control risks. Fund flow arrangements are designed to mitigate these risks, including the use of a dedicated foreign currency account, right to call for audit of the fund transfer and its accounting and budgeting in the national accounting system (iBAS++).

Table 4: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	High
9. Other	
Overall	Substantial

ANNEX 1. Policy and Result Framework

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Triggers for DPC 3**	**Indicator Name**	**Baseline**	**Target**
Pillar A – Enhancing public planning, financing, and delivery of green and climate resilient interventions					
Policy Track 1. Embedding green and climate resilient growth in planning and budgeting at the national level					
Prior Action #1. To strengthen public investment management with green and climate resilient development (GCRD) criteria, the Recipient, through the Planning Division of the Ministry of Planning, has issued an addendum to integrate GCRD goals to the Guidelines for the Preparation, Processing, Approval and Revision of Projects in the Public Sector, as evidenced by the Supplementary Guideline issued by the Government Circular dated February 13, 2023.	**Prior Action #1.** To integrate GCR goals in planning and budgeting, (i) the Planning Commission (PC) of MoP has adopted the Multi-Year Public Investment Programme (MYPIP) Guidelines for key sectors, integrated with the Medium-Term Budget Framework through the PC Circulars[42], and (ii) key sectoral agencies have incorporated GCR objectives and results indicators in MYPIPs and MBFs, through FD Circular and corresponding MBFs[43].	**(Indicative) Trigger #1.** To embed GCR principles in the state-owned enterprises (SOEs), the MoF has (i) formulated a policy requiring climate risk management for SOEs; and (ii) institutionalized a GCR-related Independent Performance Evaluation Guidelines.	**Results Indicator #1.** Bangladesh's score in Dimension 1 - Budget Alignment with Climate Change Strategies of the PEFA Assessment (Text).	Score D (GoB FY22)	Score C (GoB FY26)

[42] PC Circular No. 20.06.0000.633.14.039.24-29 dated May 16, 2024, and PC Circulars No. 20.06.0000.633.14.039.24-31 (MYPIP for the Local Government and Rural Development sector, No. 20.06.0000.633.14.039.24-32 (MYPIP for the Power and Energy sector), and No. 20.06.0000.633.14.039.24-33 (MYPIP for the Health sector) dated May 30, 2024.
[43] FD Circular dated September 29, 2024, and 2024-2025 MBFs of Ministry of Science and Technology, Power Division, Energy and Mineral Resources Division, Local Government Division, Rural Development and Co-operatives Division, and Health Services Division published on September 29, 2024.

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Triggers for DPC 3**	**Indicator Name**	**Baseline**	**Target**
	Prior Action #2. To effectively implement the Bangladesh Delta Plan (BDP) 2100 for increased climate resilience, the Planning Division (PD) of the MoP has adopted the Delta Appraisal Framework, setting appraisal criteria on adaptive delta management and specific procedures for the preparation, processing, approval and revision of BDP-related projects, through PD Circular[44].	**(Indicative) Trigger #2.** To provide the long-term legal and institutional arrangements for implementing the BDP, the Government has enacted the Delta Ordinance vetted by the President.	**Results Indicator #2.** BDP projects with Development Project Proformas approved by ECNEC, based on 5-year re-prioritized investment program and ADM principles (number)	1 (December 2022)	15 (December 2026)
Policy Track 2. Enhancing local planning and financing of green and climate-resilient priorities					
Prior Action #2. To incentivize locally led actions for GCRD, the Recipient, through the Local Government Division of the Ministry of Local Government, Rural Development and Co-operatives (MoLGRDC), has introduced a Block Grant System to ensure resources for GCRD priority activities to Urban Local Government Institutions (ULGIs), as evidenced by Government Circulars dated February 9, 2023.	**Prior Action #3.** To strengthen locally led actions for GCRD, the MoLGRDC has adopted new guidelines for ULGIs to apply GCR criteria in local planning, financing, and implementation of their investments and services financed by discretionary resources, through LGD Office Order[45].	**(Indicative) Trigger #3.** To incentivize locally led actions for GCRD, the MoLGRDC has adopted performance criteria in the block grant system to incentivize GCR priority expenditures at ULGIs.	**Results Indicator #3.** Urban Local Government Institutions (City Corporations and Category A Pourashavas) spending more than 10 percent of block-grant resources on GCR projects (number)	0 (GoB FY22)	107 (GoB FY26)

[44] PD Circular No. 20.00.0000.404.14.061.2020 (Part-II), 184 dated November 7, 2024.
[45] LGD Office Order No. 46.00.0000.070.22.005.22-584 dated June 3, 2024.

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Triggers for DPC 3**	**Indicator Name**	**Baseline**	**Target**
			Results Indicator #3.1 City Corporations (number) **Results Indicator #3.2** Category A Pourashavas (number)	0 (GoB FY22) 0 (GoB FY22)	7 (GoB FY26) 100 (GoB FY26)
Policy Track 3. Expanding access to carbon markets					
	Prior Action #4. To promote access to international carbon markets, the Ministry of Environment, Forest and Climate Change (MoEFCC) has established the Designated National Authority with the mandate to approve, authorize and track carbon credit transfers under the Article 6 of the Paris Agreement, through the MoEFCC Notification[46].	**(Indicative) Trigger #4.** To promote access to international carbon markets, the MoEFCC has (a) established the domestic core policy and regulatory systems to register, approve, authorize and transfer high integrity carbon emission reductions, and (b) regulated the ownership of emissions reductions across renewable energy project participants and procedures to tap the voluntary and compliance markets.	**Results Indicator #4.** Carbon emission reduction credits registered, approved, authorized, and transferred through the domestic system (Text).	0 tons of CO_2 (2023)	1.1 million tons of CO_2 (2026)
Policy Track 4. Promoting social and environmentally sustainable procurement					

[46] MoEFCC Notification No. 22.00.0000.085.24.003.24-148 dated June 27, 2024.

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Triggers for DPC 3**	**Indicator Name**	**Baseline**	**Target**
	Prior Action #5. To incentivize environmentally and socially sustainable businesses and public investments, the MoP has adopted the Sustainable Public Procurement (SPP) Guide, to gradually incorporate environmental and social sustainability principles in standard bidding documents of targeted sectors, including gender criteria for fostering participation of women-owned businesses in public procurement, through BPPA Order[47].	**(Indicative) Trigger #5.** To consolidate the legal coverage of SPP, the MoP has amended the Public Procurement Rules to incorporate relevant SPP provisions, based on lessons learned from the application of the SPP Guide in targeted sectors.	**Results Indicator #5.** Women-owned businesses submitting bids in public procurement per fiscal year (percentage) **Results Indicator #6.** Procurement processes of selected Public-Sector Organizations using SPP rated criteria in relevant contracts per fiscal year (Amount(USD))	0 (GoB FY22) 0 (GoB FY22)	7 percent (GoB FY27) US$200 million (GoB FY27)
Policy Track 5. Strengthening environmental governance					
Prior Action #3. To strengthen environmental management for cleaner and more resilient investments, the Recipient, through the Ministry of Environment, Forest and Climate Change (MoEFCC), has reformed the environment clearance process to ensure timely, adequate assessment and	**Prior Action #6.** To enhance pollution control, the MoEFCC has adopted environmental enforcement guidelines, with provisions for (i) applying the polluter pays principle with rules-based, progressive sanctions; (ii) using remote, digital information tools, and (iii) fostering cooperation among public agencies, and	**(Indicative) Trigger #6.** To enhance enforcement of environmental regulations, the MoF has amended the Environmental Protection Surcharge Rules 2017 to (i) strengthen the criteria for including companies in the list of non-compliance, (ii) set procedures for regular update of	**Results Indicator #7.** Industry units, project facilities and individuals inspected by DoE's Enforcement Wing and mobile courts for environmental compliance per	6,744 (2022)	9,000 (2026)

[47] BPPA Order No. 21.00.0000.363.22.141.23(01)-94 dated September 11, 2024.

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Triggers for DPC 3**	**Indicator Name**	**Baseline**	**Target**
mitigation of environmental and social impacts of industrial units and projects, as evidenced by the amendment to the Environmental Conservation Rules, published in the Official Gazette dated March 5, 2023.	citizen-driven accountability, through MoEFCC Circular[48].	such list, and (iii) establish a formula for applying the surcharge rate.	calendar year (number)		
Pillar B – Promoting key sector reforms for clean and resource efficient production and services					
Policy Track 6. Improving air quality management across productive sectors					
Prior Action #4. To improve air quality management and contribute to reduce short-lived climate pollutants, the Recipient, through MoEFCC, has adopted (i) air pollutants standards; (ii) established the National Committee on Air Pollution Control (NCAPC) as the main decision-making body for air quality management; and (iii) set forth mandates and key management tools for controlling outdoor and indoor air pollution across sectors, as evidenced by the Air Pollution Control Rules	**Prior Action #7.** To improve air quality management and contribute to reducing short-lived climate pollutants, the MoEFCC has adopted, with endorsement from NCAPC, the National Air Quality Management Plan, ordering a set of coordinated multi-sector actions to reach World Health Organization Interim Target 1 for annual $PM_{2.5}$, through MoEFCC Circular and NCAPC Minutes[49].	**(Indicative) Trigger #7.** To improve compliance with emissions standards, the MoEFCC has established a continuous emissions monitoring program (CEMP) to track air pollutant emissions from major point sources (stacks), combined with regular disclosure of preliminary data and immediate enforcement of emissions standards by DoE. **(Indicative) Trigger #8.** To reduce emissions from the transport sector, the Ministry of Road Transport and Bridges (MoRTB) has adopted a scrappage and	**Results Indicator #8.** Households using solid fuels as primary cooking fuels (percentage) **Results Indicator #8.1** Rural households using solid fuels as primary cooking fuels (percentage) **Results Indicator #8.2** Urban households using solid fuels as primary cooking fuels (percentage)	74 percent of households (2022) 89.5 percent of rural households (2022) 42 percent of urban households (2022)	69 percent of households (2022) 85 percent of rural households (2022) 37 percent of urban households (2022)

[48] MoEFCC Circular No. 22.00.0000.075.06.001.19.458 dated October 23, 2024.
[49] MoEFCC Circular No. 22.00.0000.075.22.001.19 (Part-1).353 dated July 30, 2024, and Minutes of the Third Meeting of the NCAPC dated September 22, 2024.

