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Report No: PGD402

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED SCALE-UP WINDOW CREDIT

IN THE AMOUNT OF JPY 47.1 BILLION (EQUIVALENT TO US$300 MILLION)

AND A

PROPOSED SCALE-UP WINDOW SHORTER MATURITY LOAN CREDIT

IN THE AMOUNT OF SDR 151.8 MILLION (EQUIVALENT TO US$200 MILLION)

TO THE

PEOPLE'S REPUBLIC OF BANGLADESH

FOR THE

BANGLADESH SECOND RECOVERY AND RESILIENCE DEVELOPMENT POLICY CREDIT

May 22, 2024

Macroeconomics, Trade and Investment Global Practice
Finance, Competitiveness and Innovation Global Practice
South Asia Region

People's Republic of Bangladesh

GOVERNMENT FISCAL YEAR

July, 1 – June, 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2024)

Currency Unit

US$1.00 = BDT 110.0 US$1.00 = SDR 0.76 US$1.00 = JPY 157.54

ABBREVIATIONS AND ACRONYMS

BB	Bangladesh Bank
BCA	Bank Company Act
BNBC	Bangladesh National Building Code
BoP	Balance of Payments
BPPA	Bangladesh Public Procurement Authority
CCDR	Country Climate and Development Report
CLR	Completion and Learning Review
CPSD	Country Private Sector Diagnostic
CPTU	Central Procurement Technical Unit
CRI	Corporate Results Indicator
DPC	Development Policy Credit
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
e-GP	Electronic Government Procurement
ECF	Extended Credit Facility
EFF	Extended Fund Facility
FSAP	Financial Sector Assessment Program
FX	Foreign Exchange
FY	Fiscal Year
FYP	Five Year Plan
GCRD	Green and Climate Resilient DPC
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoB	Government of Bangladesh
GPF	General Provident Fund
GRS	Grievance Redress Service
G2P	Government-to-Person
iBAS++	Integrated Budget and Accounting System
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
LDC	Least Developed Country
MCPP	Mujib Climate Prosperity Plan
MFS	Mobile Financial Services
MLTRS	Medium and Long-Term Revenue Strategy
MoC	Ministry of Commerce
MoF	Ministry of Finance
MTDS	Medium-Term Debt Strategy
MSME	Micro, Small, and Medium Enterprise
NAP	National Adaptation Plan
NBR	National Board of Revenue
NDC	Nationally Determined Contributions
NHD	National Household Database
NID	National Identification
NPL	Non-Performing Loan
NSC	National Saving Certificate
NTP	National Tariff Policy
PA	Prior Action
PCA	Prompt Corrective Actions
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPG	Public and Publicly Guaranteed
PPP	Public-Private Partnership
R&R	Recovery and Resilience
RMG	Ready-Made Garments
RSF	Resilience and Sustainability Facility
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SME	Small and Medium Enterprise
SML	Shorter Maturity Loan
SOB	State-Owned Bank
SOE	State-Owned Enterprise
SRO	Statutory Regulatory Order
SUW	Scale-Up Window
TSA	Treasury Single Account
VAT	Value-Added Tax
WBG	World Bank Group
WTO	World Trade Organization

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PEOPLE'S REPUBLIC OF BANGLADESH

Bangladesh Second Recovery and Resilience DPC

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P178481	Yes	2nd in a series of 2

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.

Organizations

Borrower:	People's Republic of Bangladesh
Implementing Agency:	Finance Division, Ministry of Finance

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)? Yes

SUMMARY

Total Financing	**500.00**

DETAILS

World Bank Group Financing

International Development Association (IDA)	500.00
IDA Credit	300.00
IDA Shorter Maturity Loan (SML)	200.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Scale-Up Window (SUW)	300.00	0.00	200.00	0.00	500.00
Total	**300.00**	**0.00**	**200.00**	**0.00**	**500.00**

PRACTICE AREA(S)

Practice Area (Lead)
Macroeconomics, Trade and Investment

Contributing Practice Areas
Finance, Competitiveness and Innovation

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			
Indicator Name	**Baseline**	**Intermediate**	**Target (FY2026)**
Pillar A – Fiscal Policies for Recovery and Resilience			
Average nominal protection rate on imports. (percent)	29.6 (June 2020)		25.0
Total income tax and domestic VAT revenue collected by the National Board of Revenue. (BDT billions)	1,486.8 (June 2021)	1,896.1 (May 2023)	2,442.0
Average procurement lead time using e-GP system in selected public sector organizations. (days from invitation to contract award)	70.0 (June 2021)	53.0 (January 2024)	55.0
Pillar B – Financial Sector Policies for Recovery and Resilience			
Net sales of National Savings Certificates. (Annual, BDT billions)	419.6 (June 2021)	-33.0 (May 2023)	100.0
Banks with recovery plans prepared in line with Bangladesh Bank requirements. (percent)	0.0 (December 2021)	100.0 (February 2024)	100.0
Proportion of undercapitalized banks with Prompt Corrective Actions. (percent)	0.0 (December 2021)		100.0
Pillar C – Strengthening Resilience to Future Shocks			
Women eligible for shock-responsive cash assistance. (number)	12,000 (June 2021)	6,358,000 (March 2023)	7,000,000
Cash transfers made using the G2P Platform. (in BDT billions)	46.9 *(June 30, 2021)*	234.7 (November 2023)	250.0
Female-owned mobile financial services accounts. (number in millions)	49.9 (December 2021)	92.2 (November 2023)	100.0
Renewable energy capacity enabled. (Corporate Results Indicator (CRI)) (As measured by Sustainable and Renewable Energy Development Authority, MWs)	777.2 (November 2021)	966.5 (March 2023)	1,200.0

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The Bangladesh Recovery and Resilience (R&R) Development Policy Credit (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 strengthen the post-pandemic economic recovery while helping 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.

2. **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 gross domestic product (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, 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. In January 2023, an International Monetary Fund (IMF) program to support key policy reforms and rebuild external buffers was approved.

3. **Several domestic policies have exacerbated the impacts of external pressure and weakened transmission of tighter monetary policy.** A widening BoP deficit from the second half of FY2022 led to a sharp decline in foreign exchange (FX) reserves. Authorities briefly floated the exchange rate, before transitioning to a multiple exchange rate regime in September 2022 following rapid depreciation. Multiple rates disincentivized repatriation of export and remittance inflows and disrupted the interbank FX market, weakening external investment confidence. De facto multiple exchange rates remained in use until May 2024, when the exchange rate was realigned and a crawling peg system was introduced. Monetary policy has been tightened, with a 375 basis point increase in the policy rate since May 2022. A fixed lending rate cap (9 percent) transitioned to a variable cap (treasury rates plus a margin) in March 2024, which was subsequently abolished in May 2024 to improve monetary policy transmission as part of an ongoing IMF program. Longstanding financial sector risks deepened during the pandemic, eroding 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. A large volume of unsterilized net FX sales by Bangladesh Bank (BB) further contributed to tight taka liquidity conditions in domestic banks (US$29.3 billion from FY2022-24).

4. **As Bangladesh enters a new phase of development, the fiscal and financial sector policy reforms supported by this Program will help accelerate the recovery and sustain growth.** The 2021 Systematic Country Diagnostic (SCD) Update and FY2023-27 Country Partnership Framework 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 total government revenue (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 key foundations for sustainable growth. In the financial sector, strengthened prudential regulation and more effective bank supervision and enforcement are needed to achieve financial intermediation and long-term investment objectives.

5. **Bangladesh is extremely vulnerable to the effects of climate change, and measures to buffer shocks and mitigate greenhouse gas emissions are central to its development plans.** As outlined in the Country Climate and Development Report (CCDR), rising temperatures leading to more intense and unpredictable rainfalls during the monsoon season and a higher probability of catastrophic cyclones are expected to result in increased tidal inundation. It is estimated that a one-meter rise in sea levels would submerge 18 percent of arable land in coastal areas. Recent studies estimate that by 2050 Bangladesh could have 13.3 million internal climate migrants. The poor are particularly vulnerable to disaster shocks, as their savings are often held in in-kind instruments (such as livestock) and they have limited access to formal financial products, including insurance to mitigate climate, social and financial risks. Climate change is expected to amplify the risks to vulnerable groups, including women, the elderly, widows, and people with disabilities. Climate change especially affects women due to societal norms, systematic gender inequalities, and gender roles. Women and children are more likely to be impacted by disasters than men, which significantly impacts women's economic agency, health, education, voice, and agency outcomes. Increasing the coverage and efficiency of social protection programs will be critical to enhance resilience against shocks. In addition to climate adaptation, growing energy sector greenhouse gas emissions underscore the importance of the transition to renewable energy sources and efficient use of energy to promote climate mitigation.

6. **Women in Bangladesh are disproportionally affected by economic shocks.** Their economic empowerment including labor force participation and financial inclusion is a priority for the World Bank and the Government of Bangladesh (GoB). This emphasis is captured in the World Bank Gender Strategy, Regional Gender Action Plan II and the Country Partnership Framework.[1] Women faced a larger drop in income from paid work during the pandemic and have experienced higher unemployment in the post-pandemic period.[2] Women face higher risks of being excluded from social protection programs due to limited access to information and gender gaps in ownership of financial assets as well as mobile financial services (MFS). For cash transfer programs where women are beneficiaries, mobile phone SIM cards are usually owned by husbands or other male family members, which can result in diversion of funds from intended female recipients. Only 36 percent of women own formal bank accounts compared to 65 percent of men, and only 42 percent of total MFS accounts are female-owned. Due to limited financial and digital literacy, women are often discouraged to enroll in mobile banking despite owning a mobile phone and face higher risks from cyber fraud. Gender gaps also exist in access to credit, primarily because of women's limited land ownership and entrepreneurial activity. This is reflected in the gender gap in borrowers accessing small and medium-sized enterprise credit (6.6 percent of these borrowers in FY2020 were female, 93.4 percent were male). This operation builds on DPC1 to modernize national payments to remove barriers hindering women's access to financial services through inclusive social protection programs.

7. **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.** The Program consists of three pillars covering fiscal policies, financial sector reforms, and policies to strengthen resilience to future shocks. The Program draws on extensive advisory and analytical reports to underpin proposed reforms (Table 4). The selection of prior actions in each reform area reflects measures to support a near-term economic recovery while laying foundations to support a

[1] World Bank Gender Strategy (FY2016-23), Regional Gender Action Plan II (FY2023-28), Bangladesh Country Partnership Framework (FY2023-27).
[2] Sarker, Mou Rani et al. "Systems thinking on the gendered impacts of COVID-19 in Bangladesh: A systematic review." Heliyon vol. 9,2 (2023): e13773.

transition to upper middle-income status. Across these three pillars, the Program contributes to the World Bank's mission of ending extreme poverty and boosting shared prosperity on a livable planet. A waiver of the requirement set out in footnote 9 of BP 8.60: Development Policy Financing has been granted for this programmatic series. Footnote 9 of BP 8.60 provides that a programmatic series is considered to have lapsed 24 months after the Executive Directors approve the previous operation in the series. The waiver extends the period that the IDA Board may consider the programmatic series from March 31, 2024, to June 21, 2024, to avoid the series lapsing.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **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. On the supply side, industrial growth moderated as energy shortages and restrictions on imported intermediate and capital goods offset resilient external demand for Ready-Made Garments (RMG). Inflation remained elevated in the first half of FY2024 reaching 9.8 percent in March 2024, driven by rising food and electricity prices and higher import prices as a result of a depreciating taka. Higher food prices have particularly impacted poor households, which allocate over half of their budget towards food expenditures. Weak private consumption growth and high inflation are expected to contribute to a marginal increase of poverty in FY2024 (5.1 percent at the US$2.15 international poverty line, and 29.4 percent at the US$3.65 moderate poverty line).

9. **To address a persistent BoP deficit, new monetary and exchange rate policies were adopted in May 2024.** The BoP remained in deficit in the first seven months of FY2024, led by the financial account. Authorities implemented import compression measures by limiting the issuance of letters of credit and prioritizing essential commodities and intermediate goods for the export value chain. As a result, the current account moved into a US$3.1 billion surplus in the first seven months of FY2024 as exports grew by 0.2 percent and imports contracted by 16.3 percent. The growth of official remittance inflows remained muted at 3.6 percent. However, the financial account deficit surged to US$7.4 billion, led by a decline in net commercial bank assets and short-term lending. This decline was led by net trade credit, reflecting delayed repatriation of export earnings. The BoP deficit narrowed to US$4.7 billion over the first seven months of FY2024, compared to US$7.4 billion over the same period of FY2023. BB sold FX to finance imports while maintaining exchange rate caps and drawing on FX reserves. FX reserves declined to US$20.0 billion at end-April 2024, a US$4.8 billion decline in FY2024, providing approximately 3.4 months of import coverage. To help restore external balance and unify exchange rate at closer to the market rate, a crawling peg exchange rate regime with a band was adopted in May 2024 as a first step towards a more flexible FX policy. The exchange rate was adjusted from 110 BDT/US$ to 117 BDT/US$ on May 8, 2024. To help contain inflationary pressure, monetary policy was tightened with an increase of 50 basis points in the policy rate in May 2024, while a cap on bank lending rates was abolished to improve monetary policy transmission.

