# Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 06-Nov-2024 | Report No: PIDDA00101

Public Disclosure Authorized

## BASIC INFORMATION

### A. Basic Project Data

| Project Beneficiary(ies) | Operation ID | Operation Name | |
|---|---|---|---|
| Bangladesh | P180439 | Second Bangladesh Green and Climate Resilient Development Credit | |
| Region | Estimated Approval Date | Practice Area (Lead) | Financing Instrument |
| SOUTH ASIA | 19-Dec-2024 | Environment, Natural Resources & the Blue Economy | Development Policy Financing (DPF) |
| Borrower(s) | Implementing Agency | | |
| People's Republic of Bangladesh | Finance Division, Ministry of Finance | | |

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.

## Financing (US$, Millions)

### Maximizing Finance for Development

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

**Is this project Private Capital Enabling (PCE)?** Yes

### SUMMARY

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|---|---|
| **Total Financing** | **500.00** |

### DETAILS

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| **Total World Bank Group Financing** | **500.00** |
| World Bank Lending | 500.00 |

## Decision

The review did authorize the preparation to continue

Explanation

## B. Introduction and Context

### Country Context

**The Interim Government led by Nobel Laureate Dr. Muhammad Yunus assumed authority on August 8, 2024, after former Prime Minister Sheikh Hasina resigned amidst a student-led mass uprising.** Bangladesh faces several significant challenges, including sustaining growth generating employment; reforming the financial sector; enhancing governance, transparency and accountability of public institutions; and improving the business environment. The Interim Government intends to address these pressing issues through substantial governance reforms with a sense of urgency. Bangladesh aspires to develop a public sector that is open and responsive, including a citizen-centric system that fully leverages technology to ensure that all enjoy equal rights and opportunities.

**Real Gross Domestic Product (GDP) growth is estimated to have decelerated to 5.2 percent in FY24.** Inflation remained elevated, averaging 9.7 percent in FY24, driven by rising food inflation. The fiscal deficit narrowed slightly to 4.5 percent of GDP in FY24 compared to 4.6 percent in FY23. Tax revenues remain among the lowest in the world, estimated at 7.4 percent of GDP in FY24. Expenditure is estimated to have increased modestly to 13.0 percent of GDP, driven by current expenditure. Capital expenditure growth remained moderate because of slow implementation of development projects.

**The Balance of Payment (BoP) deficit narrowed in FY24, led by 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, 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 sharp increase in remittances. In May 2024, Bangladesh Bank adopted a crawling peg exchange rate system and devalued the exchange rate to help restore external balance and stabilize international reserves which had experienced sustained depletion. FX reserves declined by US$1.7 billion since June 2024 to reach US$19.9 billion (3.3 months of import coverage) as of October 16, 2024. International reserves can deplete further due to payments due for fuel and fertilizer imports.

**Real GDP growth is projected to decline to 4.0 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 economic disruptions caused by the popular protests and political turmoil. The economic activities and the law-and-order situation have been gradually improving since the transition to the Interim Government. However, remaining uncertainties regarding the impact of the political turmoil are expected to keep investment and industrial growth subdued in the short term. Elevated inflation rose further to 11.4 percent in July 2024 due to supply chain disruptions following the political turmoil. Monetary policy has remained tight, as the policy rate increased by 375 basis points in the last two years. Vulnerabilities in the financial sector have worsened. 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.

**Structural reforms are needed to accelerate growth over the medium term.** To become an upper-middle-income country (UMIC), priorities include building an effective and efficient public sector, supportive business environment, diversifying exports, increasing human capital, building efficient infrastructure, deepening the financial sector, and attracting private investment. These reforms would strengthen Bangladesh's international competitiveness as it prepares for graduation from Least Developed Country (LDC) status in 2026, which will reduce concessional financing and preferential market access for its exports. Bangladesh has a low risk of overall and external debt distress according to the June 2024 joint International Monetary Fund (IMF)-World Bank Debt Sustainability Assessment (DSA). Bangladesh is currently not subject to Debt Limits Conditionality under the Sustainable Development Finance Policy (SDFP).