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Triggers for DPC 3**	**Indicator Name**	**Baseline**	**Target**
(APCR) published in the Official Gazette dated July 26, 2022.		retrofitting policy, with time-bound measures to phase out highly polluting motor vehicles.			
Policy Track 7. Increasing energy efficiency					
Prior Action #5. To systematically assess energy saving potential and improve the energy efficiency of the largest consumers, the Recipient, through the Power Division of the Ministry of Power, Energy and Mineral Resources (MoPEMR), has adopted an amendment to the Energy Efficiency and Conservation Rules (EECR), with provisions, *inter alia*, on annual energy consumption reports; periodic energy audits; and capacity development, as evidenced by the Official Gazette dated February 1, 2023.	**Prior Action #8.** To increase energy efficiency, the Power Division of the MoPEMR, has adopted (i) the Energy Efficiency Labeling for Appliances Regulations (EELAR), setting Minimum Energy Performance Standards (MEPS) to prevent commercialization of inefficient appliances, through the Official Gazette[50], and (ii) the Building Energy Efficiency and Environment Regulation (BEEER) to benchmark and certify energy and environmental performance of buildings, through the Power Division Circular[51].	**(Indicative) Trigger #9**. To increase energy efficiency, the Recipient, the Power Division of the MoPEMR has established energy efficiency standards and a labeling system for air conditioners and other selected appliances, to promote energy efficient appliances and help consumers in choosing higher efficiency products.	**Results Indicator #9.** Cumulative energy savings from the new provisions of EECR, BEEER and EELAR (Gigawatt-hour (GWh))	0 (2022)	1,000 GWh (2026)
Policy Track 8. Reducing the fiscal costs of the energy sector					

[50] SRO No. 248/Law/2023 published in Official Gazette dated November 13, 2023.
[51] Power Division Circular No. 27.00.0000.094.22.006.21-22 dated March 31, 2024.

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Triggers for DPC 3**	**Indicator Name**	**Baseline**	**Target**
Prior Action #6. To reduce supply costs and enhance the financial sustainability of the power sector, the Recipient, through the Power Division of the MoPEMR, has issued a circular prohibiting minimum capacity charge in the contract renewal of any existing rental power plant, as evidenced by BPDB Circular dated January 8, 2023.	**Prior Action #9.** To ensure cost reflective fuel prices and avoid subsidies, the Energy and Mineral Resources Division of the MoPEMR has adopted a formula based and market-linked periodic automatic price adjustment system for diesel, heavy fuel oil and octane, through the Official Gazette[52]. **Prior Action #10.** To improve the financial sustainability of the energy sector, the President has reinstated the mandate of the Bangladesh Energy Regulatory Commission (BERC) in end-user electricity tariff setting, through the Ordinance[53].	**(Indicative) Trigger #10.** To improve transparency and financial sustainability in the energy sector, the BERC has regulated the criteria and procedures for setting cost-reflective tariffs across all segments of the electricity supply value chain, including a methodology for periodic end-user tariff review. **(Indicative) Trigger #11.** To increase the share of renewables in the energy mix while ensuring financial sustainability, the MoPEMR has (a) amended the Renewable Energy Policy to promote private sector investments in renewables, and allow direct supply of electricity from renewable energy power generators to large power consumers, and (b) adopted standard Power Purchase Agreements for RE projects with clauses to access green and carbon credits.	**Results Indicator #10.** Government expenditure in fuel subsidies for diesel (HSD), heavy fuel oil (HSFO), and octane (Amount(USD)) **Results Indicator #11.** Liquid fuel (HSD and HSFO) used annually for power generation (Text). **Results Indicator #12:** Total capacity of renewable energy projects that have reached financial close under the auspices of the amended RE policy (Megawatt).	US$150 million (GoB FY22) 4.92 million tons (GoB FY22) 0 MW (FY24)	US$50 million (GoB FY26) 3.25 millio n tons (GoB FY26) 150 MW (FY27)

[52] Official Gazette dated February 29, 2024.
[53] Ordinance No. 07, 2024 published in the Official Gazette on August 27, 2024.

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Prior Actions under DPC 2**	**Triggers for DPC 3**	**Indicator Name**	**Baseline**	**Target**
Policy Track 9. Improving efficiency of water supply and sanitation (WSS) services					
Prior Action #7. To increase access to quality, efficient and climate resilient Water Supply and Sanitation (WSS) services, the Recipient, through the Local Government Division of the MoLGRDC, has established WSS services principles for ULGIs, setting service quality and efficiency standards, cost-efficient tariffs principles, and provision for private sector participation in the sector, as evidenced by WSS Guidelines issued by the Government Circular dated March 13, 2023.		**(Indicative) Trigger #12.** To ensure enhanced access to efficient and climate resilient WSS services, the LGD under the MoLGRD has established a unit to advise on tariff rationalization and establish and monitor service standards and performance of WSS providers, including WASAs.	**Results Indicator #13.** New municipalities with at least 80 percent cost recovery on operations and maintenance (number)	0 (GoB FY22)	15 (GoB FY26)

ANNEX 2. Paris Alignment Assessment

This operation aligns with the goals of the Paris Agreement (see table below for detailed discussion). The DPC reform program is consistent with the country's climate commitments (NDC and NAP) and is designed to implement key recommendations of the Bangladesh CCDR. Regarding **mitigation goals**, none of the prior actions (PAs) is likely to cause a significant increase in GHG emissions or any persistent barriers to transition to low-GHG emissions. None of the PAs will likely introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways. Therefore, all prior actions align with the mitigation goals. Regarding **adaptation and resilience goals**, risks from climate hazards are not likely to adversely affect the prior action and its contribution to the PDO for PAs 1, 2, 3, 4, 5, 9 and 10. For PAs 6, 7 and 8, their contributions to the PDO will likely be at risk from climate hazards. However, their design reduces these risks to an acceptable level in the country's context.

<table>
<tr><td colspan="2">Program Development Objective:
The PDO is to support the Government of Bangladesh to transition to green and climate resilient development by (a) enhancing public planning, financing, and delivery of green and climate resilient interventions; and (b) promoting key sector reforms for clean and resource efficient production and services.</td></tr>
<tr><td>Step 1: Taking into account our climate analysis (for example, Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?</td><td>Answer: Yes
Explanation: The proposed DPC is consistent with Nationally Determined Contributions (NDCs) and National Adaptation Plan (NAP). Regarding NDCs, the DPC supports Bangladesh’s commitment by (a) embedding climate resilience objectives directly into fiscal planning, enhancing the strategic coherence of climate action across governmental sectors; (b) enhancing environmental enforcement guidelines, crucial for pollution control including GHG emissions; (c) improving air quality, directly contributing to the NDC's goal of reducing emissions and aligning with global health standards; (d) advancing energy efficiency, which is critical for reducing greenhouse gas emissions and improving the energy sector's sustainability; and (e) ensuring that energy pricing reflects the true cost of energy production and consumption, promoting more efficient energy use. And lastly, Prior Action #4 establishes a governance structure for accessing international carbon markets under Article 6 of the Paris Agreement. This is a direct implementation of the NDC, aiming to leverage global carbon market mechanisms to achieve emission reduction targets.
Further, it is consistent with Bangladesh’s NAP. Prior Action #2 advances the implementation of the Bangladesh Delta Plan 2100, a key component for long-term climate adaptation and resilience. Incorporating ADM criteria into project appraisals directly support the NAP's focus on sustainable delta management. Prior Action #3 emphasizes locally led climate resilience, in line with NAP’s strategy to empower local governments and communities. This ensures that climate resilience criteria are embedded in local governance, enhancing the granularity and effectiveness of climate adaptation measures.</td></tr>
<tr><td colspan="2">MITIGATION GOALS: ASSESSING AND REDUCING THE RISKS</td></tr>
<tr><td colspan="2">Pillar A – Enhancing public planning, financing, and delivery of green and climate resilient interventions</td></tr>
</table>

Prior Action #1. To integrate GCR goals in planning and budgeting, (i) the Planning Commission (PC) of MoP has adopted the Multi-Year Public Investment Programme (MYPIP) Guidelines for key sectors, integrated with the Medium-Term Budget Framework through the PC Circulars, and (ii) key sectoral agencies have incorporated GCR objectives and results indicators in MYPIPs and MBFs, through FD Circular and corresponding MBFs.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No
Explanation: PA #1 aligns governmental priorities with environmental sustainability goals by incentivizing ministries to allocate resources to green and climate-related activities. Additionally, this prior action ensures that allocated resources are utilized efficiently and effectively towards low-GHG emissions initiatives, thus minimizing wastage, and maximizing impact.	
Prior Action #2. To effectively implement the Bangladesh Delta Plan (BDP) 2100 for increased climate resilience, the Planning Division (PD) of the MoP has adopted the Delta Appraisal Framework, setting appraisal criteria on adaptive delta management and specific procedures for the preparation, processing, approval and revision of BDP-related projects, through PD Circular.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No
Explanation: By facilitating effective governance structures and coordination mechanisms, PA #2 strengthens the country's capacity and solidifies the intent to address climate change impacts while supporting the transition to low-GHG emissions development pathways.	
Prior Action #3. To strengthen locally led actions for GCRD, the MoLGRDC has adopted new guidelines for ULGIs to apply GCR criteria in local planning, financing, and implementation of their investments and services financed by discretionary resources, through LGD Office Order.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No
Explanation: By incentivizing locally led actions for GCRD, ensuring resources for GCRD priority activities leveraging discretionary resources to support climate-resilient initiatives, PA #3 enables local governments to allocate funds strategically towards low-GHG emissions development pathways, and thus complementing broader national efforts and maximizing impact at the grassroots level.	
Prior Action #4. To promote access to international carbon markets, the Ministry of Environment, Forest and Climate Change (MoEFCC) has established the Designated National Authority with the mandate to approve, authorize and track carbon credit transfers under the Article 6 of the Paris Agreement, through the MoEFCC Notification.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No
Explanation: This action is likely to decrease GHG emissions by facilitating the integration of the country into international carbon markets. This access enables the country to trade carbon credits, incentivizing reductions in GHG emissions domestically and supporting global emissions reduction goals.	
Prior Action #5. To incentivize environmentally and socially sustainable businesses and public investments, the MoP has adopted the Sustainable Public Procurement (SPP) Guide, to gradually incorporate environmental and social sustainability principles in standard bidding documents of targeted sectors, including gender criteria for fostering participation of women-owned businesses in public procurement, through BPPA Order.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No