10. **The fiscal deficit remained below 5 percent of GDP in FY2023.** Tax revenues declined to 7.3 percent of GDP in FY2023, down from 7.5 percent in FY2022. Authorities announced measures to increase revenues in FY2024, including enhanced compliance measures and modest policy reforms such as higher tobacco taxes and removal of several value added tax (VAT) exemptions. Tax collection rose by 13.9 percent in the first half (July-December 2023) of FY2024 compared to same period of FY2023, driven by a 16.0 percent increase in direct taxes and a 13.9 percent increase in domestic indirect taxes. However, growth in trade-related taxes remained moderate as a result of import compression, with an overall decline in import volume and a shift in the composition of imports away from higher-taxed luxury goods. Expenditure growth slowed in FY2023 as a result of capital budget rationing and the deferral of low-priority recurrent expenditures, which helped offset increased subsidies and fiscal incentives. Capital expenditure declined from 5.2 percent of GDP before the pandemic in FY19 to 4.6 percent of GDP in FY22 and FY23. Nominal expenditure grew

modestly by 1.5 percent in the first quarter (July-September 2024) of FY2024. Growth in subsidies, incentives, and transfers moderated, and a cut in export subsidies was announced in February 2024.

11. **Financial sector vulnerabilities to internal and external shocks have prompted new policy reforms.** Vulnerabilities in the financial sector are growing and pre-date the pandemic, including high levels of NPLs, weak capital buffers, and corporate governance challenges in private and state-owned banks (SOBs). Officially recognized NPLs increased by 20.7 percent year-on-year at the end of December 2023 to 9 percent of outstanding loans, but these numbers significantly understate banking sector stress due to lax definitions of NPLs, weak enforcement and reporting standards, and regulatory forbearance. The 2022 Financial Stability Report indicates that total rescheduled loans, NPLs, and written off loans reached BDT 3.4 trillion (approximately US$30.5 billion) or 8.5 percent of FY2023 GDP. BB FX sales in FY2023 and FY2024, together with slower deposit growth, significantly tightened taka liquidity conditions in the banking sector. Dollar liquidity in the domestic banking system in FY2023-24 significantly contracted as BB dollar sales were insufficient to clear the FX market. Although BB restricted issuance of import letters of credit, bank and corporate arrears on foreign commercial liabilities have accumulated. Foreign commercial creditors reduced exposure to Bangladesh, resulting in a sharp contraction of trade credit in FY2023 and FY2024. BB initiated several measures to address rising financial sector vulnerabilities, supported by the R&R DPC2 program. Amendments to the Bank Company Act (BCA) (1991) were adopted in June 2023, enhancing BB powers to intervene in problem banks. A Prompt Corrective Action (PCA) framework was adopted in December 2023, with enforcement by April 1, 2025. BB strengthened requirements for corporate governance of banks, initiated selected reforms for NPL resolution, and is working jointly with the government on new legislation for private asset management companies. BB has also announced a plan to foster banking sector consolidation to address problem banks through mergers (voluntary or forced). Consolidation could be counterproductive and undermine implementation of the PCA framework in the absence of a robust assessment of bank asset quality, removal of defaulting shareholders and controllers, and full enforcement of prudential requirements. This approach may also require significant capital injections or regulatory forbearance, raising potential fiscal costs.

Table 1 – Key Macroeconomic Indicators

	Actual				*Projections*		
	FY2021	FY2022	FY2023	FY2024e	*FY2025f*	*FY2026f*	*FY2027f*
National Accounts (in real terms)	(annual percentage change)						
GDP	6.9	7.1	5.8	*5.6*	*5.7*	*5.9*	*6.0*
Consumption	8.0	7.5	2.0	*1.4*	*4.9*	*5.3*	*5.6*
Gross fixed investment	8.1	11.7	2.2	*5.6*	*8.8*	*8.6*	*7.8*
Private	7.8	11.8	2.9	*3.1*	*6.6*	*7.1*	*7.2*
Public	9.1	11.1	0.0	*13.8*	*15.4*	*12.8*	*9.5*
Net exports							
Exports	9.2	29.4	8.0	*0.1*	*7.2*	*6.4*	*6.2*
Imports	15.3	31.2	-9.8	*-12.2*	*12.5*	*10.2*	*8.5*
GDP per capita	5.9	6.0	4.8	*4.7*	*4.6*	*4.7*	*4.9*
Sectoral Contributions to Growth							
Agriculture	3.2	3.1	3.4	*3.1*	*3.1*	*3.2*	*3.3*
Industry	10.3	9.9	8.4	*6.6*	*7.2*	*6.8*	*7.2*
Services	5.7	6.3	5.4	*5.6*	*5.1*	*5.8*	*5.6*
External Sector	(percent of GDP, unless otherwise specified)						
Current Account Balance	-1.1	-4.0	-0.6	*0.9*	*0.7*	*-0.2*	*-1.0*
Imports, Goods and Services	17.1	20.6	18.5	*14.9*	*15.8*	*16.7*	*17.5*
Exports, Goods and Services	10.7	12.6	13.6	*12.5*	*12.6*	*12.9*	*13.2*
Net Foreign Direct Investment	0.3	0.4	0.4	*0.3*	*0.4*	*0.4*	*0.5*
Gross Reserves (US$ billions) 1/	46.4	33.4	24.7	*22.5*	*24.9*	*29.9*	*34.2*
Prospective Months of Imports	5.9	5.0	4.3	*3.5*	*3.3*	*3.4*	*3.8*
External Debt	11.9	12.4	12.9	*12.9*	*13.2*	*13.5*	*13.9*

Exchange Rate (per US$, average)	84.8	86.3	102.7				
Employment and Inflation							
GDP Deflator	4.1	5.0	6.9	*8.9*	*7.9*	*5.9*	*5.3*
CPI (year-average)	5.6	6.1	9.0	*9.6*	*8.5*	*6.5*	*5.5*
National Unemployment rate	5.2	5.2					
Money and Credit			(annual percentage change)				
Broad Money	13.6	9.4	10.5				
Public Sector Finances				(percent of GDP)			
Total Revenue	9.4	8.5	8.2	*8.6*	*9.0*	*9.3*	*9.5*
Total Expenditures	13.0	13.0	12.6	*13.2*	*13.7*	*14.0*	*14.1*
Overall Fiscal Balance 2/	-3.7	-4.6	-4.4	*-4.6*	*-4.7*	*-4.8*	*-4.6*
Primary Balance (deficit) 2/	-1.7	-2.6	-2.5	*-2.1*	*-2.2*	*-2.3*	*-2.1*
General Government Debt	32.4	33.7	35.0	*35.0*	*35.3*	*36.3*	*37.1*
Memorandum Items							
Nominal GDP (billion LCU)	35,302	39,717	44,908	*51,687*	*58,961*	*66,136*	*73,801*
GDP (in billion US$)	416	460	437				

Source: Bangladesh Bureau of Statistics, BB, Ministry of Finance, IMF, and World Bank.
1/ BB adopted BPM6 from FY2022 onwards. 2/ Including grants

Table 2 – Key Fiscal Indicators

	Actual				*Projections*		
	FY2021	FY2022	FY2023	F20Y24e	*FY2025f*	*FY2026f*	*FY2027f*
				(Percent of GDP)			
Total Revenues and Grants	9.4	8.5	8.2	*8.6*	*9.0*	*9.3*	*9.5*
Tax Revenues	7.6	7.5	7.3	*7.5*	*8.0*	*8.4*	*8.6*
Taxes on Income and Profits	2.5	2.4	2.4	*2.5*	*2.7*	*2.8*	*2.9*
VAT	2.9	2.9	2.8	*2.9*	*3.1*	*3.3*	*3.4*
Excise Duty	0.1	0.1	0.1	*0.1*	*0.1*	*0.1*	*0.1*
Import Duty	0.9	0.9	0.8	*0.7*	*0.8*	*0.9*	*0.9*
Supplementary Duty	1.1	1.0	1.0	*1.0*	*1.1*	*1.1*	*1.1*
Non-NBR Tax	0.2	0.2	0.2	*0.2*	*0.2*	*0.2*	*0.2*
Non-Tax Revenues	1.7	0.9	0.9	*1.1*	*0.9*	*0.8*	*0.8*
Grants	0.1	0.1	0.1	*0.1*	*0.1*	*0.1*	*0.1*
Total Expenditures	13.0	13.0	12.6	*13.2*	*13.7*	*14.0*	*14.1*
Current Expenditure	7.5	7.7	7.8	*8.3*	*8.4*	*8.4*	*8.3*
Wages and Compensation	1.7	1.6	1.4	*1.4*	*1.4*	*1.4*	*1.4*
Goods and Services	0.9	0.8	0.8	*0.8*	*0.8*	*0.8*	*0.8*
Interest Payments	2.0	2.0	1.9	*2.5*	*2.5*	*2.5*	*2.5*
Subsidies and Transfers	3.0	3.4	3.7	*3.6*	*3.7*	*3.7*	*3.6*
Capital Expenditure	4.7	4.6	4.6	*4.6*	*4.9*	*5.1*	*5.3*
Other expenses 2/	0.8	0.7	0.3	*0.3*	*0.4*	*0.5*	*0.5*
Fiscal Balance	-3.7	-4.6	-4.4	*-4.6*	*-4.7*	*-4.8*	*-4.6*
Primary Balance	-1.7	-2.6	-2.5	*-2.1*	*-2.2*	*-2.3*	*-2.1*
Government Financing	3.6	4.5	4.4	*4.6*	*4.7*	*4.8*	*4.6*
External (Net)	1.3	1.6	1.7	*1.8*	*1.8*	*1.8*	*1.8*
Domestic (Net)	2.3	2.9	2.6	*2.8*	*2.9*	*2.9*	*2.8*
General Government Debt	32.4	33.7	35.0	*35.0*	*35.3*	*36.3*	*37.1*
External Debt	11.9	12.4	12.9	*12.9*	*13.2*	*13.5*	*13.9*
Domestic Debt	20.5	21.3	22.1	*22.0*	*22.2*	*22.7*	*23.1*

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

Table 3- External Financing Requirements and Sources

	Actual				*Projections*		
	FY2021	FY2022	FY2023	FY2024e	*FY2025f*	*FY2026f*	*FY2027f*
	(US$ millions, unless otherwise indicated)						
Gross Financing Requirements	**5,992**	**19,737**	**4,369**	***-2,277***	***-1,752***	***3,102***	***8,026***
Current Account Deficit	4,575	18,196	2,665	*-4,002*	*-3,598*	*1,039*	*5,716*
External debt amortization	1,417	1,541	1,704	*1,725*	*1,846*	*2,062*	*2,310*
Gross Financing Sources	**5,972**	**19,737**	**4,368**	***-2,277***	***-1,752***	***3,102***	***8,026***
Capital Account	458	610	475	*320*	*344*	*581*	*625*
Foreign Direct Investment (Net)	1,335	1,827	1,649	*1,320*	*1,901*	*2,297*	*2,713*
Portfolio Investment (Net)	-269	-158	-30	*-165*	*-34*	*55*	*77*
External borrowing	3,973	5,992	5,787	*6,481*	*7,045*	*7,728*	*8,594*
Other Flows (Net) 1/	10,425	10,571	-7,781	*-12,502*	*-8,541*	*-2,552*	*235*
Net error and omissions	-676	-5,761	-3,954	*0*	*0*	*0*	*0*
Change in Reserve Assets 2/	-9,274	6,656	8,222	*2,269*	*-2,467*	*-5,007*	*-4,218*
Memorandum Items:							
Gross Reserves							
(Prospective Months of Imports)	5.9	5.0	4.3	*3.5*	*3.3*	*3.4*	*3.8*

Source: Bangladesh Bureau of Statistics, BB, Ministry of Finance, IMF, and World Bank.
1/ These include trade credit (net), other short- and long-term loans (net) and errors and omissions.
2/ A positive figure in this line indicates a decrease in reserves.