**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.** Bangladesh is highly vulnerable to climate change, ranking as the seventh most affected country between 2000 and 2019.[1] It faces extreme weather events such as cyclones, floods, and storm surges, with recurring flooding affecting over 1 million people annually.[2] In parallel, rapid manufacturing growth and urbanization have increased carbon intensity, pollution, and resource depletion, with environmental degradation costing 17.3 percent of the GDP in 2019,[3] affecting productivity and welfare, and impairing human capital. 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 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.

**The macroeconomic policy framework is adequate for the Second Green and Climate Resilient Development Policy Financing.** 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. 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. Financial sector reforms including revisions to the Bank Company Act legislation and the introduction of the Prompt Corrective Action framework will help address rising banking sector vulnerabilities. Resolving vulnerabilities will require comprehensive financial sector reforms and strengthening of the financial safety nets. The fiscal deficit is projected to remain below 5.0 percent of GDP. 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 FX reserves.

## Relationship to CPF

**This DPC series is aligned with the World Bank Group (WBG) Country Partnership Framework (CPF) FY23–FY27**, particularly with the objectives of: (i) improving effectiveness of delta management to accelerate climate resilience building; (ii) enhancing sustainability and productivity in the use of natural capital for climate-smart green growth; and (iii) improving effectiveness of public institutions to deliver better services to citizens and

[1] German Watch (2021). Global Climate Risk Index 2021.
[2] World Bank (2022). Bangladesh Country Climate and Development Report (CCDR)
[3] 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).

businesses.

## C. Proposed Development Objective (PDO)

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

### Key Results

**To enhance public planning, financing, and delivery of green and climate resilient intervention**, **key results will be measured** by: (i) increased capacity of renewable energy projects that have adopted green and carbon finance considerations; (ii) improved alignment of budget with climate change strategies; (iii) increase in approvals of Development Project Proformas for Bangladesh Delta Plan (BDP) 2100 projects; (iv) improved expenditures by City Corporations and Category A Pourashavas in GCR priority activities; (v) carbon emission reduction credits domestically transferred; (vi) more women-owned businesses participating in public procurement; (vii) Public Sector Organization (SPSOs) using sustainable public procurement; and, (vi) increased monitoring inspections of industries, projects, and projects for compliance with environmental regulations.

**To promote key sector reforms for cleaner and more efficient production and services, key results will be measured** by: (i) reduced percentage of households using solid fuels as primary cooking fuels; (ii) energy savings; (iii) reduced government expenditures on fuel subsidies; (iv) reduced use of liquid fuels for power generation; and (v) more municipalities with high cost recovery on operations and maintenance; and (vi) increased capacity of renewable energy projects through the amended Renewable Energy (RE) policy.

## D. Project Description

**The Second Bangladesh Green and Climate Resilient Development (GCRD) Credit—part of a programmatic series of three development policy credits (DPCs)—supports the Government of Bangladesh (GoB) to implement reforms to make the country's development pathway greener and more climate resilient.** The DPC series supports structural reforms to (i) enhance public planning, financing, and delivery of green and climate resilience (GCR) interventions; and (ii) promote key sector reforms for clean and resource efficient production and services. The reform program supported by this DPC series operationalizes key policy recommendations from the Country Climate and Development Report (CCDR) and the 2023 Country Environmental Analysis (CEA), and promotes the World Bank Group's Green, Resilient and Inclusive Development (GRID) approach in Bangladesh. Pillars and policy areas were also selected based on the GoB's priorities.

**The GCRD Credits are framed in two Pillars.** Under Pillar A, the series supports reforms to (i) strengthen prioritization and efficiency of public investment planning as well as its implementation, at national and local levels, based on GCRD criteria; (ii) increase efficiency in the Bangladesh Delta Plan (BDP) 2100 implementation to improve climate resilience; (iii) promote access to carbon markets; (iv) promote sustainable public procurement for clean, resource efficient and socially sustainable production and consumption; and (v) enhance environmental governance. Pillar B supports reforms to: (i) improve air quality management and reduce emissions across productive sectors; (ii) increase energy efficiency; (iii) reduce fiscal costs from the energy sector, by phasing out subsidies and promoting private sector investments in renewable energy; and (iv) improving efficiency of WSS services.