Explanation: By providing preferential treatment for acquiring high-quality goods and works that are resource-efficient, low carbon, and environmentally friendly, this prior action creates a market demand for eco-friendly products and services, driving investment in sustainable production methods and technologies. As a result, the transition to low-GHG emissions development pathways is facilitated by the availability of more sustainable options in the marketplace.	
Prior Action #6. To enhance pollution control, the MoEFCC has adopted environmental enforcement guidelines, with provisions for (i) applying the polluter pays principle with rules-based, progressive sanctions; (ii) using remote, digital information tools, and (iii) fostering cooperation among public agencies, and citizen-driven accountability, through MoEFCC Circular.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No
Explanation: PA #6 establishes a clear regulatory framework that incentivizes polluters to internalize the environmental costs of their actions, thus promoting behavior change and encouraging investment in cleaner, climate inclusive, low-GHG emissions technologies and practices. Additionally, this prior action reduces barriers to transitioning to low-GHG emissions development pathways by fostering public trust and confidence in environmental governance through promoting citizen engagement and cooperation among public agencies in this aspect.	
Pillar B – Promoting key sector reforms for clean and resource efficient production and services	
Prior Action #7. To improve air quality management and contribute to reducing short-lived climate pollutants, the MoEFCC has adopted, with endorsement from NCAPC, the National Air Quality Management Plan, ordering a set of coordinated multi-sector actions to reach World Health Organization Interim Target 1 for annual $PM_{2.5}$, through MoEFCC Circular and NCAPC Minutes.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No
Explanation: By focusing on reducing SLCPs, setting mandates and key management tools for controlling outdoor and indoor air pollution across sectors, PA #7 addresses the potent contributors to climate change that have immediate and significant impacts on both air quality and the climate. Moreover, this prior action capitalizes on existing momentum and resources to accelerate progress towards low-GHG emissions development pathways by leveraging synergies with existing climate actions and initiatives.	
Prior Action #8. To increase energy efficiency, the Power Division of the MoPEMR, has adopted (i) the Energy Efficiency Labeling for Appliances Regulations (EELAR), setting Minimum Energy Performance Standards (MEPS) to prevent commercialization of inefficient appliances, through the Official Gazette, and (ii) the Building Energy Efficiency and Environment Regulation (BEEER) to benchmark and certify energy and environmental performance of buildings, through the Power Division Circular.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No
Explanation: By improving energy efficiency and reducing carbon intensity, PA #8 supports the transition to a low-GHG emissions development pathway while maintaining or enhancing the country's competitiveness in a carbon-constrained global economy.	
Prior Action #9. To ensure cost reflective fuel prices and avoid subsidies, the Energy and Mineral Resources Division of the MoPEMR has adopted a formula based and market-linked periodic automatic price adjustment system for diesel, heavy fuel oil and octane, through the Official Gazette.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No
Explanation: PA #9 removes economic incentives that favor high-carbon energy sources by reducing fiscal costs associated with liquid fuel-based generation and fossil fuel subsidies, thereby leveling the playing field for low-GHG emissions	

alternatives such as renewable energy. This shift towards more economically viable and sustainable energy sources aligns with the goals of transitioning to a low-GHG emissions development pathway.	
Prior Action #10. To improve the financial sustainability of the energy sector, the President has reinstated the mandate of the Bangladesh Energy Regulatory Commission (BERC) in end-user electricity tariff setting, through the Ordinance.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No.
Explanation: Reinstating BERC's mandate in tariff determination could lead to a decrease in GHG emissions. As tariffs are structured to increase energy efficiency through reduction of subsidy for high GHG-emitting energy forms, this action could result in a reduction in GHG emissions.	
Conclusion for PAs 1 to 10: All prior actions are aligned with the mitigation goals of the Paris Agreement.	
Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program All prior actions of the proposed program are aligned with the mitigation goals of the Paris Agreement. The prior actions under Pillars A and B adopt a comprehensive approach that aligns incentives, improves planning, fosters cooperation, and builds capacity towards green and climate resilient development.	
ADAPTATION AND RESILIENCE GOALS: ASSESSING AND MANAGING THE RISKS	
Pillar A – Enhancing public planning, financing, and delivery of green and climate resilient interventions	
Prior Action #1. To integrate GCR goals in planning and budgeting, (i) the Planning Commission (PC) of MoP has adopted the Multi-Year Public Investment Programme (MYPIP) Guidelines for key sectors, integrated with the Medium-Term Budget Framework through the PC Circulars, and (ii) key sectoral agencies have incorporated GCR objectives and results indicators in MYPIPs and MBFs, through FD Circular and corresponding MBFs.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No. **Explanation:** By incentivizing ministries to allocate more resources to green and climate-related activities, PA #1 encourages investment in low-carbon technologies, renewable energy, and sustainable land use practices that not only mitigate greenhouse gas emissions but also contribute to climate resilience supporting climate inclusive infrastructure design and safeguarding policies
Prior Action #2. To effectively implement the Bangladesh Delta Plan (BDP) 2100 for increased climate resilience, the Planning Division (PD) of the MoP has adopted the Delta Appraisal Framework, setting appraisal criteria on adaptive delta management and specific procedures for the preparation, processing, approval and revision of BDP-related projects, through PD Circular.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No. **Explanation:** PA #2 deals with supporting the establishment of an enabling environment and promoting better interministerial coordination for implementing adequate climate resilient principles. Passive impacts created through PA # 2 can reduce the risk from climate hazards to an acceptable level.
Prior Action #3. To strengthen locally led actions for GCRD, the MoLGRDC has adopted new guidelines for ULGIs to apply GCR criteria in local planning, financing, and implementation of their investments and services financed by discretionary resources, through LGD Office Order.	

Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No. **Explanation:** By strengthening locally led actions and adopting climate resilient criteria in local planning and implementation processes and allocating fund for climate inclusive initiatives, this prior action can contribute to reducing the risk from climate hazards to an acceptable level while enhancing the adaptive capacity and resilience of local communities in the face of climate change impacts.
Prior Action #4. To promote access to international carbon markets, the MoEFCC has established the Designated National Authority with the mandate to approve, authorize and track carbon credit transfers under the Article 6 of the Paris Agreement, through the MoEFCC Notification.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No. **Explanation:** The risks from climate hazards do not directly impact the functioning of the governance structure for accessing carbon markets.
Prior Action #5. To incentivize environmentally and socially sustainable businesses and public investments, the MoP has adopted the Sustainable Public Procurement (SPP) Guide, to gradually incorporate environmental and social sustainability principles in standard bidding documents of targeted sectors, including gender criteria for fostering participation of women-owned businesses in public procurement, through BPPA Order.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No. **Explanation:** Risks from climate change are not likely to have any direct adverse effect on the prior action's contribution to the Development Objective. Indirect effects like impact on the availability and quality of goods, disruption of supply chains, and increases in costs associated with procurement may occur due to extreme weather events (for example, floods, storms, and heatwaves). However, these can be mitigated through incorporating climate-resilience measures like developing supply-chain mapping to identify critical suppliers and assess their exposure to climate risks. By incorporating climate adaptation good practices applicable to the country context, such as prioritizing resilient infrastructure procurement, climate-resilient services, and support for climate-resilient businesses, the prior action can enhance the resilience of public assets and infrastructure, build community resilience, and reduce vulnerability to climate risks.
Prior Action #6. To enhance pollution control, the MoEFCC has adopted environmental enforcement guidelines, with provisions for (i) applying the polluter pays principle with rules-based, progressive sanctions; (ii) using remote, digital information tools, and (iii) fostering cooperation among public agencies, and citizen-driven accountability, through MoEFCC Circular.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** As part of the enforcement activities, DoE will check the facilities' compliance with all requirements of the environmental clearance and the corresponding Environmental Management Plans, including climate adaptation measures. Additionally, DoE will enforce more effectively the restrictions on vegetation and hill cutting, inadequate waste management, and other regulations that are essential to reduce the impacts of flooding and other climate-related disasters. Climate hazards are not expected to affect the

	implementation of the Enforcement Guidelines directly. Climate hazards can affect projects and facilities – including damages to chemical storage tanks and waste disposal sites - that are subject to the inspections envisaged in the Guidelines. However, such infrastructure is out of the scope of this DPC.
Pillar B – Promoting key sector reforms for greener and resource efficient production and services	
Prior Action #7. To improve air quality management and contribute to reducing short-lived climate pollutants, the MoEFCC has adopted, with endorsement from NCAPC, the National Air Quality Management Plan, ordering a set of coordinated multi-sector actions to reach World Health Organization Interim Target 1 for annual $PM_{2.5}$, through MoEFCC Circular and NCAPC Minutes.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer**: Yes **Explanation**: The NAQMP will require installation of monitoring stations and other AQM infrastructure such as vehicle inspection centers. For reducing emissions in key sectors, the GoB will require new infrastructure and supply chains (such as charging stations for e-vehicles, renewable energy projects, and clean cooking devices and fuels). Climate hazards such as extreme weather events, changes in precipitation patterns, and temperature extremes can disrupt energy infrastructure, leading to power outages, supply chain disruptions, and infrastructure damage.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	**Answer**: Yes **Explanation**: By implementing early warning systems for air quality and climate-related hazards like dust storms and developing flexible response strategies like adjusting emission reduction targets during heatwaves to reduce air pollution, this prior action can reduce the risk from climate hazards to an acceptable level. Other policies in this DPC series (PAs #1, #2, #3 and #6) aim to ensure that climate risks and the corresponding mitigation measures are considered in (a) public planning by national and local governments, including for designing public infrastructure projects, and (b) the environmental clearance and enforcement activities for private and public projects and activities.
Prior Action #8. To increase energy efficiency, the Power Division of the MoPEMR, has adopted (i) the Energy Efficiency Labeling for Appliances Regulations (EELAR), setting Minimum Energy Performance Standards (MEPS) to prevent commercialization of inefficient appliances, through the Official Gazette, and (ii) the Building Energy Efficiency and Environment Regulation (BEEER) to benchmark and certify energy and environmental performance of buildings, through the Power Division Circular.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer**: No. **Explanation**: Climate hazards are not expected to affect the adoption of the EELAR directly. Climate hazards affecting energy infrastructure are out of the scope of this DPC.
Prior Action #9. To ensure cost reflective fuel prices and avoid subsidies, the Energy and Mineral Resources Division of the MoPEMR has adopted a formula based and market-linked periodic automatic price adjustment system for diesel, heavy fuel oil and octane, through the Official Gazette.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer**: No. **Explanation**: Risks from climate change are not likely to have any direct adverse effect on the prior action's contribution to the Development