Figure 1: Overall Public and Publicly Guaranteed Debt Sustainability Analysis

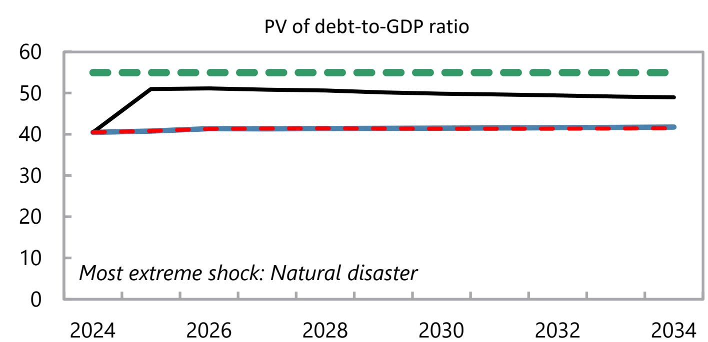
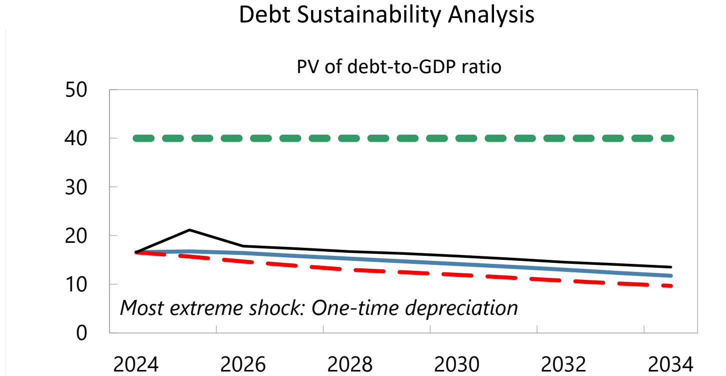


Figure 2: External Public and Publicly Guaranteed Debt Sustainability Analysis



Source: Debt Sustainability Analysis (October 2023)

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

12. **Real GDP growth is projected to slow modestly in FY2024 to 5.6 percent before gradually returning to its long-term trend over the medium term.** Elevated inflation, uncertainty in the commodity price outlook, and subdued global growth prospects will weigh on growth in the near term. Tighter financial conditions and ongoing exchange rate uncertainty are expected to weigh on investment. At the same time, gains in market share in key export markets are expected to sustain modest export growth, offsetting the effects of a relatively weak recovery in advanced economies. Continued import suppression measures and gas rationing will hamper industrial activity and weigh on industrial production and the service sector. Insufficient gas imports are expected to continue disrupting manufacturing and fertilizer production. Growth is expected to accelerate in FY2025, as reform implementation progresses. Inflationary pressure will ease, supported by stabilizing commodity prices, converging to around 6.5 percent in the medium term. Private consumption is expected to continue to recover with the rise in employment and wages. The completion of transportation and energy infrastructure megaprojects will contribute to GDP growth in the medium-term. The trade, fiscal, financial sector reforms are expected to underpin a broader reform program to prepare for LDC graduation in

2026. A gradual reduction in extreme poverty is expected as per capita GDP rises. As consumption recovers to its long-term path, it is expected to contribute to a marginal decline in extreme poverty (based on the international poverty line) from 5.1 percent in FY2024 to 4.5 percent in FY2025, and moderate poverty (based on the lower middle-income poverty line) from 29.4 to 27.2 percent.

13. **The current account deficit is expected to widen over the medium term as exchange rate flexibility supports a transition away from import restrictions, and the financial account balance is expected to gradually improve.** In FY2024, imports are likely to remain subdued due to the continuation of import compression measures and the difficulties businesses face in opening letters of credit due to FX shortages. Moderate export growth is expected to continue as Bangladesh gains readymade garment market share in major export markets, contributing to a current account surplus. Over the medium term, the current account is expected to move from a surplus back into deficit as import flows normalize in the context of greater exchange rate flexibility. Remittance inflows are expected to rise over the medium term, supported by strong demand for workers in the Gulf region, with a rising share of flows through official channels if the informal exchange rate premium narrows. The financial account balance is expected to gradually improve with increasing net trade credit flows and a higher volume of external financing. Exchange rate flexibility, monetary policy tightening, and concessional financing from development partners are expected to contribute to stabilization of FX reserves over the medium term.

14. **New policy tools are available to address some financial sector vulnerabilities, although a comprehensive banking sector restructuring strategy is yet to be formulated by authorities**. The recent revisions to the BCA and the introduction of the PCA framework supported by this DPC have provided the authorities with additional tools to address financial sector vulnerabilities. However, financial sector safety nets will require strengthening, including operationalization of the deposit insurance system, and an effective exit framework for nonviable banks and financial institutions through liquidation and resolution. The formulation of a comprehensive banking sector restructuring strategy, including for SOBs, is still pending, with BB so far focused on short-term administrative measures such as forced or voluntary mergers of problem banks, which could increase future fiscal costs if not adequately managed. A robust bank restructuring and consolidation process requires a detailed assessment of bank assets (including related-party transactions and large exposures) to support voluntary acquisitions, with full enforcement of governance, prudent risk practices and removal of shareholders of failed banks from decision making. This is necessary to avoid weakening the good banks acquiring bad banks, and to reduce moral hazard. Amendments to the BB merger circular would be required to align with international good practice. Given the high prevalence of NPLs and undercapitalized banks, additional measures will be required to address vulnerabilities, including strengthening corporate governance, increasing the independence of financial regulators, and enhancing financial safety nets by introducing a modern least cost resolution and liquidation framework for insolvent banks and strengthening the deposit insurance system.

15. **The fiscal deficit is projected to remain below 5 percent of GDP over the medium term**. Nominal revenues will rise with a recovery in trade flows, improving domestic economic activity, higher incomes, and ongoing efforts to strengthen tax administration. The National Board of Revenue (NBR) is preparing a Medium and Long-Term Revenue Strategy (MLTRS) to guide tax policy and administration reforms, with ongoing World Bank support. MLTRS public consultations are ongoing, and the plan is expected to inform reform priorities in the next budget. Over the medium term, the R&R DPC series is expected to contribute to the transition of revenues from highly protective tariffs to consumption and income taxes. The impact of a gradual decline in tariffs is expected to be offset by a recovery in import volumes, as restrictions on letters of credit subside. Public expenditure is expected to match the rapid pace of GDP growth. Growth in subsidy expenditures will be contained by reforms such as introduction of automatic fuel price adjustment system supported under the GCRD DPC series. Capital expenditure is expected to rise gradually, supported by improved public investment management capacity and an increase in domestic revenues to sustain financing. Policies supported under the R&R DPC Program will contribute to enhancing the efficiency of revenue administration, tax and

non-tax payments, and social protection expenditure. Policies will also help mitigate the risk posed by financial sector contingent liabilities, supported by technical assistance and investment financing operations. However, meeting the GoB's medium-term revenue objectives will be contingent on a broader program of support for tax policy and tax administration reforms.

16. **The risk of debt distress is expected to remain low.** Bangladesh remained at low risk of debt distress in the latest Joint Bank-Fund Debt Sustainability Analysis (DSA) completed in October 2023. An updated Joint DSA will be prepared for the second review of the ongoing IMF program, with expected publication in June 2024. Total public and publicly guaranteed (PPG) debt in Bangladesh stood at 39.8 percent of GDP in FY2023, of which 55.5 percent is domestic. Almost half of the outstanding domestic debt is from National Savings Certificates (NSCs). The ongoing reforms of NSCs are expected to help reduce the cost of future domestic borrowing in line with the Medium-Term Debt Strategy (MTDS) (July 2022). External PPG debt remained moderate at 17.7 percent of GDP in FY2023. Risks from external debt, which is largely long-term concessional loans, remain limited. Explicit and implicit contingent liabilities from the current vulnerabilities in the financial sector, including SOBs, and from non-financial state-owned enterprises (SOEs) pose additional risks, including underestimation of NPLs and governance challenges of SOEs and SOBs.

17. **Downside risks to the outlook remain significant.** The stabilization of the external sector will depend crucially on implementation of the crawling peg arrangement to ensure that a market-clearing exchange rate is maintained, with a minimal gap between formal and informal exchange rates. Delay in adjustments could lead to arbitrage opportunities and lower foreign currency inflows through the formal channels, exacerbating the existing challenges and creating incentives for illegal capital outflows. High inflation may persist longer than expected, particularly if global inflation rises. Financial sector vulnerabilities may worsen with an increase in nonperforming loans and further pressure the liquidity in the banking system. The fiscal costs of stimulating credit growth and supporting banks and SOEs may rise if resolution tools are not implemented. Elevated uncertainty related to external sector pressure could dampen the investment climate.

18. **The macroeconomic policy framework is adequate for Development Policy Financing (DPF).** Although the macroeconomic impact of recent external shocks has been substantial, real GDP growth remained positive in Bangladesh during and after the pandemic. 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. Additional revenue mobilization measures have been introduced to limit the budget deficit. The fiscal primary balance has been maintained within the IMF program target. Financial sector reforms including revisions to the BCA legislation and the introduction of the PCA framework will help address rising banking sector vulnerabilities. Resolving vulnerabilities will require ongoing support to implement a comprehensive reform plan and strengthen financial safety nets. The risk of growing contingent liabilities in this sector is mitigated by a low overall level of government debt. The fiscal deficit is expected to narrow as revenue performance recovers with a normalization in trade flows in the medium term. The May 2024 adoption of a crawling peg exchange rate regime and the realignment of the exchange rate will support greater external resilience and help rebuild FX reserves.

2.3. IMF RELATIONS

19. **The IMF reached a staff-level agreement under the second review of an ongoing Bangladesh program in May 2024.** An IMF program for Bangladesh was approved by the Executive Board in January 2023 to help preserve macroeconomic stability while laying the foundations 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). The first review under the program was presented to the Executive Board on December 12, 2023 (Annex 2). The World Bank has provided substantial inputs to the IMF program by sharing the Bangladesh CCDR, preliminary results of the Country Environmental Analysis (CEA) and the draft

policy matrix of the GCRD Credits. The ECF/EFF arrangement is aimed at maintaining macroeconomic stability and preventing disruptive adjustments to protect the vulnerable while promoting structural reforms to support strong, inclusive, and environmentally sustainable growth. Substantial adjustments to monetary and exchange rate policy were introduced during the second review of the ECF/EFF/RSF program to address macroeconomic imbalances. Monetary policy was tightened by 50 basis points and policy transmission was strengthened by liberalizing retail interest rates. The exchange rate was realigned, and a crawling peg regime with a band was adopted as a transitional step towards greater exchange rate flexibility. A joint World Bank-IMF DSA will be updated as part of the second review of the program.

3. GOVERNMENT PROGRAM

20. **Bangladesh prepared its 8th Five-Year Plan (FYP) (FY2021-25) in the context of the COVID-19 pandemic, adjusting its reform program to support recovery and resilience.** The 8th FYP charts an ambitious course towards the Perspective Plan 2021-2041, which seeks to eliminate extreme poverty and reach upper middle-income country status by 2031 and high-income country status by 2041. Over the medium term, the 8th FYP targets comprehensive structural reforms to accelerate sustainable growth and increase resilience to climate change. Tariff reforms aim to reduce the nominal protection rate by 3 to 5 percentage points per year until 2025 to improve export competitiveness and support a transition from trade taxes to consumption and income taxes. In the financial sector, the 8th FYP targets strengthened bank supervision and the implementation of Basel III requirements. Social protection reforms target a progressive and inclusive safety net system. In the energy sector, renewable energy is promoted, with revisions to pricing of non-renewable energy sources. Bangladesh submitted updated Nationally Determined Contributions (NDCs) to the Paris Agreement in August 2021, committing to reduce emissions by 89.5 MtCO2e, or 21.9 percent, relative to business as usual by 2030.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

21. **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 National Adaptation Plan (NAP). The fiscal and financial sector components of this operation will be critical to mobilizing financial resources to implement investments targeted in Bangladesh's NDC submission and NAP vision, particularly in the power and transportation sectors. Measures to strengthen shock-resilient social protection programs also contribute to the NAP objectives on protection against climate change variability and induced natural disasters (Goal 1). On mitigation goals, none of the operation's prior actions will likely cause a significant increase in greenhouse gas (GHG) emissions or any persistent barriers to transition to low-GHG emissions. The Program's support for the transition away from planned coal-fired power plants under a comprehensive climate change investment plan contributes to mitigation objectives. Therefore, all prior actions of the proposed DPC Program are aligned with the mitigation goals of the Paris Agreement. On adaptation and resilience goals, risks from climate hazards are not likely to have an adverse effect on the prior actions' contribution to the program development objective (PDO) for any of the Program's prior actions. The CCDR identifies financial sector vulnerabilities as a key challenge to scaling up investment in climate adaptation. The reforms included in this Program will underpin the climate finance agenda. At the same time, reforms to strengthen social protection programs will enhance resilience to climate shocks. Therefore, all prior actions of the proposed Program are aligned with the adaptation and resilience goals of the Paris Agreement.

22. **The Recovery and Resilience DPC2 supports policy reforms to ensure a robust recovery from the COVID-19 pandemic, to sustain economic growth, and to enhance resilience to future shocks, including climate change.** The tariff modernization component of Pillar A of the DPC2 supports the transition from trade taxes to consumption and

income taxes to help finance growth-enhancing public investments. This operation will support public procurement efficiency by institutionalizing the procurement authority responsible for the electronic government procurement (e-GP system. In Pillar B, financial sector reforms reflect government commitments in the 8th FYP to improve the depth and resilience of financial intermediation to finance private investment, accelerate growth, including by strengthening banking sector oversight and developing capital market instruments. In Pillar C, DPC2 supports measures to protect the poor and those vulnerable to exogenous shocks and address climate change. It supports reforms to expand social protection programs to reach all poor and vulnerable members of society. The adoption of the Mujib Climate Prosperity Plan (MCPP), together with financial sector reforms, will help scale up public and private climate adaptation and mitigation investments.

23. **Addressing long-standing financial sector stability challenges requires a long-term commitment and continuous reform effort.** The proposed DPC series is sequenced over two operations to support the COVID-19 recovery. However, experience from other countries undertaking financial sector reforms has demonstrated that it will be necessary to continue a comprehensive policy dialogue with a combination of technical assistance, investment, and policy engagement beyond the timeframe of this DPC series. As a result, the World Bank is supporting a planned financial sector investment financing operation that will support BB institutional strengthening and implementation of selected reforms, to be supported by a new DPC series planned for FY26-28 to build upon this operation and further address financial sector reforms. The medium-term reform agenda includes strengthening financial safety nets, improving financial reporting and disclosure, enhancing related party transactions, disclosing ultimate beneficial owners, strengthening corporate governance, adopting risk-based consolidated supervision, restructuring and capitalizing SOBs, and exiting non-viable banks.

