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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 13-May-2024 | Report No: PIDDA00063

Public Disclosure Authorized

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Bangladesh	P178481	Bangladesh Second Recovery and Resilience DPC	
Region	**Estimated Approval Date**	**Practice Area (Lead)**	**Financing Instrument**
SOUTH ASIA	21-Jun-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	**Implementing Agency**		
People's Republic of Bangladesh	Finance Division, Ministry of Finance		

Proposed Development Objective(s)

The program's development objectives are to (i) strengthen fiscal and financial sector policies to sustain growth and (ii) enhance resilience to future shocks, including climate change.

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

Total Financing	**500.00**

DETAILS

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 Bangladesh Recovery and Resilience Development Policy Credit (R&R DPC) series supports policies to sustain the post-pandemic recovery and enhance resilience to future shocks. The proposed operation is the second in a two-part series. This operation will help Bangladesh prepare for least-developed country (LDC) graduation in 2026, after which the country will gradually have reduced access to concessional financing and preferential export market access. The operation will also strengthen resilience against future shocks, including climate change, by expanding the coverage and efficiency of social protection programs and supporting the transition to a larger share of renewable energy. The R&R DPC series builds on the Jobs DPC series completed in FY2021, which supported the initial COVID-19 response, and complements the concurrent Green and Climate Resilient DPC (GCRD) series.

Bangladesh navigated the COVID-19 pandemic shock with prudent macroeconomic policies, but now faces a significant balance of payments (BoP) deficit and rising inflationary pressure. Stable macroeconomic conditions supported average annual real GDP growth of 6.7 percent between 2010 and 2019. However, the COVID-19 pandemic resulted in widespread domestic economic disruptions in 2020 and a precipitous decline in export orders from Europe and the United States. Real GDP growth decelerated to 3.5 percent in FY2020 as poverty rates rose for the first time in decades. A recovery emerged in the first half of FY2021 after movement restrictions were progressively lifted and external conditions stabilized. In FY2022 this recovery was put at risk by a sharp rise in global commodity prices and synchronized monetary policy tightening in advanced economies. Real GDP growth decelerated to an estimated 5.8 percent in FY2023, further slowing in the first half of FY2024. High inflation weighed on private consumption and fiscal consolidation measures slowed government consumption and investment growth. Monetary policy has been tightened with a cumulative 375 basis point increase in the main policy rate since May 2022.

As Bangladesh enters a new phase of development, the fiscal and financial sector policy reforms supported by this program can help accelerate the recovery and sustain growth. The 2021 Systematic Country Diagnostic (SCD) Update and FY2023-27 Country Partnership Framework (CPF) identified key reforms needed to scale up investment, strengthen human capital, and boost productivity and private sector development to drive growth and create jobs. Increasing the very low level of government revenue mobilization (estimated at 8.2 percent of FY2023 GDP) remains a priority to finance investments in infrastructure and human capital. Tax and tariff reforms are also needed to reduce trade barriers and build competitive export industries as Bangladesh graduates from LDC status. At the same time, macroeconomic and financial sector stability are foundations for sustainable growth. In the financial sector, strengthened bank supervision and oversight is needed to support financial intermediation and long-term investment objectives.

Relationship to CPF

This DPC series is consistent with the FY2023-27 Country Partnership Framework (CPF) and the WBG's twin goals of boosting shared prosperity and ending extreme poverty on a livable planet. The operation is aligned with all three High-Level Outcomes (HLO) of the CPF (increased private sector jobs, improved socioeconomic inclusion, and enhanced climate and environmental resilience). It directly supports trade facilitation, financial intermediation, improved social protection coverage for the poor, and increased resilience to shocks (including climate-related shocks). The operation is also aligned with the WBG Climate Change Action Plan 2021–2025, the Bangladesh Climate Change and Development Report and the WBG Action Plan on Adaptation and Resilience. Each of the prior actions and triggers included in this DPC are supported by ongoing sector-level technical assistance under various engagements in the existing portfolio in Bangladesh. Finally, the operation is informed by the Country Private Sector Diagnostic and benefited from close collaboration with the International Finance Corporation (IFC), with measures that contribute to improving export opportunities and strengthen domestic capital markets.

C. Proposed Development Objective(s)

The program's development objectives are to (i) strengthen fiscal and financial sector policies to sustain growth and (ii) enhance resilience to future shocks, including climate change.