	Objective. Indirect effects like disruption in fuel supply chains and impact on the transportation networks may happen due to extreme weather events, leading to potential disruptions in fuel distribution and availability. These disruptions can result in fluctuations in fuel prices, affecting the effectiveness of the price adjustment system and potentially leading to market instability.
Prior Action #10. To improve the financial sustainability of the energy sector, the President has reinstated the mandate of the Bangladesh Energy Regulatory Commission (BERC) in end-user electricity tariff setting, through the Ordinance.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer**: No. **Explanation**: The impact of climate hazards on the financial sustainability of the energy sector, as influenced by tariff determinations, is low.
Adaptation and Resilience: Conclusion of the Assessment of the Program All prior actions of the proposed DPC program are aligned with the adaptation goals of the Paris Agreement.	
Overall Conclusion of Paris Alignment Assessment: All prior actions of the proposed DPC program are aligned with the adaptation and resilience goals of the Paris Agreement.	

ANNEX 3. Operation Specific Annex

Matrix of Key Changes to Original Policy Matrix

Original Pillars, Indicative Triggers, and Indicators	Updated DPC Results Framework	Comments
PDO: to support the Government of Bangladesh to transition to green and climate resilient development by (a) enhancing public planning, financing, and delivery of green and climate resilient interventions; and (b) promoting key sector reforms for climate-smart production and services.	**PDO**: to support the Government of Bangladesh to transition to green and climate resilient development by (a) enhancing public planning, financing, and delivery of green and climate resilient interventions; and (b) promoting key sector reforms for clean and resource efficient production and services.	The team refined the second part of the PDO to better reflect the expected outcomes of Pillar B.
Pillar B – Promoting key sector reforms for climate-smart production and services	**Pillar B –** Promoting key sector reforms for clean and resource efficient production and services	
DPC2 (Indicative) Trigger #1. To integrate GCR goals in planning and budgeting, the Recipient, through the Ministry of Finance (MoF) and MoP, (a) has adopted the Multi-Year Public Investment Programmes for key sectors, integrated with the Medium-Term Budget Framework, and (b) has incorporated GCR objectives and results indicators in both instruments.	**Prior Action #1.** To integrate GCR goals in planning and budgeting, (i) the Planning Commission (PC) of MoP has adopted the Multi-Year Public Investment Programme (MYPIP) Guidelines for key sectors, integrated with the Medium-Term Budget Framework through the PC Circulars, and (ii) key sectoral agencies have incorporated GCR objectives and results indicators in MYPIPs and MBFs, through FD Circular and corresponding MBFs.	No substantial change in the policy reform. The wording of the PA has been refined to clarify the different policy actions and responsible agencies.
DPC2 (Indicative) Trigger #2. To effectively implement the Bangladesh Delta Plan (BDP) 2100 for increased climate resilience, the Recipient, through the MoP, has (i) established the Delta Wing at the General Economics Division; and (ii) added appraisal criteria on adaptive delta management for BDP projects in the Guidelines for the Preparation, Processing, Approval and Revision of Projects in the Public Sector.	**Prior Action #2.** To effectively implement the Bangladesh Delta Plan (BDP) 2100 for increased climate resilience, the Planning Division (PD) of the MoP has adopted the Delta Appraisal Framework, setting appraisal criteria on adaptive delta management and specific procedures for the preparation, processing, approval and revision of BDP-related projects, through PD Circular.	The establishment of the Delta Wing (DW) has been removed from this PA. The GoB created an interim DW and assigned permanent to it. The permanent status of such unit will be ensured by the upcoming Delta Ordinance, planned for DPC3. The wording of the PA related to the DAF has been refined to better reflect the reform. Instead of an amendment, PA#2 adopted a stand-alone procedure that complements the Green Book.
DPC2 (Indicative) Trigger #3. To strengthen locally led actions for GCRD, the Recipient has adopted,	**Prior Action #3.** To strengthen locally led actions for GCRD, the MoLGRDC has adopted new guidelines for ULGIs to apply GCR criteria in local planning,	Clarified that the guidelines are applicable to investments financed by all discretionary

through the MoLGRDC, new guidelines for ULGIs to apply GCR criteria in local planning, financing, and implementation of their investments and services.	financing, and implementation of their investments and services financed by discretionary resources, through LGD Office Order.	resources, not limited to the mandatory minimum 10 percent of ADP block grant that ULGIs are required to tag as GCR as per DPL 1.
	Prior Action #4. To promote access to international carbon markets, the Ministry of Environment, Forest and Climate Change (MoEFCC) has established the Designated National Authority with the mandate to approve, authorize and track carbon credit transfers under the Article 6 of the Paris Agreement, through the MoEFCC Notification.	PA added to strengthen the program.
DPC 2 (Indicative) Trigger #6. To improve air quality management and reduce GHG emissions, the Recipient, through NCAPC, has ordered a set of coordinated multi-sector actions to reach World Health Organization PM2.5 interim targets, as evidenced by a Government Circular.	**Prior Action #7.** To improve air quality management and contribute to reducing short-lived climate pollutants, the MoEFCC has adopted, with endorsement from NCAPC, the National Air Quality Management Plan, ordering a set of coordinated multi-sector actions to reach World Health Organization Interim Target 1 for annual $PM_{2.5}$, through MoEFCC Circular and NCAPC Minutes.	The prior action is expected to reduce GHG emissions. However, its focus is on controlling emissions of air pollutants (especially PM2.5), while contributing to reducing SLCPs. The revised wording reflects better the scope and contents of the prior action.
DPC2 (Indicative) Trigger #7. To increase energy efficiency, the Recipient, through the Power Division of the MoPEMR, has adopted Minimum Energy Performance Standards (MEPS) to prevent commercialization of inefficient appliances, and a Building Energy Efficiency and Environment Regulation (BEEER) to benchmark and certify energy and environmental performance of buildings.	**Prior Action #8.** To increase energy efficiency, the Power Division of the MoPEMR, has adopted (i) the Energy Efficiency Labeling for Appliances Regulations (EELAR), setting Minimum Energy Performance Standards (MEPS) to prevent commercialization of inefficient appliances, through the Official Gazette, and (ii) the Building Energy Efficiency and Environment Regulation (BEEER) to benchmark and certify energy and environmental performance of buildings, through the Power Division Circular.	There is no substantial change in the PA. Its wording was refined to specify the EELAR as the policy instrument.
	Prior Action #10. To improve the financial sustainability of the energy sector, the President has reinstated the mandate of the Bangladesh Energy Regulatory Commission (BERC) in end-user electricity tariff setting, through the Ordinance.	PA added to strengthen the program and reflect the GoB's priorities in the energy sector.
DPC2 (Indicative) Trigger #2. To provide the long-term legal and institutional arrangements for implementing the BDP, the National Parliament has enacted the Delta Act.	**DPC3 (Indicative) Trigger #2.** To provide the long-term legal and institutional arrangements for implementing the BDP, the Government has enacted the Delta Ordinance vetted by the President.	No substantial change in the contents of the trigger. Wording changed to reflect the current governance framework.
	DPC3 (Indicative) Trigger #4. To promote access to international carbon markets, the MoEFCC has (a) established the domestic core policy and regulatory systems to register, approve, authorize and transfer high integrity carbon emission reductions, and (b)	Trigger added to strengthen the program and reflect GoB's priorities in climate finance to enable investments in clean and

	regulated the ownership of emissions reductions across renewable energy project participants and procedures to tap the voluntary and compliance markets.	resource efficient projects, such as renewable energy.
DPC3 (Indicative) Trigger #5. To enhance environmental enforcement and accountability, the Recipient, through the National Parliament, has amended the Environment Court Act, (i) allowing any citizen to directly file lawsuits before environmental courts, and (ii) expanding the courts' mandate to all major environmental policies and acts.	Dropped / Replaced with: **DPC3 (Indicative) Trigger #6.** To enhance enforcement of environmental regulations, the MoF has amended the Environmental Protection Surcharge Rules 2017 to (i) strengthen the criteria for including companies in the list of non-compliance, (ii) set procedures for regular update of such list, and (iii) establish a formula for applying the surcharge rate.	Although MoEFCC prepared a draft, the act cannot be approved on time for DPC3 because of the changes in the GoB. This trigger is being replaced with the amendment of Environmental Protection Surcharge Rules, a fiscal instrument with high potential of changing behavior and promoting environmental compliance.
DPC3 (Indicative) Trigger #6. To encourage investments for reducing GHG emissions and air pollutants, the Recipient has set the legal and institutional framework for economy-wide Monitoring, Reporting and Verification (MRV) systems and registry mechanisms to ensure accuracy and transparency of GHG and short-lived climate pollutant emissions and emissions savings.	Dropped / Replaced with: **DPC3 (Indicative) Trigger #7.** To improve compliance with emissions standards, the MoEFCC has established a continuous emissions monitoring program (CEMP) to track air pollutant emissions from major point sources (stacks), combined with regular disclosure of preliminary data and immediate enforcement of emissions standards by DoE. **DPC3 (Indicative) Trigger #8.** To reduce emissions from the transport sector, the Ministry of Road Transport and Bridges (MoRTB) has adopted a scrappage and retrofitting policy, with time-bound measures to phase out highly polluting motor vehicles.	Based on the priority policies of the NAQMP, MoEFCC and DoE requested the Bank to replace the original trigger #6 with more impactful policies. As MRV systems and registry for SLCPs are also relevant for the GoB, the proposed Bangladesh Clean Air Project will support these activities.
DPC3 (Indicative) Trigger #8. To reduce costs of and enhance power generation services, the Recipient, through the Power Division of the MoPEMR, has established an Independent System Operator (ISO) as envisaged in the Electricity Act to improve the dispatch and efficiency of the power generation system.	Dropped / Replaced with: **DPC3 (Indicative) Trigger #10.** To improve transparency and financial sustainability in the energy sector, the BERC has regulated the criteria and procedures for setting cost-reflective tariffs across all segments of the electricity supply value chain, including a methodology for periodic end-user tariff review. **DPC3 (Indicative) Trigger #11.** To increase the share of renewables in the energy mix while ensuring financial sustainability, the MoPEMR has (a) amended the Renewable Energy Policy to promote private sector investments in renewables, and allow direct supply of electricity from renewable energy power generators to large power consumers, and (b) adopted standard Power Purchase Agreements for RE projects with clauses to access green and carbon credits.	The original trigger would not be ready for DPC3. Establishing an ISO will require a phased approach, with in-depth analytics and continuous engagement with relevant stakeholders – for example, transmission operators. Before setting up the ISO, the GoB needs to establish sector structures to facilitate competition and non-discriminatory access to the transmission grid. The new triggers #10 and #11 are also essential to reduce fiscal costs in the energy sector, including through