24. **The Recovery and Resilience DPC is informed by lessons learned in previous operations.** Lessons have been drawn from the Jobs DPC (FY2019-21) and the Completion and Learning Review (CLR) of the previous Country Partnership Framework. The Jobs DPC highlighted the importance of strengthening resilience to sustain growth during periods of economic shocks and adapting to a rapidly changing macroeconomic context. Lessons from the CLR point to the importance of building the foundations for structural change through sustained, long-term technical engagement and financing, working across sectors to address key constraints to growth, and aligning policy reform with institutional capacity to ensure implementation readiness.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A – Fiscal Policies for Recovery and Resilience

25. **Strengthening the post-pandemic recovery and sustaining export competitiveness and growth following LDC graduation in 2026 will require a fiscal policy transition.** Bangladesh's competitiveness based on low wages and trade preferences will gradually erode, challenging the sustainability of a growth model highly dependent on RMG exports. Average tariffs on intermediate goods in Bangladesh are higher than comparator countries in East Asia, particularly when para-tariffs such as regulatory duty and supplementary duty are included. Protective tariffs limit the participation of Bangladeshi firms in global value chains, dampening export diversification. Rationalizing the tariff regime by moving toward low and uniform tariffs would strengthen competitiveness, helping Bangladesh reach its medium- and long-term economic growth objectives. Tariff rationalization must be accompanied by simultaneous efforts to compensate for the expected revenue loss, including measures to strengthen the collection of income and consumption taxes. This transition will require policy reforms to widen the tax base and narrow tax expenditures. At the same time, administrative reforms are needed to ensure sufficient capacity to efficiently mobilize revenues and enhance taxpayer compliance. Given the low baseline of tax revenue (7.3 percent of GDP in FY2023), expenditure efficiency also remains a high priority to make effective use of scarce public resources. The urgency of these reforms has increased in the context of challenging

macroeconomic conditions. Fiscal policy will play an important role in containing inflation and reducing vulnerability to economic shocks. Pillar A supports these objectives through fiscal policies that support growth and resilience.

Tariff Modernization

- DPC1 – PA1: The Ministry of Commerce (MoC) has approved the Framework for the Formulation of the National Tariff Policy, including the institutional responsibilities and implementation arrangements.
- DPC2 – PA1: The Cabinet has approved a National Tariff Policy to reduce tariffs and simplify the tariff structure.

26. Prior Action (PA) 1 supports Bangladesh's transition towards a more open trade policy, with lower nominal protection rates. The World Bank's 2022 Country Economic Memorandum identified trade policy reform as a priority to sustain growth and diversify exports following planned LDC graduation in 2026, including reduction of tariffs and para-tariffs and expansion of access to bonded warehouses beyond the ready-made garment sector. Under the 8th FYP, Bangladesh targeted a reduction in nominal protection rates by 3-5 percent per year through 2025. This target has not yet been achieved. A clear tariff policy and stronger interagency coordination will be required to transition from trade-based taxes to consumption and income taxes to sustain government revenues. The institutional arrangements for the tariff policy, in terms of the authorities and responsibilities of the MoC, NBR, and Finance Division were agreed in DPC1. DPC2 supports the introduction of a new National Tariff Policy (NTP) which commits the government to reduce tariffs and para-tariffs and simplify the tariff structure, to diversify the export basket and increase the volume of exports. The Policy eliminates minimum import values in line with World Trade Organization (WTO) requirements and directs alignment of import duties and taxes with WTO bound rate commitments. It also seeks to expand access to special bonded warehouses, which have long been limited to the RMG sector. To compensate for the potential reduction of tariff and non-tariff revenues, NBR will need to increase revenue mobilization through income and consumption taxes. Implementation of the NTP and support for other types of revenue mobilization will be provided through technical assistance under ongoing and planned World Bank investment operations[3] and will require specific adjustments to tariff lines through annual budgets or other legislation. As a result of the implementation of the NTP, the average nominal protection rate is expected to decline.

Revenue Mobilization

- DPC1 – PA2: The National Board of Revenue has published a Statutory Regulatory Order (SRO) to allow non-resident VAT registration and Bangladesh Bank has issued a Circular to domestic banks on reporting non-resident VAT withholdings.
- DPC2 – PA2: The Ministry of Finance has adopted the A-Challan Payment System in all tax zones, for tax and non-tax payments, with mandatory use for personal income tax payments.

27. PA2 will increase the efficiency of tax and non-tax revenue collection by facilitating tax payments. In DPC1, an SRO enabled non-resident VAT registration and payments for services provided in Bangladesh. This measure primarily addressed foreign companies offering digital services in Bangladesh, such as search, social media, and cloud-based services. As Bangladesh transitions to higher income levels, the service sector is expected to continue growing rapidly, particularly international digital services. This prior action enabled foreign firms to obtain a business identification number, submit VAT returns, and make payments, without requiring the establishment of a local head office. In DPC2, a web-based payment gateway for domestic banks was adopted in all tax zones to allow government revenue to be directly deposited into the Treasury Single Account (TSA), with immediate receipts. This increases the speed of revenue collection, offers electronic payment options for taxpayers, and reduces invoicing fraud and diversion of payments. Deposit into the TSA also results in more efficient cash management, resulting in interest cost savings for the treasury. This prior action was upgraded from the original trigger to cover both tax and non-tax payment types and complements

[3] Existing projects included Bangladesh Regional Connectivity Project (P154580) and Accelerating Transport and Trade Connectivity in Eastern South Asia – Bangladesh Phase 1 Project (P176549). The World Bank is also preparing a new Bangladesh domestic revenue mobilization project.

other ongoing policy reforms including new income tax and customs legislation. As a result of these prior actions, income and consumption tax collections are expected to increase. Implementation of a decentralized national electronic payment infrastructure available in all regions of the country is expected to enhance resilience to future shocks such as natural disasters or pandemics and require fewer in-person transactions as a result of electronic receipting.

Efficient public procurement

- DPC1 – PA3: The Central Procurement Technical Unit (CPTU) has established the Direct Procurement module in the national e-Government Procurement (e-GP) system.
- DPC2 – PA3: Publication in the Bangladesh Gazette of the BPPA Act consolidating the responsibilities and authorities of procurement in the BPPA.

28. **PA3 will institutionalize procurement reforms by creating the Bangladesh Public Procurement Authority (BPPA).** The full implementation of e-GP was a long-standing reform priority in Bangladesh. This is a priority for public sector efficiency, as Bangladesh spends more than US$25 billion per year on public procurement annually. DPC1 supported the introduction of Direct Procurement transactions online through e-GP. Direct Procurement refers to non-competitive procurement from a single source, a method permitted under exceptional circumstances in the Public Procurement Rules, which include emergency situations such as pandemics, natural disasters and extreme weather events caused or exacerbated by climate change. Establishing the Direct Procurement module in e-GP increased the efficiency and transparency of critically needed procurements. In DPC2, the CPTU of the Ministry of Planning has become institutionalized as the BPPA, providing the legal authority and autonomy to institutionalize management of the e-GP system, with the requisite governance structure to oversee it. These reforms are critical to ensure that procurement systems can be used to manage emergency procurement in future situations of economic shock.

29. **Expected Results of Pillar A:** This pillar will support policies to sustain the post-pandemic recovery. The transition from trade taxes to domestic taxes will support Bangladesh's post-LDC graduation agenda by enhancing export competitiveness and raising new sources of public revenue. The average nominal protection rate on imports is expected to drop from 29.6 percent in FY2020 to 25 percent by the end of FY2026. To offset lower tariff revenues, income tax and domestic VAT are expected to rise from BDT 1.5 trillion in FY2021 to BDT 2.4 trillion in FY2026. As of May 2023, these revenues reached BDT 1.9 trillion. The efficiency of public procurement will increase with the completion of the rollout of the e-GP system, which has been supported by the institutionalization of the BPPA to sustain and operate the system. As a result, the average procurement lead time is expected to decline from 70 days in FY2021 to 55 days by FY2026. As of January 2024, lead time had declined to 53 days. This results indicator targets a sustained decrease in procurement lead time, while adhering to all procurement processing requirements. Together, these reforms are expected to enable the GoB to improve revenue mobilization and increase expenditure efficiency to improve public investment.

Pillar B – Financial Sector Policies for Recovery and Resilience

30. **Financial sector reforms are required to reduce vulnerabilities in the sector, enhance resilience to future shocks, diversify and deepen capital markets.** A well-functioning financial sector is critical for Bangladesh to raise investment levels and improve access to finance for underbanked clients to achieve its medium and long-term development objectives. Although the financial sector has experienced significant growth over the past three decades, the sector lags peer countries. In the IMF's Financial Development Index, Bangladesh ranks 95th out of 184 countries in terms of financial development.

31. **Financial sector deepening has stalled in recent years.** Chronic asset quality problems, low levels of capital, and weak governance constrain bank lending and present substantial stability risks. Regulatory independence, regulatory requirements, and supervisory enforcement could be strengthened and aligned with international practices. The regulatory framework for the banking sector needs to be aligned with international good practice to address

vulnerabilities, including NPL definition and recognition, capital calculation, corporate governance, financial reporting and disclosure, corrective measures, and resolution and liquidation. The domestic capital market also remains underdeveloped, limiting the availability of long-term domestic financing to achieve development objectives including investment in infrastructure development and implementation of the MCPP. In part, this is the result of the rapid growth of NSCs, which provide above-market returns with a sovereign guarantee. Accounting for nearly half of the stock of domestic public debt, NSCs have distorted incentives in the domestic bond market, impairing its growth. Private domestic and external financing are needed to close the substantial financing gaps in infrastructure and human capital needed to realize Bangladesh's medium- and long-term development objectives.

32. The prior actions included in Pillar B support the improvements in the regulatory framework required to address these challenges. However, complementary support through other instruments will be critical. Pillar B provides a series of prior actions to strengthen domestic capital markets by rationalizing the use of NSCs, enhance banking sector stability with new supervision tools, and modernize the financial systems infrastructure. These policies are expected to support growth and enhance resilience to a range of economic shocks. While these reforms provide a framework to help resolve vulnerabilities, implementation support will be required through complementary technical assistance, investment project financing, and future policy lending.

Developing domestic capital markets

- DPC1 – PA4: The Ministry of Finance has reduced the interest rates on National Savings Certificates (NSCs), the General Provident Fund (GPF), and the Contributory Provident Fund (CPF).
- DPC2 – PA4: The Department of National Savings has limited purchases of National Savings Certificates (NSCs) to 50 percent of provident fund asset and ended automatic reinvestment of manually issued NSCs.

33. PA4 will reduce the cost of government borrowing and support capital market development. NSCs are a non-tradable savings instrument that provide above-market returns with a sovereign guarantee. NSCs were once narrowly targeted at vulnerable groups to provide them with high return savings, but access to this instrument has been widened over the past decade, raising government borrowing costs and disincentivizing capital market development. With above market returns and insufficient controls on issuance, the issuance of NSCs expanded rapidly, including through institutional investments in provident funds. Together, these instruments have increased the cost of government borrowing and led to significant market distortions by crowding out investment in other government and corporate debt instruments, particularly by domestic institutional investors. In DPC1, interest rates on NSCs were rationalized, and lower rates were introduced for larger borrowers to reduce market distortions. This was a first step towards creating a level playing field for various financial instruments, which is critical to develop longer-term finance and capital markets. In DPC2, limits on provident fund purchases of NSCs were introduced. This includes the Government's Contributory Provident Fund as well as provident funds recognized in income tax legislation. These limits will create an institutional market for other types of bonds, building on recent measures to allow secondary market trading of government securities. Provident funds demand is expected to create markets for private sector bond issuances, strengthening domestic capital markets. Net issuance of NSCs turned negative in FY24 as interest rates on treasury securities exceeded NSCs, and as households drew on savings to offset the impact of higher prices. As a result of adjustments to market incentives, stricter controls on purchases, and limits on institutional holdings of NSCs, the net issuance of NSCs is expected to remain low, even if interest rates on treasuries moderate. This is expected to lower government interest expenditure and expand the domestic bond market. Capital market development is expected to support medium-term growth objectives and help close the financing gap identified in the CCDR to support climate investments.

Strengthening banking sector stability

- DPC1 – PA5: Bangladesh Bank has issued a circular requiring all Scheduled Banks to prepare recovery plans by June 30, 2022, and to update them on a regular basis.

- DPC2 – PA5: Publication in the Official Gazette of the amendments to the Bank Company Act (BCA) strengthening the supervisory framework in line with good international practice.
- DPC2 – PA6: Bangladesh Bank has issued a circular on Prompt Corrective Action (PCA) for all undercapitalized banks, including state-owned banks.

34. **Following the COVID-19 pandemic, a framework for managing bank restructuring and resolution, debt recovery and bankruptcies became essential to support private sector recovery and growth**. In DPC1, BB issued a circular requiring all scheduled banks[4] to prepare recovery plans and to update them annually, based on market and bank-specific developments in February 2022. This action was a response to the global Financial Stability Board's key attributes for effective recovery and resolution of financial institutions and was a key recommendation from the 2019 Bangladesh Financial Sector Assessment Program (FSAP).[5] The recovery plans envision the need for an assessment of individual banks' existing and potential risks (including climate change, NPLs and technological risks) and outline strategies with clear actions to maintain soundness, regulatory compliance, and profitability, including through capital increases, changes in management and technologies, and NPL resolution. Following DPC1, recovery plans were developed and submitted by banks, with varying quality. BB is following up with individual banks to enhance quality of recovery plans and the proposed response action plans for the next round of annual submission. This action supported BB and the banking sector with better risk assessment and management of potential downturns through preemptive planning and clear plans of action for bank managers and shareholders. Over the medium term it will contribute to more sustainable development of the banking sector and economic growth.

