# Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 04-Dec-2023| Report No: PIDC35026

Public Disclosure Authorized

## BASIC INFORMATION

### A. Basic Project Data

| Country | Project ID | Project Name | Parent Project ID (if any) |
|---|---|---|---|
| Bangladesh | P178481 | Bangladesh Second Recovery and Resilience DPC (P178481) | P174892 |
| **Region** | **Estimated Board Date** | **Practice Area (Lead)** | **Financing Instrument** |
| SOUTH ASIA | May 15, 2024 | Macroeconomics, Trade and Investment | Development Policy Financing |
| **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 (in US$, Millions)**

**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

### B. Introduction and 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. 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.[1] A recovery emerged in the first half of FY2021 after movement restrictions were progressively lifted and external conditions stabilized, supported by an effective vaccination campaign and a government stimulus program implemented with fiscal and financial sector instruments. In FY2022 this recovery was put at risk by a sharp rise in global commodity prices and synchronized monetary policy tightening in advanced economies. A widening Balance of Payments (BoP) deficit from the second half of FY2022 led to a sharp decline in foreign exchange reserves. The introduction of multiple exchange rates disincentivized export and remittance inflows and disrupted the interbank foreign exchange market, weakening external investment confidence. Longstanding financial sector risks were exacerbated by the negative impacts of the pandemic, which weakened the repayment capacity of firms and households. Weaknesses in banking regulation and supervision (deviations from international standards on non-performing loan [NPL] recognition, loss provisioning, capital calculation) were amplified by a loan moratorium and other forms of regulatory forbearance introduced during the pandemic. By the end of CY2022, NPLs reached BDT 1.2 trillion (US$ 11.1 billion), outstanding rescheduled loans reached BDT 2.1 trillion (US$ 19.5 billion), and outstanding written off loans reached BDT 445 billion (US$ 4.1 billion). Cumulatively, these stressed loans are approximately 8.5 percent of estimated FY2022 GDP, underscoring the urgency of financial sector reforms.

### Relationship to CPF

As Bangladesh enters a new phase of development, fiscal and financial sector policy reforms 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 7.9 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. The policies supported in this operation complement ongoing investment project financing operations, supporting implementation of the Bangladesh CPF.

## 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

This DPC comprises three pillars of policies to support the PDO. These reforms are central to the Green, Resilient, and Inclusive Development (GRID) agenda. This 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 through policies on prompt corrective actions and the corporate governance of state-owned banks, providing

[1] The international poverty rate increased from 11.9 percent in FY2019 to an estimated 12.9 percent in FY2020. Pandemic job losses and reduced earnings disproportionately affected the poor, especially among women.

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. Increased private sector participation in the energy sector is expected to reduce public financing requirements while increasing operational efficiency. Greater transmission capacity is expected to support integration of additional renewable generation capacity.

### D. Concept 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.

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. The energy component of the DPC will contribute to Bangladesh's climate objectives, building on its submission of enhanced National Determined Contributions in 2021.

### E. 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. 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. Improving the transmission grid will further support this objective as a stronger grid can better integrate variable renewable energy and as private participation in the sector is expected to improve efficiency. Over the longer term, greater power transmission capacity may support establishment of a regional power pool, allowing Bangladesh to tap the substantial potential of hydropower from Bhutan and Nepal. Interventions under the Mujib Plan are expected to promote nature-based solutions for climate adaptation, enhance basic services (e.g., water supply and sanitation, waste management) and create green jobs.

## CONTACT POINT

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## APPROVAL

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### Approved By

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| Country Director: | Abdoulaye Seck | 14-Dec-2023 |