		private capital enabling reforms.
DPC3 (Indicative) Trigger #9. To enhance quality and efficiency in WSS services, the Chattogram Water Supply and Sewerage Authority (CWASA) has adopted and rolled out a volume-based justified economic tariff to water users.	Dropped	Although the original trigger is still relevant, CWASA has agreed to adopt it independently of the DPC, building on Bank-financed TA and upcoming Chattogram Water Supply Improvement Project (P176249).
DPC3 (Indicative) Trigger #10. To increase access to efficient and climate resilient WSS services, the Recipient, through the National Parliament, has enacted the WSS Regulatory Commission Act, creating an authority to enforce tariff regulations, facilitate dispute resolution, and monitor the performance and service standards of WSS providers.	**DPC 3 (Indicative) Trigger #12.** To ensure enhanced access to efficient and climate resilient WSS services, the LGD under the MoLGRD has established a unit to advise on tariff rationalization and establish and monitor service standards and performance of WSS providers, including WASAs.	Based on international good practices, the Government will take a phased approach to build a sustainable and effective WSS regulatory system in the country. As such, before creating a new Water Regulatory Agency, the GoB will initiate these functions through a unit within LGD, which will gradually evolve to take on more complex functions with a more independent and legally robust set up.
Results Indicator #3. City Corporations and Category A Pourashavas publishing Annual Reports on Green and Climate Expenditures that reflect more than 10 percent spending of block grant resources in GCR projects (number)	**Results Indicator #3.** City Corporations and Category A Pourashavas publishing Annual Reports on Green and Climate Expenditures that reflect more than 10 percent spending of block grant resources in GCR projects (number) **Results Indicator #3.1.** City Corporations (number) **Results Indicator #3.2.** Category A Pourashavas (number)	No substantial change. The indicator was adjusted to highlight the disaggregated targets.
	Results Indicator #4. Carbon emission reduction credits registered, approved, authorized, and transferred through the domestic system (Text). **Baseline:** 0 tons of CO_2 (2023) **Target:** 1.1 million tons of CO_2 (2026).	Added to measure the results of new policy reforms in policy track #3 – Expanding access to carbon markets.
Results Indicator #6. Industry units, project facilities and individuals inspected by DoE's Enforcement Wing and mobile courts for environmental compliance per calendar year (number) **Target**: 7,500 (2025)	**Results Indicator #7.** Industry units, project facilities and individuals inspected by DoE's Enforcement Wing and mobile courts for environmental compliance per calendar year (number) **Target**: 9,000 (2026)	After hiring additional personnel, DoE achieved the original target in 2023, when it inspected 7,609 industry units, project facilities and individuals. Therefore, a more ambitious target was agreed to reflect the impact of the policy reforms.

Results Indicator #7. Rural and urban households using solid fuels as primary cooking fuels (percent)	**Results Indicator #8.** Households using solid fuels as primary cooking fuels (percentage) **Results Indicator #8.1** Rural households using solid fuels as primary cooking fuels (percentage) **Results Indicator #8.2** Urban households using solid fuels as primary cooking fuels (percentage)	No substantial change. The indicator was adjusted to highlight the disaggregated targets.
Results Indicator #8. Cumulative energy savings from the new provisions of EECR, BEEER and MEPS (GWh)	**Results Indicator #11.** Cumulative energy savings from the new provisions of EECR, BEEER and EELAR (Gigawatt-hour (GWh))	There is no substantial change in the results indicator. Its wording was refined to specify the EELAR as the policy instrument, rather than MEPS.
	Results Indicator #12. Total capacity of renewable energy projects that have reached financial close under the auspices of the amended RE policy (Megawatt).	Added to measure the results of new policy reforms in policy track #8 - Reducing fiscal costs of energy sector.
Results Indicator #12. New municipalities with water tariff models (number)	**Results Indicator #13.** New municipalities with at least 80 percent cost recovery on operations and maintenance (number)	The indicator was revised to better measure the policy outcomes.

ANNEX 4. Required Accompanying Documentation

Letter of Development Policy

ড. সালেহউদ্দিন আহমেদ
উপদেষ্টা
অর্থ মন্ত্রণালয়
গণপ্রজাতন্ত্রী বাংলাদেশ সরকার

Dr. Salehuddin Ahmed
Adviser
Ministry of Finance
Government of the People's
Republic of Bangladesh

Memo No. MoF/Adviser/2024/112 **Date: 14 November 2024**

Subject: Letter of Development Policy for the Second Green and Climate Resilient Development Credit.

Dear Mr. Ajay Banga,

Bangladesh continues to make remarkable progress guided by comprehensive planning and the Sustainable Development Goals (SDGs). Our government has set out a pathway for accelerated growth and shared prosperity, aiming to eliminate extreme poverty and reach a higher growth trajectory within a reasonable period of time. To fulfil the target, we have committed to undertake necessary reform measures that will bolster our efforts to improve the living standards of our people. Our economy recovered rapidly from the COVID-19 pandemic, supported by an effective vaccination campaign and a substantial fiscal and monetary response program. Throughout the pandemic, we protected the vulnerable segment of the population by expanding safety nets, provided buffers to workers impacted by job losses, and preserved productive capacity in the manufacturing sector through various financing programs. Consequently, the economy demonstrated notable resilience and strong growth in the post-pandemic era, with real GDP expanding by 6.94 percent in FY21 and 7.10 percent in FY22.

However, since 2022, rising global commodity prices, spillover effects of tight monetary policies in the USA and other advanced economies, geopolitical conflicts have posed considerable challenges to our economy. Growth moderated to 5.78 percent in FY23 and 5.82 (Provisional) percent in FY24 influenced by persistent high inflation, and substantial depreciation of the Bangladesh Taka (BDT). The persistent inflationary pressure has dampened domestic consumption growth which is reflected in the lower-than-expected GDP growth during the last two fiscal years. To tame inflationary pressure, we have taken several contractionary measures under the monetary and the fiscal policies. For example, export incentives have been reduced, a market-based automatic pricing mechanism has been adopted to remove subsidies provided on fuel consumption, and policy rate has been increased to 10 percent recently from 6 percent in June 2023. Additionally, to improve fiscal balance, the government is reducing the development expenditures in the current fiscal year. Austerity measures in operating expenditures is also being conducted by stopping new assets accumulation (land acquisition, vehicle purchase etc.), barring foreign visit by the government officials and reducing government vehicle usage to optimize fuel cost. On the other hand, to mobilize revenue the government is undertaking various reforms to improve tax administration and revenue generation.

While Bangladesh is putting up efforts to improve consistently despite various odds, maintaining a steady course towards the development goals is becoming increasingly complicated as the adverse impacts of climate change is getting severe every year. As one of the countries facing the highest risks of climate change, Bangladesh is facing a daunting task in mitigating the risks of climate change as well as arranging financing required for the tasks. We note with deep gratitude that the World Bank is continuously supporting our endeavors. The Green and Climate

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গণপ্রজাতন্ত্রী বাংলাদেশ সরকার

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Resilient Development (GCRD) Credit, under which green and climate related reform measures are being targeted and implemented, has been particularly noteworthy in this regard. Under this policy credit, public planning is being closely aligned with climate related concerns as well as paths for green and resource efficient production and services are being paved.

With successful implementation of the first part of the GCRD in 2023, we are now aiming to deepen reform measures. For the second part of the GCRD we are willing to introduce reforms in several critical areas including pollution control, strengthening regulatory framework needed for fighting the impacts of climate change and sustainable use of energy. Particularly, we intend to include some important reform measures in the power and energy sector which require attention for broader macroeconomic stability. To strengthen energy security and to reduce fiscal burden, the following goals have been setup: i) improving sector governance through transparency, accountability, regulatory autonomy and efficiency of sector institutions; ii) developing conducive policy and regulatory framework to best leverage the potential of low carbon energy transition keeping consideration of the country context; iii) improving financial viability and sector sustainability; iv) attracting private sector investments and enhancing operational and cost efficiencies by introducing competition; v) promoting the use of distributed energy resources to optimize sector planning/development; vi) formulating standardized procurement program with documented procurement guidelines and power purchase agreements; vii) increasing focus on R&D investment, commissioning of technical studies and pilot projects for emerging technologies such as smart grid, energy storage, demand response; viii) enhancing independence, accountability and transparency of the regulator; ix) developing institutional capability of the regulator in existing as well as emerging areas; x) augmenting cross border electricity trade (CBET) through development of policy, regulatory and technical framework and guidelines. While pursuing these goals, structural policy reforms to promote green growth will be at the core of our economic model.

In this context, we have embarked on a three-part program of reforms under the GCRD series in partnership with the World Bank. This program will support our government to prioritize, finance, and deliver green and climate-resilient growth interventions as well as promote climate-smart production and energy uses. As outlined below, our government has undertaken structural reforms to build climate resilience across the economy and promote better management of the environment and natural resources to support productivity and growth.