35. **DPC2 supports banking sector stability by aligning the regulatory and supervisory framework more closely with international good practice to mitigate growing risks in the banking sector**. PA5 supports amendments to the BCA to strengthen the regulatory and supervisory framework for the banking sector in line with the 2019 FSAP recommendations and international standards. The selected BCA amendments have been adopted by Parliament, expanding BB powers to dismiss managers of SOBs, establish a PCA framework to manage undercapitalized and problem banks, and enhance requirements for bank governance and disclosure of information on willful defaulters. While amendments are a substantial step forward, they do not address many critical issues, hence further reforms will be required to increase banking sector transparency and disclosure of ultimate beneficial owners, limit related party lending, further enhance the corporate governance framework for banks, implement consolidated supervision and financial reporting standards, and modernize the resolution and liquidation framework for failed banks.

36. **PA6 will require weak banks to implement time bound PCAs to address capital deficiencies and other forms of regulatory non-compliance.** The PCA framework provides BB with time-bound formal enforcement tools (a type of corrective measures) for undercapitalized banks and requires them to address the stock of NPLs and capital deficiency, enhance risk management and governance, and address other issues as defined by the regulator within an established period of time. Under the PCA framework adopted in a BB circular in December 2023, banks are classified into four categories based on pre-defined measures of capital, loan quality, and other measures set out in an annex to the circular. The operationalization of the PCAs will come into effect from March 31, 2025, allowing banks time to prepare for the new framework and address key vulnerabilities.

37. **In the original design of DPC2, this pillar also included a prior action to enhance the corporate governance of SOBs.** This prior action included measures to adopt international standards on board composition, remuneration, and accountability. The authorities are committed to this agenda but indicated that more time will be needed to prepare for the implementation of the reform (see Letter of Development Policy). Hence, the prior action has been dropped (see

[4] Scheduled banks are banks in Bangladesh (currently 61 institutions) which operate under the supervision of Bangladesh Bank based on the Bangladesh Bank Order, 1972 and Bank Company Act, 1991 (Amended in 2023).
[5] Financial Stability Board, Key Attributes, October 2014.

Annex 6).

Modernizing the financial system infrastructure

- DPC1 – PA6: The Ministry of Finance has submitted the draft bill, Payment and Settlement Systems Act, 2021, to the Parliament to be introduced in its forthcoming session for approval.
- DPC2 – PA7: Publication in the Official Gazette of the Secured Transactions Act to establish a notice-based security interest registry for movable assets.

38. **PA7 will support expansion of secured transactions of movable assets to support access to finance, in particularly for Small and Medium Enterprises (SMEs).** Together with the Payments and Settlement Systems Bill supported by DPC1, the secured transactions framework is a critical piece of modern financial systems infrastructure required to deepen financial intermediation and address the gaps in access to financial services. In DPC1, the payments legislation was submitted to Parliament. The proposed legislation was adjusted in response to observations from the relevant Parliamentary standing committee. The legislation was tabled in Parliament in May 2024 and is expected to be enacted in coming months. In DPC2, the Secured Transaction Act (enacted by Parliament in October 2023) supports long-term awaited reforms to allow tangible and intangible movable assets to be used as collateral to expand lending to SMEs. The new legislation envisions creation of a specialized online security interest registry, along with development of the enabling implementation framework to reduce lenders' risks in dealing with SMEs and enable lenders and service providers (including mobile operators, retailers, etc.) to develop new security-based products and services (including digital) for social and financial inclusion. This will contribute to economic diversification and closing gender gaps in access to financial services, as women entrepreneurs can build credit by using movable and intangible property as collateral, such as livestock, inventory, equipment, and receivables.[6] DPC1 PA6 and DPC2 PA9 together will incentivize women to open MFS accounts.

39. **Expected Results of Pillar B:** In the medium-term, borrowing costs will decline with reduced net sales of NSCs, which are expected to decline from BDT 419 billion in FY2021 to BDT 100 billion by FY2026. As of May 2024, net issuance in FY2024 was negative as more NSCs were redeemed than issued. Negative net issuance resulted from a surge in treasury rates because of monetary policy tightening, increased restrictions on NSC purchases, and higher redemptions by households facing inflationary pressure. This operation will help sustain a lower volume of NSC purchases over the medium term, by restricting institutional investment flows. Financial sector stability will be enhanced through a stronger legal framework for weak bank intervention and bank supervision, the adoption of bank recovery plans, the implementation of the PCA framework, and strengthened corporate governance requirements. As a result, all banks were expected to prepare recovery plans by the end of FY2026 – this result has been completed as of February 2024. As a next step, all undercapitalized banks are expected to be subject to PCAs by the end of FY2026. Capital market development will be supported through the reduction in NSCs and financial inclusion, especially for women, will be enhanced through the secured transactions legislation.

Pillar C – Strengthening Resilience to Future Shocks

40. **Given its high vulnerability to climate change and natural disasters, strengthening resilience to shocks is critical to sustain growth in Bangladesh.** Climate shocks disproportionately affect the poor, who generally live in higher-risk areas and have limited coping mechanisms. They may revert to depletive coping strategies, selling assets, migrating, pulling children from school, foregoing health care, and early marriage. As disasters become more frequent and intense, the social protection system needs to develop its capacity to adjust dynamically and respond in a timely manner to prevent irreversible losses for those affected.[7] In this context, strengthening social protection programs and

[6] Mapping the Legal Gender Gap in Using Property and Building Credit, World Bank Group 2009.
[7] Social Protection Public Expenditure Review, World Bank, 2021.

transitioning to a low-carbon growth path are important development objectives.

41. **Strengthening social protection programs is also critical to address the disproportionate vulnerability of women to economic shocks, including those from climate change.**[8] Elderly, widowed, and divorced women constitute a particularly vulnerable subset of women. Widowed and divorced women in Bangladesh represent about a tenth of women who have ever been married (ever-married). Due to patriarchal social norms, the majority of these women continue to depend on male family members for decision making and financial and social welfare. As a result, especially when poor women lose their husbands or get divorced, their vulnerability to poverty, exploitation and social isolation increases significantly. [9] As women age, their poverty rates and gender-based violence increase and health outcomes worsen.[10]

Strengthening Shock-Resilient Social Protection Programs

- DPC1 – PA7: The Ministry of Social Welfare has approved a policy enabling rapid expansion of its cash transfer programs as a shock-responsive measure.
- DPC1 – PA8: The Ministry of Finance has approved a policy mandating use of the government-to-person (G2P) payment platform by cash-based programs, with uniform fees for all mobile financial services providers.
- DPC2 – PA8: The Ministry of Finance has adopted a circular revising social protection programs reporting with a new classification system.
- DPC2 – PA9: The Ministry of Finance has approved a policy mandating National Identification (NID) verification of phone numbers used to open mobile money accounts to receive benefits under selected cash-based programs.

42. **PA8 will increase transparency and support better targeting of social protection programs, enhancing capacity to respond to future economic shocks.** Improved reporting on social protection programs builds on recommendations of the 2021 Bangladesh Social Protection Public Expenditure Review to improve transparency and strengthen allocative efficiency in budget planning and execution process. Revised social protection reporting will present programs by functional category, type of intervention, beneficiary group, targeted life cycle stage, and responsible implementing entity for each social protection program. The reform will enhance alignment of programs with the National Social Security Strategy and improve budgetary planning and allocation decisions by the Cabinet Committee on Social Protection[11] and monitoring by the Central Monitoring Committee for the Social Safety Net Programs, and other responsible agencies. The integration of this reclassified reporting in the Integrated Budget and Accounting IT System (iBAS++) will support a clearer linkage between budget allocations and social protection objectives. Strengthening the targeting, budgeting, and reporting processes of social protection programs will be increasingly important to support Bangladesh's climate change adaptation objectives (NAP Goal 1). Effective and efficient planning for these expenditures will be required to ensure protection of vulnerable groups against climate-change induced disasters.

43. **PA9 will increase the efficiency and targeting of cash-based social protection programs.** DPC1 supported a policy mandating the use of the G2P platform for benefit transfers and introduced a uniform cash-out fee across all payment service providers to support fair and predictable pricing for users. PA10 under DPC2 will strengthen fiduciary controls and ownership of social protection benefits by linking NID card, phone number and mobile money account numbers using the ICT Division verification gateway. Program officials will support beneficiaries in obtaining or re-registering SIMs. This action is expected to encourage female ownership of accounts used to receive benefits, rather than directing these payments to the accounts of male relatives. Direct ownership of mobile financial services accounts

[8] Gender and Climate Change in Bangladesh, World Bank, 2012.
[9] Program Brief: Allowances for the Widow, Deserted and Destitute Women, World Bank, 2019.
[10] International Widows' Day: Older women in Bangladesh, HelpAge International, 2014.
[11] The Cabinet Committee on Social Protection, chaired by the Finance Minister, was formed in 2014. The Committee is mandated to review the annual performance and make decisions on the budget allocation of 15 social protection programs (including 7 of the largest).

will bring female social protection program participants into the financial system, setting a foundation for access to other financial services. This policy will strengthen female ownership of social benefit transfers. PA9 is also expected to prevent errors, fraud, and corruption. This policy would not cover programs for the elderly and widows, as lower mobile penetration in these groups creates a higher risk of losing access to payments. This action replaces a previous trigger that mandated the use of the National Household Database (NHD) for beneficiary identification by major social protection programs, because the NHD was deemed not ready for use.

Transitioning to a Low-Carbon Growth Model

- DPC1 – PA9: The Ministry of Power, Energy and Mineral Resources has canceled an estimated 8,451 MW of planned investment in coal-fired power generation projects, consistent with Bangladesh's Nationally Determined Contributions (NDC) 2021.
- DPC1 – PA10: The Ministry of Housing and Public Works has adopted the National Building Code (BNBC) 2020 to improve energy efficiency and strengthen resilience to extreme climate events, and published it in the Official Gazette.
- DPC2 – PA10: The Cabinet has adopted the Mujib Climate Prosperity Plan, identifying critical adaptation and mitigation investments.

44. PA10 will help mobilize climate finance in support of Bangladesh's national climate adaptation and mitigation objectives. Under the leadership of the Honorable Prime Minister, the MCPP 2041 will be the first of Climate Vulnerable Forum plans, with a strategic investment framework to mobilize financing, especially through international cooperation, for implementing renewable energy, energy efficiency measures, and climate resilience initiatives in infrastructure investment. The MCPP 2041 seeks to shift Bangladesh's trajectory from vulnerability to resilience and to prosperity. This document has provided policy guidance to the budget process and is expected to frame the forthcoming 9th FYP. The implementation of the public investment program set out in the MCPP 2041 will be implemented through annual development plans, while the expansion of private sector financing mechanisms will be implemented through financial sector institutions, including the Bangladesh Securities and Exchange Commission. Authorities plan to establish an interministerial committee to lead implementation of key climate plans and coordinate strategic investments. With ownership at the highest level of government, it is expected to serve as a framework for resource allocation and policy development over the coming decades.

45. In the original design of DPC2, this pillar also included a prior action to adopt a Public Private Partnership (PPP) policy for the power transmission sector to allow private sector participation. This policy remains under development with technical assistance from IFC. However, more time was required to finalize the policy. The authorities remain committed to completing this policy and to identifying potential PPP projects based on government priorities (see Letter of Development Policy and Annex 6).

46. Expected Results of Pillar C: Supporting the coverage, speed, and efficiency of social protection programs will improve preparedness for future shocks, including those caused by the effects of climate change. Cash transfers made using the G2P platform are expected to increase from BDT 46.9 billion in FY2021 to BDT 250 billion in FY2026. As of November 2023, transfers had reached BDT 234.7 billion. The number of women eligible for shock-responsive cash assistance is expected to rise from almost none to 7 million by the end of FY2026. As of March 2023, this result indicator reached 6.4 million women. Finally, renewable energy generation capacity is expected to increase from 777.2 MW in November 2021 to 1,200 MW by the end of FY2026, due to additional private and public investments in coal-fired power plants (some project sites may be repurposed for renewable energy use). As of March 2023, this result had reached 966 MW. The results indicator on renewable energy generation capacity is a Corporate Results Indicator.