Key Results

The DPC series supports the transition from revenues based on trade taxes to domestic taxes in support of Bangladesh's post-LDC graduation agenda, which will result in lower nominal protection rates on imports and higher revenues from VAT and taxes. The efficiency of public procurement will increase with the institutionalization of a modern procurement authority under new legislation, while borrowing costs will decline with lower issuance of National Saving Certificates to provident funds. These actions will result in increased coverage of e-GP in procuring entities and will decrease the net sales of NSCs. The legislative framework for financial sector will be modernized with new legislation to strengthen the legal framework for bank supervision. Financial sector stability will be enhanced, providing new tools to address growing risks in this sector. Capital market development will be supported through the secured transactions legislation. These actions will result in adoption of recovery plans by all banks, and issuance of Prompt Corrective Actions to undercapitalized banks. The DPC reform program will support enhancements in the transparency and efficiency of social protection programs, resulting in increased use of G2P payment systems. The Mujib Climate and Prosperity Plan, together with financial sector reforms, is expected to support result in greater public and private investment in climate adaptation and mitigation.

D. Project Description

The DPC supports policies to sustain growth in the context of the post-pandemic recovery and preparation for LDC graduation. The DPC program comprises of three pillars of: (i) fiscal policies for recovery and resilience (ii) financial sector policies for recovery and resilience; and (iii) strengthening resilience to future shocks.

Under the first pillar, the DPC series will support the government with its transition from tariff-based revenues to consumption and income taxes in line with the 8th Five-Year Plan and Perspective Plan 2041. The DPC will support increased efficiency in public procurement in emergency situations, such as pandemics and natural disasters, to enable time-critical delivery of services with stronger institutions to manage public procurement.

Under the second pillar, the DPC will support financial sector reforms to reduce the cost of government borrowing while supporting capital market development and strengthening financial sector stability. These reflect government commitments in the 8th Five-Year Plan to improve the depth and resiliency of financial intermediation, including through improved adherence to the Basel III framework for banking supervision.

Under the third pillar, the DPC will support the government in expanding the shock responsiveness of its social protection programs, building on the expansion of social protection programs to reach more poor and vulnerable members of society in recent years. It will also support the government to increase the transparency and efficiency of cash-based social protection programs. A new national plan for climate prosperity will guide investments in mitigation and adaptation.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance is responsible for overall oversight and implementation of the operation. The Ministry of Finance has extensive experience with World Bank policies and procedures for development policy financing including in the first operation in this series. This operation will benefit from GoB monitoring and evaluation mechanisms. Results monitoring will be facilitated by regular engagement of the World Bank teams implementing technical assistance programs and investment operations in support of the reforms in the Recovery and Resilience DPC.

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

Poverty and Social Impacts

This operation will contribute to poverty reduction by enhancing the capacity of social protection programs to respond to shocks. Policies supported under the DPC will allow social protection programs to widen coverage and provide additional funds to existing beneficiaries to adapt to shocks, subject to budget availability. More efficient procurement in emergency situations will also support shock mitigation. The increased use of G2P payments is expected to increase the speed and efficiency of cash transfers. Tariff reform is expected to support consumption growth with lower prices, supporting poverty reduction. However, fiscal incidence analysis will require identification of the specific tariff and para-tariff lines to be adjusted. To guide the implementation of tariff and tax reform, the World Bank is preparing a Commitment to Equity (CEQ) model that can support policy option modeling and assess the impact of specific policy reforms on the poor. Over the longer term, a well-functioning, stable financial sector is expected to support poverty reduction by increasing access to finance.

Environmental, Forests, and Other Natural Resource Aspects

The R&R DPC policies are not expected to have any significant negative effects on the country's environment and natural resources. Implementation of the National Tariff Policy is expected to reduce the cost of imported renewable energy technology, particularly for electrical components. The environmental impacts of an increase in trade will need to be assessed, as implementation of the policy advances over the coming decade. The expansion of automated payments and the implementation and institutionalization of a modern electronic public procurement system are expected to reduce the use of consumable resources and travel. Reforms to strengthen the banking sector and for secured transactions are expected to support greater private participation in green and climate finance. Stronger social protection systems will help improve resilience to natural disasters and other economic shocks. The Mujib Climate Prosperity Plan is expected to promote nature-based solutions for climate adaptation, enhance basic services (e.g., water supply and sanitation, waste management) and create green jobs.

G. Risks and Mitigation

The overall risk rating for this operation is substantial. Macroeconomic, sector strategies and policies, institutional capacity, and fiduciary risks are identified as substantial. The implementation of planned policy reforms will require high-level political support, particularly in the financial sector. All prior actions draw from extensive analysis and are accompanied by technical assistance programs to support reform implementation, which partially mitigates risks. The overall risk rating reflects the residual risk to the achievement of the PDO after accounting for mitigation measures. Implementation of the DPC will require close coordination with government counterparts to ensure political support and consensus on the supported reforms.

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APPROVAL

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