1. Enhancing public planning, financing, and delivery of green and climate-resilient interventions

1.1.1 Foundations of GCRD planning, monitoring, and financing

Our government aims for a robust sustainable development agenda that focuses on sustainable development by integrating economic progress, environment, climate change, and disaster management concerns into planning and budgeting. As such, the Government has been active in establishing various policies and institutional initiatives to integrate disaster and climate change into national planning. The Finance Division introduced a climate dimension in its Medium-Term Budget Framework (MTBF) and issued strategic guidance through Budget Call Circular (BCC) to the line ministries to make their budget climate inclusive.

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The Ministry of Planning has developed new Public Investment Management (PIM) tools which include formats for appraising the Development Project Proposal (DPP) for public investment, such as Ministry Appraisal Format (MAF); Sector Appraisal Format (SAF), Sector Strategy Papers (SSP) on goals, performance, opportunities, and challenges under Five-year plans; and a Multi-Year Public Investment Program (MYPIP) to improve the effectiveness of the budget allocation among sectors. Our government is committed to further accelerating PIM reform, by improving project formulation, appraisal, and approval processes; incorporating GCR goals into those processes; and strengthening strategic linkages between ADP, MTBF, and MYPIP to increase the efficiency of public investments. Project selection will require a full accounting of environmental costs for all investment projects.

Under the first GCRD Credit, the Government has issued a supplementary guideline to add GCR goals to the Guidelines for the Preparation, Processing, Approval, and Revision of Projects in the Public Sector, June 2022 (Green Book). The Planning Commission has started applying GCR criteria in 2023-2024 ADP preparation process focusing on the effective selection of new prospective investment/technical assistance projects.

Under the second GCRD credit, the government developed MYPIPs aligned with the MTBF, including GCRD indicators for three sectors (Power & Energy, Health, and Local Government & Rural Development) covering eleven ministries. In March 2024, the Ministry of Planning issued an Annual Development Program (ADP) Circular to provide guidance on the prioritization of GCRD investments and inclusion of GCRD indicators in the planning processes. Furthermore, the Ministry of Planning issued specific guidelines on the approach and processes for preparing and using MYPIPs at the sector and line ministry. MYPIPs seek to help sectors and line ministries prepare realistic expenditure plans based on fiscal space and ensure strategic alignment with national development and GCRD objectives. The Government will expand the development of MYPIPs and GCRD indicators to the remaining sectors and line ministries.

Building on the MYPIPs, Power Division, Energy and Mineral Resources Division, Local Government Division, Rural Development and Co-operatives Division, Health Services Division, and Ministry of Science and Technology revised their budget framework (MBF) for 2024-2025 to incorporate the GCRD indicators.

Additionally, the Climate Fiscal Framework (CFF) scope will be expanded to cover other long-needed GCR interventions, such as enhanced air pollution control, incentives for renewable energy and energy efficiency, nature-based climate resilience, water supply and sanitation, increased efficiency, and better jobs by using green technology, among other. Specifically, the CFF will report progress on GCRD investment spending and results indicators across sectors and line ministries. To this end, the Government will develop specific monitoring and reporting mechanisms in iBAS++ to keep track of spending and performance indicators for GCRD investments and activities. For institutionalization and implementation of these critical reforms, the Government aims to issue specific guidelines in the upcoming Budget Call Circular 1 to ensure the development of: (i) MYPIPs in sectors and line ministries, (ii) GCRD indicators, (iii) monitoring and reporting of GCRD spending and results. Finally, as part of GCRD DPC3 triggers, the Government is planning to develop GCR guidelines and performance monitoring

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framework for State-Owned-Enterprises (SOEs). Development Partners are expected to provide adequate technical assistance to support the Government in these critical reforms.

1.1.2 Bangladesh Delta Plan (BDP2100)

The BDP2100 is a long-term plan with the goal of achieving a safe, climate-resilient, and prosperous Delta, covering major policies, investment programs, and institutional reforms to address long-term climate change vulnerability at its source. BDP2100 focuses on many areas where private financing can be strengthened and accelerated. To efficiently implement the BDP2100, a high level of institutional coordination and financing, as well as enabling laws, policies, and regulations are required. Other necessary actions include investment prioritization; stable budget allocations; adequate monitoring, evaluation, and accountability; and cross-sectoral coordination across relevant sector departments. The establishment of a Delta Wing will help better coordination for investments and support the Project/Program Selection Committee (PPSC). As such, our government had established a Delta Wing in GED as well as the multi-sector PPSC to validate the selection and prioritization of BDP projects in line with multi-sectoral and climate resilience perspectives from the most relevant BDP-related sector ministries. The PPSC is chaired by GED Member and comprised of representatives of ministries of Finance, Planning, Water, Environment, Agriculture, Land, Livestock and Fisheries, and Shipping. As budget allocations increase under BDP2100, we are committed to strengthening PIM, including project identification, cost-benefit analysis, portfolio management, operations, and asset monitoring.

In this context, our government has (i) assigned permanent staff to the Delta Wing at GED to coordinate BDP implementation with different sectors and (ii) adopted appraisal criteria and specific procedures on adaptive delta management (ADM) for processing BDP-related projects, to increase climate resilience under the BDP2100. Under DPC3, our Government is planning to enact the Delta Ordinance to ensure continuity and stability to achieve BDP2100's long-term vision and goals, including consolidation of the Delta Wing as permanent unit of the GED.

In parallel, the Government will approve, through the Planning Commission and with endorsement from the PPSC, a re-prioritized BDP2100 investment program for the next 5 years, will reflect it in ADP for FY2024-25, and expedite DPP approval of BDP projects based on the new ADM criteria added to the Green Book.

1.2 GCRD planning, monitoring, and financing at the local government level

Local governments play an important role in supporting our transition to a green, resilient, and inclusive pathway by incorporating GCRD solutions into essential services and national interventions. Nevertheless, our government recognizes the need for improved governance in the local government administration and allocated the highest priority to the development of Local Government Institutions (LGIs) under the ADP allocation. Thus, for the 8FYP our government's main objective is to ensure good governance at local levels by ensuring local-level participation in planning and monitoring of the functions of the LGIs; promoting performance-based incentive system for the LGIs; providing a sustainable physical and social infrastructure; ensuring appropriate services at grassroot level in line with the 'leave no one behind' principle; reforming national transfers to the LGIs by making them criteria-

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based, transparent and predictable; strengthening LGI resource mobilization; and investing in institutional and fiscal empowerment as well as technical capacity building of the LGIs.

In this context, under the first GCRD Credit, the Government has incorporated GCR targets in the block grant system to urban LGIs to prioritize GCRD expenditures and to incentivize efficient spending in GCRD. Under DPC2, our government adopted new guidelines for urban LGIs to apply GCR criteria to local planning, financing and monitoring of infrastructure projects. Under DPC3, Government will introduce performance criteria for the block grant system to incentivize GCR priority expenditures at these urban LGIs, building on technical support and experience from the ongoing World Bank financed Local Government COVID-19 Response & Recovery Project.

1.3 Expanding access to carbon markets

As prior action of DPC2, the MoEFCC has established the Designated National Authority for Article 6 of the Paris Agreement through the MoEFCC Notification dated June 27, 2024, to ensure access to the international carbon markets. In DPC3, the MoEFCC aims to establish domestic core policy and regulatory systems to register, approve, authorize and transfer high integrity carbon emission reductions which are essential for accessing international carbon markets. On the other hand, to promote investments in renewable energy (RE) projects through the monetization of green and carbon credits, (i) the MoEFCC plans to regulate the ownership of emissions reductions across RE project participants and the institutional processes to tap the voluntary and compliance markets, and (ii) the MoPEMR adopts standard Power Purchase Agreements for RE projects.

1.4 Promoting sustainable public procurement

Effective Sustainable Public Procurement (SPP) is critical to providing adequate services to the public as well as creating fair opportunities for disadvantaged groups and a reliable pathway for sustainable and climate-smart products. Price support through public procurement is also key in the poverty reduction strategy highlighted in the 8FYP. To strengthen public procurement, our government initially focused on e-procurement to reduce corruption and increase competitiveness in government contracts, encouraging more participation and transparency. In this phase, our government is focusing on the legal framework for SPP to promote socially and environmentally sustainable production and consumption. Without a specific mandate in the public procurement legal framework, such as preferential rated criteria for environmentally friendly products or solutions (e.g., green products) and to women-owned enterprises, Procuring Entities are not able to prioritize them among other equally important mandates in the government bidding process, i.e., cost-reduction and efficiency (economic aspect of sustainable development). To address these gaps, the Government has adopted an SPP Policy to integrate social and environmentally sustainable principles in Bangladesh's public procurement procedures.

In DPC2, our government also adopted SPP guidelines and began applying environmental and social sustainability principles in bidding documents of targeted sectors. Under DPC3, informed by the piloting experience of SPP guidelines, we aim to amend the Public Procurement Rules (PPR) to specify the mandates, definitions, preferential rates criteria, and other provisions of the SPP. This will allow procuring entities to prioritize, among other equally

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important aspects, environmentally friendly products, and women-owned enterprises. The GoB is working with the World Bank in the design of sector specific strategy to implement SPP.

1.5 Environmental clearance and environmental quality management

Measures associated with environmental conservation may seem economically burdensome in the short-term, but fast-paced long-term growth in the absence of environmental conservation will lead to loss of capital stock from ecosystem degradation. As such, our government understands that growth can only be sustainable when the return on investment in resilient and environmentally sustainable development is adequate. However, we recognize the current governance and institutional arrangements that guide environmental management, such as the environmental clearance (EC) process and enforcement; the polluter pays principle; and improved collaboration. To address the gaps in environmental governance, the government plans to put together a balanced mix of incentives and regulatory policies including the application of the polluter pays principle and a better-coordinated implementation of environmental policies and programs.

Under key reforms of DPC1, the Government has reformed the EC process to ensure timely, adequate assessment and mitigation of environmental and social impacts. In DPC2, through the Ministry of Environment, Forest and Climate Change (MoEFCC), our government has revised the environmental enforcement guidelines, with clear provisions for the polluter pays principle; the use of remote, digital information tools, especially for disclosing relevant enforcement data; better planning and recognition of offices and staff who achieve the targets of enforcement activities; and fostering cooperation among public agencies, and citizen-driven accountability. In DPC3, government aims to amend the Environmental Protection Surcharge Rules (2017) to ensure that such instruments are effectively implemented, with clear criteria for imposing the charge and procedures for collecting it. The revised rules will aim to deter pollution and other non-compliance of environmental regulations. In this regard, it may be noted that technical assistance from the World Bank to revise the current rules will be sought when needed. Additionally, the DoE will receive support to implement the enforcement guidelines through the WB-financed Bangladesh Environmental Sustainability and Transformation (BEST) Project.