Table 4: DPF Prior Actions and Analytical Underpinnings	
Prior Actions	**Analytical Underpinnings**
Pillar A: Fiscal Policies for Recovery and Resilience	
PA1: The Cabinet has approved a National Tariff Policy to reduce tariffs and simplify the tariff structure.	GoB 8th FYP and various World Bank analytical reports, including the Diagnostic Trade Integration Study (2007), the Country Economic Memorandum. Arenas, Dihel and Rizwan (2020), point to high-level tariff protection of Bangladesh and anti-export bias in the tariff structure. A World Bank workshop with GoB in October 2020 to discuss those findings led to GoB's decision to develop a national tariff policy, and tariff reform impact simulation training was held in 2023.
PA2: The Ministry of Finance has adopted the A-Challan Payment System in all tax zones, for tax and non-tax payments, with mandatory use for personal income tax payments.	The World Bank The 2021 Public Expenditure and Financial Accountability (PEFA) assessment and Bangladesh Public Finance Management (PFM) Reform Strategy identify the digitization of payments as a key enabler of public financial management reform. This action has been further supported through ongoing World Bank technical assistance.
PA3: Publication in the Bangladesh Gazette of the BPPA Act consolidating the responsibilities and authorities of procurement in the BPPA.	Codifying the responsibilities and authorities of the BPPA builds on a series of World Bank investment and technical assistance programs. The 2021 PEFA assessment and the ongoing procurement reform dialogue have highlighted the need to institutionalize the functions of the BPPA with a legal mandate, following its establishment as part of previous investment programs.
Pillar B: Financial Sector Policies for Recovery and Resilience	
PA4: The Department of National Savings has limited purchases of National Savings Certificates (NSCs) to 50 percent of provident fund asset and ended automatic reinvestment of manually issued NSCs.	The World Bank-International Finance Corporation (IFC) Joint Capital Market Program (JCAP) (ongoing) identifies that autonomous issuance of high interest rate NSCs is preventing the establishment of a benchmark yield curve and affecting the distribution of long-term savings. The Bank-IMF joint technical assistance mission for MTDS (April 2021) has also found that unmanaged NSC flows as a cause for the large deviation from 2014 MTDS in terms of relative size of domestic borrowing.
PA5: Publication in the Official Gazette of the amendments to the Bank Company Act (BCA) strengthening the supervisory framework in line with good international practice.	FSAP 2019 and the Bank's financial sector advisory work indicated that the legislative framework requires revision to provide sufficient powers to BB to underpin effective bank supervision and identified specific improvements to strengthen the BCA in line with good international practice. Modernization of the BCA is a foundation to resolve vulnerabilities and strengthen financial sector intermediation, a key driver of growth identified in the 2022 Country Economic Memorandum and the 2021 Country Private Sector Diagnostic (CPSD).
PA6: Bangladesh Bank has issued a circular on Prompt Corrective Action (PCA) for all undercapitalized banks, including state-owned banks.	FSAP 2019 and the Bank's financial sector analytic and advisory work indicated that BB does not have an adequate framework to deal with banks in times of stress and suggests that banks should submit recovery plans (with annual updates), including a set of actions and providing a realistic view of their recovery capacity in crisis conditions.
PA7: Publication in the Official Gazette of the Secured Transactions Act to establish a notice-based security interest registry for movable assets.	Adoption of this legislation is identified as a foundation for establishment of a movable collateral registry in the CPSD. Ongoing technical assistance from the World Bank and IFC supported the preparation of the legislation. The World Bank will continue to support its implementation through a planned financial sector investment project. Mapping the Legal Gender Gap in Using Property and Building Credit (2009) identified this reform can support greater access to credit by women.

Pillar C: Strengthening Resilience to Future Shocks	
PA8: The Ministry of Finance has adopted a circular revising social protection programs reporting with a new classification system.	The Bangladesh Social Protection Public Expenditure Review (2021) and Background Paper on Adaptive Social Protection in Bangladesh (June 2021) identified specific recommendations for reclassification to improve transparency and inform program allocation in the budget process.
PA9: The Ministry of Finance has approved a policy mandating National Identification (NID) verification of phone numbers used to open mobile money accounts to receive benefits under selected cash-based programs.	The World Bank's technical assistance and policy dialogue on social safety net programs, including the 2021 PER, found that the G2P payment platform will streamline payments, reduce manual processing, and lower the risk of error and fraud.
PA10: The Cabinet has adopted the Mujib Climate Prosperity Plan, identifying critical adaptation and mitigation investments.	The 2021 SCD Update found that opportunities for energy efficiency gains remain largely untapped in industry, appliances, and buildings (drawing from Hossain, Sarkar, and Pargal (2017)). This PA supports the disaster management component of Bangladesh's 8th FYP and the National Plan for Disaster Management (2021-2025). Under the Energy Efficiency and Conservation Master Plan up to 2030, the GoB aims to lower energy intensity in 2030 by 20 percent compared to the 2013. A total of 95 million toe (113 billion m^3 of gas equivalent) is expected to be saved during the period.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

47. This DPC series is consistent with the World Bank Country Partnership Framework FY23-27 discussed by the Board of Executive Directors on April 27, 2023 (Report No. 181003-BD) **and the World Bank Group's (WBG) goals of boosting shared prosperity and ending extreme poverty on a livable planet.** The operation is aligned with all three High-Level Outcomes of the Country Partnership Framework (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 also aligns 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 is 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 IFC, with measures that contribute to improving export opportunities and strengthening domestic capital markets.

48. IDA. The proposed program's total financing of US$500 million will be consist of a non-concessional regular Scale-Up Window (SUW) credit (US$300 million) and a concessional Scale-Up Window Shorter Maturity Loan (SUW-SML) credit (US$200 million). The Program was endorsed for SUW financing, given its (a) expected robust development impact and growth dividend, (b) alignment with IDA priorities, particularly the Jobs and Economic Transformation agenda (IDA20 Special Theme), and also for climate change, and cross-cutting topics such as institutions and crisis preparedness, and (c) potential on soft prioritization filters by helping crowd-in private resources by strengthening the financial sector and reducing distortions. The use of regular SUW will not lead to the deterioration of the country's risk of debt distress and is consistent with IMF borrowing limits. Bangladesh is eligible to receive SUW-SML financing and remained at low risk of debt distress in the latest Joint Bank-Fund DSA.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

49. **Many reforms supported by the DPC derive from the GoB's 8th FYP and sectoral strategies, which went through an extensive nationwide consultation process.** The GoB has a well-established approach to stakeholder consultation for the FYPs as well as for any major sectoral strategies. These involve public meetings with stakeholders, including from the private sector, civil society, and development partners, such as the Bangladesh Development Forum held in January 2020, to discuss the 8th FYP concept with Parliament, development partners, private sector, civil society, and academia. For most strategies, consultations are held at the district level across the country. New acts of Parliament, as well as amendments to existing acts, require a formal stakeholder consultation process. Documentation of how those consultations have been reflected in the proposed legislation is required prior to submission for Cabinet approval. The GoB has also organized stakeholder consultations for specific reforms supported by this operation.

50. **The World Bank is coordinating closely with development partners in Bangladesh.** The DPC supports the ongoing reform dialogue on fiscal, financial sector, procurement, and social protection reforms. This work includes close collaboration and regular technical exchanges with the IMF as well as bilateral development partners, particularly with respect to fiscal and financial sector reforms. Collaboration has also been ongoing with bilateral and multilateral development partners. The Asian Development Bank, the Japan International Cooperation Agency and Asian Infrastructure Investment Bank have provided budget support to the GoB. Bilateral development partners have contributed to the reform program under this DPC through technical assistance programs, including the United Kingdom Foreign, Commonwealth, and Development Office and the Australian Department of Foreign Affairs and Trade on payment infrastructure and social security policy support, and the European Union on public financial management, and revenue administration, and social protection.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

51. **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 the identification of the specific tariff and para-tariff lines to be adjusted. To guide the implementation of tariff and tax reform, the World Bank has prepared a Commitment to Equity model that can support policy option modeling and assess the impact of specific policy reforms on the poor, which will be used to support analysis of policy implementation. Over the longer term, a well-functioning, stable financial sector is expected to support poverty reduction by increasing access to finance.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

52. **The R&R DPC policies are not expected to have any significant negative effects on the country's environment and natural resources.** Implementing the NTP (PA1) 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 in parallel with mitigating measures, as implementation of the policy advances over the coming decade. The expansion of automated payments (PA2) and the implementation and institutionalization of a modern electronic public procurement system (PA3) are expected to reduce the use of consumable resources and travel. Reforms to strengthen the banking sector and for secured transactions (PA5-7) are expected to support greater private participation in green and climate finance. Stronger social protection systems (PA8-9) will help improve resilience to natural disasters and

other economic shocks. The MCPP (PA10) 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.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

53. **Over the past two decades, Bangladesh has improved its 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 the 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.

54. **The GoB PFM Action Plan (2018–23)[12] guided the implementation of the PFM Reform Strategy (2016–23).** A new PFM Reform Action Plan (2024-28) based on PEFA 2021 has been approved and the third PFM Reform Strategy (2024-2028) is now underway.[13] Despite the challenges posed by the COVID-19 pandemic, key progress has included: (i) a macro-forecasting model to improve the realism of revenue projections and expenditure allocations; (ii) preparation of medium-term revenue strategy and medium-term budget framework; (iii) debt Bulletin, annual budget, and budget execution reports published on the Finance Division's website; (iii) reduction of three to one month for the release of budget to 56 percent of drawing and disbursing officers; (iv) 100 percent electronic funds transfer to pensioners; (v) SOEs Independent Performance Evaluation Guideline to develop turnaround strategies; (vi) rollout of iBAS++ in all ministries and all the 541 account offices throughout the country under the Controller General of Accounts, among other. 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.

55. **Bangladesh has made notable progress over the last decade in strengthening its public procurement system.** The key interventions have included: bringing the procurement process online through the e-GP, implementing an extensive procurement capacity development program, and introducing citizen engagement in public procurement, approving Sustainable Public Procurement and contract implementation monitoring. Bangladesh e-GP system is a good example of use of disruptive technology in the field of procurement 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. World Bank's support to strengthen the public procurement system was supported through the Additional Financing of the Digitizing Implementation Monitoring and Public Procurement Project (P174056), which also supported the expansion of e-GP.

56. **Fund flow arrangement and foreign exchange control environment.** The GoB will open a dedicated United States Dollar foreign currency account with 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 expenditure in foreign currency or transfer the resources in local

[12] The GoB is preparing the new GoB PFM Action Plan for the period of (2024–28). The draft Plan is currently under public consultation.

[13] 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 (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.

currency to the consolidated fund to finance budgeted expenditures in 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 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.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

57. **The Ministry of Finance (MoF) leads the effort in coordinating the overall implementation of the DPC.** The Ministry has experience and is conversant 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.

58. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as PA or tranche release conditions under a World Bank DPF 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 complaints 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.

6. SUMMARY OF RISKS AND MITIGATION

59. **The overall risk rating for this operation is substantial.** Implementing 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. Implementing the DPC will require close coordination with government counterparts to ensure political support and consensus on the supported reforms.

60. **Macroeconomic, sector strategies and policies, institutional capacity for implementation and sustainability, and fiduciary risks are identified as substantial.** Macroeconomic risks are substantial as reform implementation could be deferred if economic conditions deteriorate, particularly fiscal and financial sector reforms. The implementation of tariff reforms may be delayed if additional import compression measures are adopted, as domestic revenue mobilization may come under challenge. Additional external sector pressure could also delay the implementation of financial sector reforms if the sector is impacted by foreign exchange shortages. Sector strategy and policy risks are substantial as a

result of the financial sector pillar, where the overall policy framework is still emerging. Rapid implementation of compulsory bank mergers without a sufficient asset quality review may undermine the reforms included in the DPC, for example. To mitigate this risk, World Bank staff will remain engaged with counterparts through technical assistance, investment project lending, and development policy financing, in close coordination with the IMF. Institutional capacity for implementation and sustainability remains a substantial risk. In the fiscal pillar, coordinating reductions in tariffs with measures to raise other types of tax will requires strong inter-ministerial coordination in areas where institutional roles responsibilities sometimes overlap. In the financial sector, effective supervision of a large number of domestic banks requires additional capacity. Capacity strengthening investment programs are ongoing, however, implementation capacity remains a residual risk to the PDO. Finally, fiduciary risks are identified as substantial, including FX control risks. Fund flow arrangements are designed to mitigate these risks, including the use of a dedicated foreign currency account as outlined above.