## E. Implementation

Institutional and Implementation Arrangements

**The Ministry of Finance (MoF) is responsible for overall oversight and implementation of the operation.** Sector ministries are responsible for implementing the policy reforms – as well as designing and approving the indicative triggers of the DPC series. MoF has assigned focal points for each line ministry to follow up on the policy reforms and led regular inter-ministerial meetings to discuss the DPC preparation. This practice is expected to continue during DPC2 implementation. The World Bank team will continue to provide support to the government in monitoring the reform progress and results. This will be facilitated by regular engagement of the teams implementing technical assistance programs and investment operations in support of the reforms in this DPC. Regarding disbursements, the DPC will follow the World Bank's disbursement procedures for development policy support. The GoB will open a dedicated United States Dollar foreign currency account with the Bangladesh Bank into which the proceeds of the credit will be disbursed on a single tranche basis.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

**Overall, the reforms are expected to have primarily neutral impacts on poor households and vulnerable groups in the short term, with overall positive effects anticipated in the medium and long term.** Most policies have the potential to positively impact the welfare of the poor in the long run, by creating employment opportunities in greener sectors, enhancing resilience to shocks, and reducing the burden of pollution. The promotion of energy efficiency can decrease reliance on imported fuels and stabilize energy prices, benefiting low-income households in the medium to long term. However, some reforms can have mixed short-term impacts on poverty and inequality, potentially exacerbating inequalities if not accompanied by proper compensation measures. For instance, the adoption of a market-linked price adjustment system for diesel, heavy fuel oil, and octane could adversely affect the poor unless accompanied by mitigation policies to offset increased transportation costs. Therefore, the Poverty and Social Impact Analysis (PSIA) highlights the importance of considering the distributional impacts of the Government's program and implementing appropriate mitigation measures to ensure that the benefits of these policies reach the most vulnerable populations.

Environmental, Forests, and Other Natural Resource Aspects

**The GCRD Credit series supports reforms aimed at improving environmental governance, including climate mitigation and adaptation, and therefore most of the proposed reforms are expected to have a positive impact on the environment,** promoting sustainable investments, climate resilience, and low-carbon growth. However, some infrastructure projects incentivized by these reforms could have negative environmental impacts, such as temporary effects on air quality during construction. To mitigate these risks, the government will strengthen its environmental enforcement capacity and align infrastructure projects with GCR principles and environmental regulations. The DPC-supported policies will contribute to that, particularly by supporting the Environmental Conservation Rules, the Environmental Enforcement Guidelines and new environmental fiscal instruments (as part of the third operation in the series). The Bank is also supporting the GoB in strengthening its environmental management capacity through the Bangladesh Environmental Sustainability and Transformation (BEST) Project (P172817) and the upcoming Bangladesh Clean Air Project (P502572).

## G. Risks and Mitigation

**The overall residual risk rating is high, driven by significant political and governance, macroeconomic, stakeholder, technical design, and institutional capacity risks.** Macroeconomic risks to the achievement the PDO are heightened by ongoing safety and security concerns, uncertainty surrounding the next election, and vulnerabilities in the financial sector. These risks are partially mitigated by the GoB's reform program, supported by the IMF arrangements and ongoing policy lending programs financed by the World Bank and other development partners. Despite recent improvements, the balance of payments remains in deficit, and FX reserves are under pressure. Geopolitical tensions in the Middle East could further impact remittance inflows and inflation. Stakeholder risks arise from potential resistance from interest groups to some reforms, particularly on fuel pricing, water tariffs, stricter environmental regulations, the environmental protection surcharge and the vehicle scrappage policy – some of them planned for the third DPC operation. Technical design and institutional capacity risks are substantial due to the complexity of policy actions and capacity gaps within implementing agencies. Risk mitigation includes strong government ownership of reforms, efforts to enhance stakeholder engagement, regulatory and enforcement capacity through investments and training, and additional interventions for compliance. The World Bank's technical assistance will also support reform implementation. While political and governance risks are also high. Despite improvements in law and order and the efforts of the interim government to continue implementing the government's functions until new elections, safety and security concerns persist, and there is still uncertainty on when and how the elections will take place. This could affect the implementation of prior actions and adoption of indicative triggers. As mitigation measures, the Bank will continue following up the GoB and relevant stakeholders to anticipate potential disruptions and act promptly. Also, the program focuses on priorities of the 8FYP which was prepared by former administration and confirmed by the interim government. For those reasons, the overall risk profile is high, requiring ongoing mitigation efforts.

## CONTACT POINT

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## APPROVAL

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### Approved By

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