2. Promoting key sector reforms for climate-smart production and services

2.1 Air quality management

Several factors contribute to outdoor air pollution in Bangladesh, such as the use of fossil fuel for energy; emissions from industrial plants, especially brick kilns; emissions from transport vehicles without adequate emission control mechanisms, and gaseous releases from the improper treatment and disposal of solid and liquid wastes. To address air pollution effectively, under the 8FYP our government aims to develop more policies to control emissions from polluting industries by developing a 'polluter pays principle with appropriate compensation', including measures to improve air quality standards and monitoring mechanisms.

In line with the efforts of the 8FYP, our government has adopted the Air Pollution Control Rules (APCR) for DPC1. As envisaged in the APCR, for this DPC2, the Government has adopted the National Air Quality

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Management Plan through MoEFCC and with endorsement from the National Committee for Air Pollution Control (NCAPC). The Plan sets priority of cost-effective, multi-sector interventions to reach the WHO interim targets. Moving forward, under DPC3, our government aims to focus on establishing the Continuous Emissions Monitoring Program (CEMP), with regulations that set forth the objectives, mandates and responsibilities, procedures and timeline for ensuring real-time monitoring of air pollutant emissions in point sources (stacks) of highly polluting facilities, as well as disclosure of information and prompt enforcement of emissions limits by the appropriate authorities. Additionally, to reduce emissions from an important source of air pollution, the government will adopt a scrappage and retrofitting policy for heavy duty vehicles.

The Measurement, Reporting, and Verification (MRV) framework for short-lived climate pollutants, which was originally planned for DPC3, will be developed and implemented as part of the proposed Bangladesh Clean Air Project (with support from World Bank). Additionally, with support from that potential project, our government will construct standards, methodologies, and procedures for (a) declaration and management of degraded air sheds; (b) public disclosure and management of highly air-polluting activities; and (c) air pollution prevention plans as set forth in the APCR.

2.2 Promoting energy efficiency

Bangladesh is committed to promote Energy Efficiency and Conservation (EE&C) and adopted Energy Efficiency and Conservation Master Plan (EECMP) up to 2030 in 2016. EECMP determined the essential steps needed to meet the country's energy efficiency targets with an overarching goal to reduce primary energy per GDP (i.e. national energy intensity) by 20% by 2030 (compared to the baseline observed in FY14).

Five pivotal actions essential for achieving the targets are outlined in the EECMP as (i) Energy Management Program, (ii) EE&C Labelling Program, (iii) EE&C Building Program, (iv) EE&C Finance Program, and (v) Awareness-Raising Program. SREDA, serving as the responsible authority, spearheads the execution of these five actions to realize the national objectives delineated in the EECMP. Among the identified programs, SREDA is actively implementing the EE&C Promotion Financing Project (EECPFP), alongside conducting awareness-raising initiatives and energy management programs for industries.

Despite this progress and efforts made in crafting regulations for energy labelling and building rating programs, the 8FYP acknowledged the need for new policy reforms to accelerate the EECMP implementation. Under the DPC1, our government has amended the EECR to (i) require all industries to submit annual energy consumption reports; (ii) enforce periodic energy audits; and (iii) increase capacity development. In DPC2, we have adopted specifications for minimum energy performance standards (MEPS) that prevents the commercialization of inefficient appliances as well as a Building Energy Efficiency and Environmental Rating to benchmark the energy and environmental performance of buildings. For DPC3, we aim to establish energy efficiency standards and a labeling system to help consumers choose energy-efficient products.

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2.3 Fiscal sustainability of the energy sector

Maximum power generation each year has been lower than the installed capacity. This gap has increased over the years, with implications on the long-term sustainability of the power sector, particularly for moving towards a least-cost generation scenario and increasing renewable energy (RE) consumption. In this context, we need to replace high cost and less efficient power plants with more efficient plants with increasing RE generation. The 8FYP will focus on achieving an efficient fuel mix as well as reducing the average cost of power generation, by running more efficient larger plants while closing out the less efficient plants and small-sized independent power producers.

In parallel, Bangladesh still provides subsidies on fossil fuel uses, which discourages decarbonization and affects fiscal sustainability. The financial implications from the gap in supply tariffs and production costs continue to create pressure on the national budget. Proper pricing of fossil fuel energy products is also essential to promote the production and use of clean fuel options and to meet the environmental goals of Bangladesh, such as the NDCs.

In the DPC1, the Government issued a circular prohibiting minimum capacity charge in contract renewal of existing rental power plants or any future contract. This policy has been adopted through BPDB Circular dated January 8, 2023. Going forward under DPC2, our government has adopted a formula-based and market-linked periodic automatic price adjustment system for diesel, heavy fuel oil, and octane. To improve the financial sustainability of the energy sector, the Government has reinstated the mandate of the Bangladesh Energy Regulatory Commission (BERC) in end-user electricity tariff setting, through the Ordinance published in Official Gazette on August 27, 2024. For DPC3, BERC aims to establish criteria and procedures for setting cost-reflective tariffs across all segments of the electricity supply value chain, including a methodology for periodic end-user tariff review. Additionally, to increase the share of renewables in the energy mix we aim to (i) promote private sector investments in renewables, and (ii) allow direct supply of electricity from renewable energy power generators to large power consumers.

2.4 Water supply and sanitation (WSS) services

The WSS service delivery is inadequate compared to the demands of the households in municipalities, especially in small towns and hard-to-reach climate hotspots (chars, haors, hilly areas, coastal regions, etc.). Operational and financial efficiency and of water supply and sanitation providers in local governments are low with low tariff rates and non-revenue water (NRW) ranging from 20 to 45 percent among utilities in major cities (Dhaka, Chattogram, Khulna and Rajshahi). As a result, most utilities struggle to recover the operations and maintenance costs and cover the required expenditure needs for the maintenance and upgrading of existing capital stock which leads to their underperformance. The functioning of water service providers (Water Supply and Sewerage Authorities – WASAs, City Corporations, and municipalities) needs reforms for increasing efficiency, which is key to improving service quality, performance standards and encouraging private sector investment in the sector. In this context, the 8FYP envisages the establishment of WASAs in all seven divisional cities and the Water and Sanitation Regulatory Authority to regulate WSS services and review tariff frameworks.

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Our government is committed to improving the efficiency and resilience of water supply and sanitation (WSS) services. In DPC1, our government has issued WSS Guidelines to regulate the planning and provision of WSS services by urban LGIs. Moving forward to DPC3, we also hope to implement a WSS Regulatory Framework mandated to enforce tariff regulations, facilitate dispute resolution, and monitor the performance and service standards of WSS service providers. We expect to establish this regulatory framework by: (i) establishing a Regulatory Support Committee (RSC) headed by the Secretary, Local Government Division (LGD) and Regulatory Council (RC) headed by the Honorable Minister, Ministry of LGRD&C; and (ii) amending Policy Support Branch's (PSB) legal mandate expanding this to be 'Policy and Regulatory Support Branch' (PRSB) and creating a dedicated regulatory cell in PSB with full-time technical staff and systems to carry out the mandate equipping the PSB to serve the regulatory support function within the overall regulatory framework. Overall, the policy reform actions will improve the WSS planning, allocation of roles and responsibilities within the sector agencies, and promote better standards of water and sewerage service provision for the people.

3. Conclusions

In closing, allow me to reiterate our sincere appreciation to the World Bank for its ongoing support to Bangladesh as we continue to work in partnership. We request World Bank support for our reform agenda, which will strengthen our efforts to sustain growth and enhance resilience to future shocks, including climate change, under the Second Green and Climate Resilient Development Credit.

Sincerely Yours,

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Bangladesh—Assessment Letter for the World Bank
November 7, 2024

This letter provides the IMF staff's assessment of Bangladesh's recent economic developments, outlook, and economic policies based on available information as of November 7, 2024. The assessment was requested by the World Bank (WB) in connection with a development policy loan as part of WB's Building Economic and Institutional Resilience Program.

Recent Developments, Outlook, and Risks

1. The Bangladesh economy continues to face multiple and persistent challenges.[1]

- Real *GDP* growth slowed to 5.3 percent during the first three quarters of FY24, down from 5.7 percent in the same period last year. This deceleration is attributed to weakened private demand resulting from policy tightening and the slowdown in imports of intermediate and investment goods, partly due to limited availability of FX. Meanwhile, headline inflation persisted at a high rate of 9.9 percent year-on-year (y-o-y) as of September 2024 and was driven by supply-chain disruptions amidst the popular uprising and major floods impacting agricultural production in July and August.

- The FY24 overall fiscal deficit was lower than programmed at 3.8 percent of GDP, relative to 4.6 percent of GDP in FY23, on account of significant under-execution of spending despite underperformance of tax revenues. In line with the commitments made under the ongoing IMF-supported program, the authorities kept the level of domestic arrears in FY24 the same as in FY23, representing an initial step towards reducing domestic arrears.

- The current account (CA) deficit narrowed from 2.6 percent of GDP in FY23 to 1.4 percent of GDP in FY24, due to the authorities' efforts to contain imports. In contrast, the financial account's (FA's) surplus declined from 1.5 percent of GDP in FY23 to 1 percent of GDP in FY24, primarily due to a significant reversal of trade credit from 0.6 percent of GDP inflows in FY23 to 0.4 percent outflows in FY24. As a result, gross international reserves (GIR) declined to US$21.7 billion at end-June 2024 (about 3¼ months of import cover) from U$24.7 billion at end-June 2023 (about 4 months of import cover). Following the exchange rate realignment in early May, Bangladesh Bank (BB) has significantly reduced FX sale interventions and FX liquidity in the interbank market has increased. However, disruptions in July and August, along with ongoing repayment of external payment arrears – primarily from State-owned enterprises – led to a decline in GIR to US$19.8 billion at end-September 2024.

- Financial sector vulnerabilities have risen considerably as several Islamic banks and faced acute liquidity problems last summer. Since the interim government took office, BB has disclosed that these banks had significantly underreported non-performing assets.