Table 5: Summary Risk Ratings

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

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPC1 (Completed)	**Prior Actions under DPC2**	**Indicator Name**	**Baseline (End FY2021)**	**Target (End FY2026)**
Pillar A – Fiscal Policies for Recovery and Resilience				
PA1: The Ministry of Commerce (MoC) has approved the Framework for the Formulation of the National Tariff Policy, including institutional responsibilities and implementation arrangements.	**PA1**: The Cabinet has approved a National Tariff Policy to reduce tariffs and simplify the tariff structure.	Average nominal protection rate on imports. (percent)	29.6 (June 2020)	25.0
PA2: The National Board of Revenue has published a Statutory Regulatory Order (SRO) to allow non-resident VAT registration and Bangladesh Bank has issued a Circular to domestic banks on reporting non-resident VAT withholdings.	**PA2:** The Ministry of Finance has adopted the A-Challan Payment System in all tax zones, for tax and non-tax payments, with mandatory use for personal income tax payments.	Total income tax and domestic VAT revenue collected by the National Board of Revenue. (BDT billions)	1,486.8 (June 2021)	2,442.0
PA3: The Central Procurement Technical Unit (CPTU) has established the Direct Procurement module in the national e-Government Procurement (e-GP) system.	**PA3:** Publication in the Bangladesh Gazette of the BPPA Act consolidating the responsibilities and authorities of procurement in the BPPA.	Average procurement lead time using e-GP system in selected public sector organizations. (days from invitation to contract award)	70.0 (June 2021)	55.0
Pillar B – Financial Sector Policies for Recovery and Resilience				
PA4: The Ministry of Finance has reduced the interest rates on National Savings Certificates (NSCs), the General Provident Fund (GPF), and the Contributory Provident Fund (CPF).	**PA4:** The Department of National Savings has limited purchases of National Savings Certificates (NSCs) to 50 percent of provident fund asset and ended automatic reinvestment of manually issued NSCs.	Net sales of National Savings Certificates. (Annual, BDT billions)	419.6 (June 2021)	100.0
PA5: Bangladesh Bank has issued a circular requiring all Scheduled Banks to prepare	**PA5:** Publication in the Official Gazette of the amendments to the Bank Company Act (BCA)	Banks with recovery plans prepared in line with Bangladesh Bank requirements. (percent)	0.0 (December 2021)	100.0

Prior actions and Triggers		Results		
recovery plans by June 30, 2022, and to update them on a regular basis.	strengthening the supervisory framework in line with good international practice.			
	PA6: Bangladesh Bank has issued a circular on Prompt Corrective Action (PCA) for all undercapitalized banks, including state-owned banks.	Proportion of undercapitalized banks with Prompt Corrective Actions. (percent)	0.0 (December 2021)	100.0
PA6: The Ministry of Finance has submitted the draft bill, *Payment and Settlement Systems Act, 2021*, to the Parliament to be introduced in its forthcoming session for approval.	**PA7**: Publication in the Official Gazette of the Secured Transactions Act to establish a notice-based security interest registry for movable assets.			
Pillar C – Strengthening Resilience to Future Shocks				
PA7: The Ministry of Social Welfare has approved a policy enabling rapid expansion of its cash transfer programs as a shock-responsive measure.	**PA8:** The Ministry of Finance has adopted a circular revising social protection programs reporting with a new classification system.	Women eligible for shock-responsive cash assistance. (number)	12,000 (June 2021)	7,000,000
PA8: The Ministry of Finance has approved a policy mandating use of the government-to-person (G2P) payment platform by cash-based programs, with uniform fees for all mobile financial services providers.	**PA9**: The Ministry of Finance has approved a policy mandating National Identification (NID) verification of phone numbers used to open mobile money accounts to receive benefits under selected cash-based programs.	Cash transfers made using the G2P Platform. (in BDT billions)	46.9 (June 30, 2021)	250.0
		Female-owned mobile financial services accounts. (number in millions)	49.9 (December 2021)	100.0
PA9: The Ministry of Power, Energy and Mineral Resources has canceled an estimated 8,451 MW of planned investment in coal-fired	**PA10:** The Cabinet has adopted the Mujib Climate Prosperity Plan, identifying critical adaptation and mitigation investments.	Renewable energy capacity enabled. (CRI) (As measured by Sustainable	777.2 (November 2021)	1,200.0

Prior actions and Triggers		Results		
power generation projects, consistent with Bangladesh’s Nationally Determined Contributions (NDC) 2021.		and Renewable Energy Development Authority, MWs)		
PA10: The Ministry of Housing and Public Works has adopted the National Building Code (BNBC) 2020 to improve energy efficiency and strengthen resilience to extreme climate events, and published it in the Official Gazette.				

RESULTS INDICATORS BY PILLAR

Baseline	Period 1	Closing Period
Pillar A - Fiscal Policies for Recovery and Resilience		
Average nominal protection rate on imports. (Percentage)		
May/2020		Jun/2026
29.6		25.0
Total income tax and domestic VAT revenue collected by the National Board of Revenue. (BDT billions) (Number)		
May/2021	May/2023	Jun/2026
1486.8	1896.1	2442.0
Average procurement lead time using e-GP system in selected public sector organizations. (days from invitation to contract award) (Days)		
May/2021	Jan/2024	Jun/2026
70.0	53	55.0
Pillar B - Financial Sector Policies for Recovery and Resilience		
Net sales of National Savings Certificates. (Annual, BDT billions) (Number)		
May/2021	May/2023	Jun/2026
419.6	-33	100
Banks with recovery plans prepared in line with Bangladesh Bank requirements. (Percentage)		
Dec/2021	Feb/2024	Jun/2026
0	100	100

Proportion of undercapitalized banks with Prompt Corrective Actions. (Percentage)		
Dec/2021		Jun/2026
0		100
Pillar C - Strengthening Resilience to Future Shocks		
Women eligible for shock-responsive cash assistance (Number of people)		
Jun/2021	Mar/2023	Jun/2026
12,000	6,358,000	7,000,000
Cash transfers made using the G2P Platform. (in BDT billions) (Number)		
Jun/2021	Nov/2023	Jun/2026
46.9	234.7	250.0
Female-owned mobile financial services accounts. (millions) (Number)		
Dec/2021	Nov/2023	Jun/2026
49.9	92.2	100.0
Renewable energy capacity enabled (Megawatt) [CRI]		
Nov/2021	Mar/2023	Jun/2026
777.20	966.50	1,200

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes 2023 Article IV Consultation with Bangladesh and Completes the First Review Under the Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility

December 12, 2023

- The IMF Executive Board completed the first review under the 42-month Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements for Bangladesh, providing the country with immediate access to about US$468.3 million.
- The IMF Executive Board also concluded the first review under Bangladesh's Resilience and Sustainability Facility (RSF) arrangement, making available about US$221.5 million in support of Bangladesh's ambitious climate change agenda.
- To restore near-term macroeconomic stability, monetary policy should be further tightened, supported by neutral fiscal policy and greater exchange rate flexibility. The IMF–supported program will lay the foundations to unlock Bangladesh's growth potential, harness its demographic dividend and support long-term inclusive and green growth.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed the first review under the ECF/EFF and RSF arrangements for Bangladesh, allowing the authorities to withdraw the equivalent to SDR 352.35 million (about US$468.3 million) under the ECF/EFF, and SDR 166.67 million (about US$221.5 million) under the RSF. This brings total disbursements under the ECF/EFF thus far to SDR 704.70 million (about US$936.6 million) and under the RSF to SDR 166.67 million (about US$221.5 million). The Executive Board also concluded the 2023 Article IV consultation with Bangladesh.[1], [2]

The ECF/EFF and RSF arrangements for Bangladesh were approved by the Executive Board on January 30, 2023 (see Press Release No. 23/25) in an amount equivalent to SDR 2.5 billion (231.4 percent of quota or about US$3.3 billion) under the ECF/EFF and SDR 1 billion (93.8 percent of quota or about US$1.4 billion) under the RSF. The ECF/EFF arrangement has helped preserve macroeconomic stability and prevent disruptive adjustments to protect the vulnerable, while laying the foundations for strong, inclusive, and environmentally sustainable growth. The concurrent RSF arrangement has supplemented the resources made available under the ECF/EFF to expand the fiscal space to finance climate investment priorities identified in the authorities' plans, help catalyze additional financing, and build resilience against long-term climate risks.

Bangladesh economy has been buffeted by multiple shocks. Spillovers from Russia's invasion of Ukraine and global monetary tightening have interrupted a strong post-pandemic recovery, with real GDP growth slowing to 6 percent in FY23 and headline inflation reaching a decade high of 9.9 percent year-on-year in August 2023. Due to strict import compression, the current account (CA) deficit narrowed considerably (¾ percent of GDP in FY23 compared to 4.1 percent of GDP in FY22). However, an unprecedented reversal of financial account, driven by global uncertainties and inadequate policy response, has kept FX reserves and the Taka under pressure.

Real GDP growth is projected to remain at 6 percent in FY24 on the back of relatively resilient exports, despite subdued private demand. Helped by continued monetary policy tightening and neutral fiscal stance, inflation is projected to moderate to 7¼ percent y-o-y by end-FY24, albeit slowly, on account of elevated inflation expectations. The fiscal stance is projected to stay neutral, with fiscal deficit at 4.6 percent of GDP in FY24 remaining broadly unchanged from FY23. The CA deficit is likely to remain compressed at around ¾ percent of GDP in FY24, while the financial account is expected to improve, including through timely repatriation of export proceeds. FX reserves are expected to increase gradually in the near term and are projected to reach about four months of prospective imports in the medium term. However, uncertainties around the outlook remain high and risks are tilted to the downside.

Following the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

"Bangladesh's economy is navigating multi-faceted economic challenges. Despite a difficult external environment, program performance has been broadly on track, reflecting the authorities' strong commitment. The Fund-supported program is helping restore macroeconomic stability and protect the vulnerable, while accelerating macro-critical structural reforms to bolster growth potential and delivering on the climate agenda.

"Near-term policies should continue to focus on containing inflation and rebuilding external resilience. This requires a calibrated monetary policy tightening, supported by a neutral fiscal stance, and greater exchange rate flexibility to alleviate foreign exchange pressures and rebuild buffers. Ongoing reforms to modernize the monetary policy framework will improve policy transmission and foster macroeconomic stability. Gradually transitioning to a more flexible exchange rate regime and strengthening FX reserve management would enhance external resilience.

"Raising tax revenues and rationalizing expenditures will allow increasing social, developmental, and climate-related spending. Continued efforts to enhance public financial and investment management are needed to increase spending efficiency and mitigate fiscal risks.

"Financial reforms should focus on addressing vulnerabilities in the financial sector, by strengthening banking regulation, supervision, and governance. Deepening capital markets will help mobilize financing to support growth objectives.

"Further trade liberalization and enhancements to the investment climate will help bolster export diversification and foreign direct investment. Raising productivity, including through education and upskilling, along with increasing female labor participation, is pivotal to boost growth potential.

"Building resilience to climate change and natural disasters is a priority for achieving high, inclusive, and green growth. In this context, strengthening institutions, improving climate spending efficiency, and mobilizing climate financing remain crucial."

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They noted that Bangladesh's economy has been buffeted by multiple external shocks. Directors noted however, that program performance is broadly on track despite the difficult environment and welcomed the recent implementation of corrective actions and the efforts to push key reforms forward, including with support from Fund capacity development. Directors stressed that near term policies should focus on containing inflation and building external resilience, while mitigating the impact of these policies on the most vulnerable. They also underscored the importance of addressing structural challenges to support strong, inclusive, and green growth.

Directors called for a calibrated monetary policy tightening, supported by a neutral fiscal stance, and for greater exchange rate flexibility to restore near term macroeconomic stability and bolster external resilience. They commended the authorities' efforts to further modernize the monetary policy framework, which will enhance policy transmission and help reduce inflation. Directors also welcomed the adoption of a unified exchange rate and stressed that a gradual transition to a more flexible regime is needed to enhance the economy's resilience to external shocks.

Directors emphasized that creating fiscal space for social spending and growth enhancing investment is critical. They stressed the need to raise tax revenues by implementing concerted tax policy and administration measures. Directors also called for rationalizing subsidies, improving expenditure efficiency, and better managing fiscal risks.

Directors underscored that advancing financial sector reforms remains important to meet growing financing needs and support growth. They emphasized the need to reduce banking sector vulnerabilities by implementing NPL reduction and capital restoring strategies in state owned commercial banks. Directors agreed that enhancing supervision and regulatory frameworks, strengthening governance, and developing domestic capital markets will help increase financial sector efficiency and mobilize financing to support growth objectives.

Directors encouraged the authorities to expedite long standing reforms to help Bangladesh reach upper middle income status. They emphasized that liberalizing trade, enhancing the investment climate and governance, upskilling the labor force, and increasing female labor force participation are crucial to attract more foreign direct investment (FDI), diversify exports, and boost growth potential. Given Bangladesh's high vulnerability to natural disasters and climate change, Directors underscored the need to improve climate responsive public investment management and advance green public financial management reforms. They noted that better management of climate related risks will help enhance financial sector resilience and mobilize private climate finance.

It is expected that the next Article IV consultation with Bangladesh will be held in accordance with the Executive board decision on consultation cycles for members with Fund arrangements.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] SDR figures for the disbursed are converted at the market rate of U.S. dollar per SDR on the day of the Board approval.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm .

ANNEX 3: LETTER OF DEVELOPMENT POLICY

আবুল হাসান মাহমুদ আলী, এমপি
মন্ত্রী
অর্থ মন্ত্রণালয়
গণপ্রজাতন্ত্রী বাংলাদেশ সরকার

Abul Hassan Mahmood Ali, MP
Minister
Ministry of Finance
Government of the People's Republic of Bangladesh

Memo No. MOF/Minister/2024/ **Date: 21 May 2024**

Subject: Letter of Development Policy for the Second Recovery and Resilience Development Policy Credit.

Dear Mr. Banga,

Bangladesh has made remarkable progress towards our long-term development objectives over the past three years, despite challenging external conditions. Our economic strategy is guided by our Perspective Plan 2021-2041 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 upper-middle income status by 2031 and to reach high income status by 2041. To progress toward these objectives, we have set out clear near-term targets in the 8th Five Year Plan (July 2020-June 2025).

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 poor by expanding safety nets, provided a buffer to workers impacted by job losses, and preserved productive capacity in the manufacturing sector through financing programs. Our economic response program helped ensure that our manufacturing sector was ready to respond to a recovery in global demand.