[1] Fiscal year in Bangladesh starts in July and ends in June.

2. Nonetheless, performance under the ongoing IMF-supported program was overall satisfactory through June 2024. All performance criteria (PC) and two out of four indicative targets (IT) for end-June 2024 were met. The IT on tax revenues was missed partly due to weaker-than-expected economic activity, and the IT on capital spending was missed, primarily due to a shortfall in domestic financing. All structural benchmarks (SBs) under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF), along with two reform measures under the Resilience Sustainability Facility (RSF), due end-June 2024, were completed with one exception: the SB on tax compliance improvement plan was missed but achieved with delay in September 2024.

3. Since the public uprising in July and the government transition in August, the macroeconomic outlook has significantly deteriorated.

- *Growth and inflation*. Real GDP growth is expected to slow to 4½ percent in FY25, due to output losses caused by disruptions during the popular uprising, major floods, and the impact of a tighter policy mix to address inflation pressures. Annual average CPI inflation is projected to persist at around 10½ percent (y-o-y) in FY25 mainly due to supply side disruptions in the first quarter of the year. Inflation is expected to start noticeably decelerating in the second half of FY25, ultimately reaching the target range of 5-6 percent in FY26.

- *Fiscal*. Achieving the FY25 revenue targets appears challenging amid the negative impact of the turbulence in July and August and lower FY24 outturn, while spending pressures have increased to restore critical infrastructure damaged by public unrest and floods. In addition, the implementation of planned fiscal reform measures, including increases in electricity prices to reduce subsidies, will be challenging in the near term. Barring new fiscal measures, the FY25 primary fiscal deficit is thus projected to reach 2.4 percent of GDP, exceeding the authorities' commitment of 2.2 percent of GDP during the 2nd review. Bangladesh was assessed at a low risk of external and overall debt distress in the context of the joint World Bank–Fund Debt Sustainability Analysis conducted in June 2024.[2]

- *BOP*. The CA deficit is projected at around 1.5 percent of GDP in FY25, which is only partially offset by a FA surplus of 1 percent of GDP. As a result, GIR is expected to continue to fall in terms of import cover in the near term but is projected to steadily rise to cover around 4 months of prospective imports in the medium term, supported by greater exchange rate flexibility.

4. Uncertainties around the outlook remain high and risks are tilted to the downside. Main external risks include geopolitical conflicts, geoeconomic fragmentation and disruptions in the supply of commodities. Domestically, the emerging weaknesses in the banking system and failure to address them in a timely manner could dampen growth prospects. Further bouts of social unrest following the

[2] Under a standard stress test, the present value of the debt-to-export ratio breaches the threshold of the external debt sustainability indicator, but only temporarily and marginally. On this basis, staff applies judgment to assess it as a low risk of external debt distress.

recent popular uprising and uncertainties around the continuing political transition further add to economic uncertainty.

Policy Framework and Settings

Fiscal Policy

5. **Fiscal policy should support monetary policy while creating fiscal space to sustainably increase social spending and investment.** In the near term, fiscal policy should support monetary policy to help curb inflation and BOP pressures, while keeping priority social spending and capital investment and avoiding crowding out private investment amid tighter financing conditions. To achieve this objective, the authorities should aim to reduce the FY25 fiscal deficit relative to its baseline by cutting non-priority spending and mobilizing additional revenue. Given Bangladesh's very low tax-to-GDP ratio, revenue mobilization remains a priority. Major tax policy reform and revenue administration measures are needed to create a fairer, simpler, and more transparent tax system and sustainably raise revenues. The authorities' medium- and long-term revenue strategy is currently under preparation and is expected to anchor these reforms, including rationalization of tax exemptions, better compliance risk management, and automation of tax collection. On the expenditure side, a clear and publicly communicated plan is needed to bring down subsidy spending and pay off accumulated arrears in the electricity and fertilizer sectors. Gradual increases in electricity prices to better reflect provision costs should constitute a core part of this plan.

Monetary and Exchange Rate Policy

6. **Monetary policy should remain tight to tame inflation and restore external stability.** Elevated inflation and remaining external imbalances and FX market pressures call for further monetary tightening and a higher degree of exchange rate flexibility. Although the recent shocks to inflation were primarily on the supply side, maintaining a tighter monetary stance is appropriate to address the risks associated with second-round effects, and to alleviate pressures in the FX market and diminish the likelihood of depreciation-inflation spirals. It will remain critical that the retail interest rates are set by banks freely, based on risk-return considerations, to enhance the effectiveness of monetary policy transmission as was envisaged by an earlier reform to abolish the SMART (six-month moving average rate of T-bills) benchmark rate. At the same time, greater exchange rate flexibility and safeguarding FX reserve buffers would help cushion the economy against external shocks. To this end, full implementation of the new exchange rate regime remains critical in the near term. The degrees of flexibility built into the new regime will allow for market-based adjustment of the exchange rate to address external imbalances, while reducing the risk of a disorderly FX market. Continued progress to modernize the monetary policy framework remains critical to transitioning to a forward-looking monetary policy.

Financial Sector Policy

7. **Reducing banking sector vulnerabilities remains a priority.** Structural weaknesses in supervision, regulation, and governance, coupled with high NPLs, could be a drag on medium-term growth prospects. Immediate priorities should focus on accurately estimating NPLs and formulating

effective resolution plans for such loans. Key steps to address these challenges include conducting an asset quality review and establishing a banking recovery and resolution framework aligned with international best practices. At the same time, BB should continue the transition to risk-based supervision to enhance financial sector resilience, while continuing legal reform efforts to improve corporate governance and regulatory frameworks. Going forward, the development of the domestic capital market will help mobilize long-term financing to support growth objectives. Absent reforms to stem the flow of NPLs, establishing a public asset management corporation (AMC) poses significant fiscal risks.

Climate Change Policy

8. **Building resilience to climate change and natural disasters will help mitigate macroeconomic and fiscal risks.** Bangladesh is among the most vulnerable countries to climate change and natural disasters. Since mid-2010s, Bangladesh has made progress toward its national climate mitigation and adaptation objectives and has put in place a range of policy tools. Building on these efforts, additional reforms to strengthen climate-sensitive fiscal management and enhance climate-spending efficiency would help the country meet climate objectives, better prepare for disaster shocks by strengthening the social safety net, support crop diversification for farmers, and mobilize climate finance, particularly from private sources. At the same time, policies should prioritize the integration of climate considerations into public investment management. This includes strengthening zoning laws and building codes to ensure that infrastructure investment is both green and resilient. Better management of climate-related financial risks will enhance financial sector resilience, while green financing initiatives are key to scaling up climate finance as well.

Macro-Structural Policy

9. **Enhancing the investment climate and strengthened governance are key requirements to achieving the authorities' goal of reaching upper middle-income country status.** Creating an enabling environment will help attract foreign direct investment and diversify exports beyond the ready-made garment sector. Enhancing fiscal and financial governance as well as improving transparency remain pivotal for attracting investment. Governance and anti-corruption efforts could be enhanced by further improving the AML/CFT framework. At the same time, improving the quality and accessibility of data is essential for more effective policy making.

IMF Relations

10. **The second review of the IMF-supported program, approved by the IMF Executive Board in January 2023, was completed in June 2024.** The Fund-supported program under the ECF/EFF and the concurrent RSF, aims at preserving macroeconomic stability and preventing disruptive adjustments to protect the vulnerable, while accelerating the authorities' economic reforms and delivering on the climate agenda. Following the transition of the interim government in August 2024, a fact-finding staff visit to Dhaka was conducted in September 2024 to assess recent developments and update the macro framework. IMF staff are working with the authorities to set a time for the mission for the third review.

11. **Bangladesh is one of the largest recipients of IMF capacity development (CD) amongst lower-middle-income countries in Asia**. A comprehensive CD program to Bangladesh aims to assist the authorities' efforts to address capacity gaps and to ensure timely delivery of reforms under the IMF-supported program. The current CD focuses on revenue mobilization, forward-looking monetary policy formulation, public financial management (PFM) and public investment management (PIM), banking supervision, and macro statistics.

Bangladesh: Selected Economic Indicators[1/]

Poverty rate (2019, percent; national poverty line): 20.5
Infant mortality rate (2022, per thousand live births): 22.9
Literacy rate (adult, 2022, percent): 74.7
Labor force participation rate (2022, percent, national measure): 61.0
Population dependency ratio (2022, percent): 47.1
Main exports: Readymade garments; textiles; jute and jute products; and leather and leather products
Key export markets (2022, percent of exports): Europe (59) and U.S. (19)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28
			Est.		Proj.		
Output							
Real GDP growth (2005-06 base; percent)	7.1	5.8	5.4	4.5	7.7	7.3	6.7
Prices							
Consumer price inflation (2005-06 base; annual average)	6.1	9.0	9.7	10.7	5.6	5.0	5.5
Central government finances (percent of GDP)							
Total revenue and grants	8.9	8.2	8.3	8.8	9.5	9.6	9.8
Total expenditure	13.0	12.7	12.1	13.5	13.7	14.0	14.4
Fiscal balance (including grants)	-4.1	-4.5	-3.8	-4.6	-4.2	-4.3	-4.5
Central government total debt	39.3	40.4	40.9	40.8	41.0	41.4	41.9
Money and credit (end of fiscal year; percent change)							
Broad money (M2)	8.8	8.4	6.3	17.4	15.0	16.7	16.9
Credit to private sector by the banking system	14.0	9.0	6.4	10.1	20.9	13.6	14.6
Reserve money	-0.3	10.5	7.8	18.8	19.8	14.9	13.3
Balance of payments							
Current account balance (percent of GDP)	-4.0	-2.6	-1.4	-1.5	-1.9	-2.0	-1.5
FDI (percent of GDP)	0.4	0.4	0.4	0.4	1.1	1.3	1.3
Gross official reserves (months of imports of goods and services)	5.0	4.1	3.2	2.5	2.5	2.9	3.8
External debt (percent of GDP)	17.5	18.4	17.7	17.3	16.9	16.8	16.9

Sources: Data provided by Bangladesh authorities; WDI; and IMF staff estimates and projections.
1/ Fiscal year begins July 1.

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Prior Actions	Bibliography	Operational Support
Pillar A: Enhancing public planning, financing, and delivery of green and climate resilient interventions		
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