However, intensifying macroeconomic pressures have put our post-pandemic recovery at risk. External pressure has risen as a result of elevated global commodity prices, while synchronized global monetary policy tightening has raised the cost of external financing. Real GDP slowed from 7.1 percent in FY22 to 5.8 percent in FY23 as persistent inflationary pressure dampened consumption growth. We have faced a balance of payments deficit driven by a current account deficit in FY22, and a financial account deficit in FY23 and the first half of FY24. Gross international reserves declined to US$ 20.0 billion (as per BPM6) by April 2024, down from US$ 24.8 billion at the outset of the fiscal year.

To respond to these challenging conditions, we have adopted new monetary and fiscal policies. Monetary policy has been tightened with a cumulative 375 basis point increase in the main policy rate since May 2022. Bangladesh Bank has also taken steps to improve monetary policy transmission and move towards market-based interest rate. The six-month moving average rate of treasury bills (SMART) reference rate for determining the lending rates of banks and non-bank financial institutions has been abolished. These institutions will set interest rates based on the interaction of demand and supply in the market as well as the banker-customer relationship. To bring more flexibility in the foreign exchange market, Bangladesh Bank has introduced a crawling peg system for buying and selling foreign currencies, which will be adjusted as needed. The crawling peg system will be an interim arrangement before moving to a fully flexible market-based system in the near future. Under the system, a crawling peg mid rate (CPMR) has been set at Taka 117 per USD where scheduled banks may purchase and sell

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USD freely around the CPMR with their customers and in interbank deals with effect from May 09, 2024.

Fiscal policies have been adjusted to help contain the deficit. Export incentives have been reduced and a market-based automatic fuel pricing mechanism for gasoline, diesel, petrol, and kerosine has been adopted. These measures have reduced subsidy and incentive costs. At the same time, we have adjusted fiscal policy to mobilize additional tax revenues. We are preparing a Medium- and Long-Term Revenue Strategy (MLTRS) to guide tax policy and tax administration reforms, which is currently in public consultation. Rationalization of the use of National Savings Certificates (NSCs) have helped to reduce domestic borrowing costs. These measures have helped contain the fiscal deficit.

As we approach graduation from Least Developed Country (LDC) status in 2026, our government is focused on accelerating growth and strengthening competitiveness. The implementation of the 8th Five Year Plan will require substantial reforms to increase government revenue performance, improve the private investment climate, diversify exports, and create more and better-quality jobs. Bangladesh is also facing new challenges that require further investment in resilience to prepare for the substantial impacts of climate change, as we are among the most vulnerable climate-affected countries in the world.

In this context, we embarked on a two-part program of reforms under the *Recovery and Resilience Development Policy Credit (DPC)* series in partnership with the World Bank. This program has strengthened fiscal and financial sector policies to sustain growth and enhanced resilience to future shocks, including climate change. As outlined below, our Government has undertaken fiscal and financial sector policies that enhance macroeconomic stability while advancing structural reforms to strengthen the foundations for sustained growth. To build resilience against future shocks, including climate change, we have also taken actions to expand the coverage and efficiency of social protection programs and to support energy transition and decarbonization.

1. Fiscal policies for recovery and resilience

Tariff modernization

Trade policy reforms adopted in the 1990s helped Bangladesh begin the transition from a high reliance on import substitution to integration in global markets. However, our export basket remains highly concentrated in the readymade garment (RMG) sector. To sustain the recovery and accelerate growth beyond the LDC graduation, we plan to strengthen our international competitiveness and promote export diversification in terms of products and markets. The 8th Five Year Plan notes that high levels of protection for local industries discourages efficiency and competitiveness, making domestic markets more profitable than global markets, limiting new types of exports. Tariff reform can play an important role in enhancing the competitiveness of domestic products, diversifying export products and markets, facilitating investment, and creating jobs.

In this context, our Government has formulated a National Tariff Policy to guide implementation of the tariff reforms planned under the 8th Five Year Plan. Under this plan, we target a reduction in average

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nominal protection rates by 3 to 5 percentage points per year, primarily by reducing nominal protection rates on import-substitute consumer goods. To formulate the National Tariff Policy, we formed a 14-member interministerial committee in May 2021, led by the Ministry of Commerce and including the Ministry of Finance, the National Board of Revenue, and the Bangladesh Trade and Tariff Commission. This committee finalized the National Tariff Policy, which has been adopted and was published in the National Gazette on August 10, 2023. The Policy sets principles for tariff and para-tariff determination consistent with our WTO commitments. As a next step, the National Board of Revenue will prepare an implementation action plan for this policy, which will be enacted through annual budgets.

Revenue mobilization

Strengthening domestic revenue mobilization is essential to finance the infrastructure and human capital investments needed to sustain growth, and to effectively respond to economic shocks. At the same time, improved administration and simplification will enhance the business climate. Bangladesh remains highly dependent on trade-related taxes – nearly one-third of total revenues originated from trade-based taxes over the past decade. As we transition away from a high reliance on tariffs and supplementary duties, increasing revenue from consumption and income taxes will be critical.

Strengthening VAT administration and expanding the VAT base holds substantial potential to address the tax gap. In this context, our government has implemented an electronic filing system to implement VAT legislation that increases taxpayer compliance and reduces transaction and administrative costs. Under the Recovery and Resilience DPC, we expanded the VAT tax base by addressing policy gaps on international digital services. Foreign firms can now obtain a business identification number, submit VAT returns, and make payments, without requiring the establishment of a local head office.

Under DPC2, the Ministry of Finance has adopted an enhanced at-source tax withholding system (the automated challan, or A-Challan system) nationwide to strengthen income tax withholding payments. As it has been implemented in all tax zones, the use of the A-Challan system is now mandatory for personal income tax payments. This has increased the efficiency of tax payments, reduced contact between taxpayers and tax officials, and increased the reliability of revenue accounting through the Treasury Single Account.

Efficient public procurement

Our Government has introduced online procurement systems to reduce corruption and increase competitiveness in government contracts, as it will enhance both more participation and transparency in the tender process guiding public procurement. The 8th Five Year Plan aims to expand e-procurement (e-GP) to improve the accountability of public administration, targeting adoption of e-GP by all public institutions by 2025.

The Recovery and Resilience DPC expanded the use of e-GP to the Direct Procurement method in DPC1. This method refers to non-competitive procurement from a single source. It is permitted under exceptional circumstances specified in the Public Procurement Rules, which include emergency situations such as pandemics and natural disasters (including extreme weather events caused or

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exacerbated by climate change). A Direct Procurement Module was created in the e-GP system in December 2021. This measure enables procuring entities to use the e-GP system for fast-track procurement of urgently required goods, works and services in emergency situations. This electronic platform is expected to reduce the amount of time and number of steps required to process requests for direct procurement during post-disaster financing, while increasing transparency.

Under DPC2, the Bangladesh Public Procurement Authority (BPPA) Act was adopted by Parliament on September 18, 2023, to consolidate the responsibilities, authorities, and autonomy of the BPPA, including in emergency situations. This is expected to strengthen the regulation and oversight of the public procurement system, overcoming constraints the former Central Procurement Technical Unit (CPTU) faced in effectively performing regulatory and oversight functions due to its legal structure, lack of autonomy in decision making, limited staffing and analytical and research capability.

2. Financial sector policies for recovery and resilience

Development of domestic capital markets

Private sector financing will play a critical role in meeting investment needs in Bangladesh. The 8th Five Year Plan targets an increase in private investment from 23 percent of GDP in FY20 to 27 percent of GDP in FY25. To achieve this target, domestic and international savings will need to be channeled toward productive investment. This will require restructuring and deepening of the financial system, including developing a long-term finance and domestic securities market. This is also critical to scaling up private sector financing as part of our Mujib Climate Prosperity Plan.

Over the past decade, government-operated savings schemes attracted substantial capital inflows. National Savings Certificates (NSCs), the General Provident Fund (GPF), and the Contributory Provident Fund (CPF) have offered above-market rates in non-tradable risk-free instruments. Going forward, our Government intends to reduce the use of these NSC, GPF, and CPF instruments in favor of market-based instruments such as longer-term Treasury Bills and Bonds, with a well-developed secondary market and yield curve. Reduced use of NSCs is expected to stimulate the expansion of domestic private capital markets while reducing the interest costs on new government debt.

In DPC1, NSC, GPF and CPF interest rates were reduced in October 2021 by between 1 and 3 percentage points, with larger decreases for higher volume purchasers. Net sales of NSC have declined significantly, with negative net issuance over the first seven months of FY2024. In DCP2, our Government introduced a limit on the purchase of NSCs by provident funds to not more than 50 percent of assets. This limitation includes the CPF as well as other provident funds as defined in income tax legislation. Only provident funds recognized under this legislation and issuing audited financial statements are permitted to purchase NSCs.

Strengthening banking sector stability

Strengthening banking sector stability is central to sustaining the post-pandemic recovery and building strong foundations for future growth. This requires improved banking sector governance and tackling

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the high level of non-performing loans (NPLs). As stated in the 8th Five Year Plan, our Government has committed to reduce NPLs in the banking sector and to initiate reforms to improve banking sector governance. These actions will help ensure steady credit growth to the real sector, especially micro, small, and medium enterprises (MSMEs).

A clear framework to recognize banking sector vulnerabilities and to take measures to mitigate them is key to ensure stable and efficient financial intermediation in support of private sector recovery and growth. In this context, Bangladesh Bank, in line with its February 2022 circular on recovery plan, required all banks to prepare recovery plans before the end of 2022 and update them annually as part of DPC1. Since then, recovery plans have been prepared by all banks and are reviewed by Bangladesh Bank for further enhancements to ensure that bank management and shareholders have adequate strategies to assess and address existing and potential risks (including climate change, NPLs and technological risks) and have developed adequate strategies with clear actions that need to be taken to maintain soundness and to ensure regulatory compliance and profitability.

To further strengthen banking sector stability, in June 2023 Parliament adopted revisions to the Bank Company Act as part of DPC2. These amendments strengthened the regulatory framework for dealing with weak banks and SOBs, and introduced enforcement requirements to reduce NPLs of willful defaulters. In December 2023, Bangladesh Bank issued a circular to introduce a Prompt Corrective Action (PCA) framework that will be enforced from April 1, 2025. This framework puts all undercapitalized banks under PCA with time-bound measures to address capital deficiency and other regulatory non-compliance, including reduction of NPLs.

To advance the corporate governance of all banks, in February 2024 Bangladesh Bank adopted three circulars setting out strengthened criteria for the appointment of board directors, managing directors and CEOs (including education, professional experience, minimum age, and total service term), and clarified fit and proper criteria for independent directors. The circulars excluded candidates convicted of criminal offences, tax defaulters, and willful defaulters of bank loans.

We recognize the importance of further improving the corporate governance of state-owned banks (SOBs). Complementary to Bangladesh Bank corporate governance requirements, the Financial Institutions Division of MoF issued revisions to its December 2022 circular with additional requirements for corporate governance of SOBs in April 2024. These include provision for inclusion of women directors into the SOB boards, and establishment of Selection Committees to recruit SOB board members. To further strengthen the corporate governance of SOBs and align with international good practice, we are committed to increasing the minimum share of independent directors in SOB boards to at least one third of the total number of board members over the next 12 months and implement the requirements introduced by Bangladesh Bank and Financial Institutions Division circulars within this period.

We are committed to continue financial sector reform implementation as part of a broader effort to strengthen banking sector stability. We will continue efforts to reduce the stock and flow of non-

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performing assets. Our priorities include enhancing credit market infrastructure and creating a secured transactions registry, enhancing operations of the credit reporting system, facilitating development of private sector asset management companies. We will bring the definition and recognition of NPLs in line with international standards and enhance reporting and disclosure standards in line with IFRS 9. We will continue strengthening legislation to address problem banks and financial institutions and to strengthen financial safety nets such as deposit insurance and the bank resolution framework. We will continue to enhance our regulatory framework by removing regulatory forbearance and waivers which are not compliant with international standards, including regulatory requirements for dividend payouts (even for loss-making and undercapitalized banks), rationalizing taxation of retained bank profits, loan classification and provision, capital definitions (in line with Basel III), enhancing information disclosure (including ultimate beneficial ownership), enforcing related-party limits, and gradually introducing risk-based consolidation supervision of corporate groups. These measures will require further knowledge transfer and capacity building for legal, regulatory reforms, and supervisory enforcement.

Modernizing financial system infrastructure

A modern financial system infrastructure is critical to enhance the efficiency, reliability, and accessibility of financial services. To this end, Cabinet approved the draft of a new Payment and Settlement System Act. This legislation will create a holistic legal and regulatory framework for development and oversight of the payments and settlement system and its services providers to foster development of more resilient, efficient, and accessible payments services and systems, and support the growth of digital and mobile financial services. The legislation was submitted to Parliament in February 2022, and was referred to the relevant standing committee. Observations from the standing committee were incorporated in April 2024, and the legislation was tabled in Parliament in May 2024. We expect that after review by the relevant standing committee, the legislation will be promptly submitted to the House for enactment.

Our Government is committed to creating a modern secured transactions framework to improve access to credit, particularly for MSMEs. With World Bank Group technical assistance, the Government has enacted the Secured Transactions Act under DPC2 and is now working on its implementation. A special working group has been created to implement the reform, including creation of an online real-time security interests' registry for movable assets. This reform will further support development of MSME lending and will contribute to financial stability, economic recovery, and the financial inclusion agenda in Bangladesh.

3. Strengthening resilience against future shocks

Strengthening Shock-Resilient Social Protection Programs

Our Perspective Plan 2021-41 stresses the importance of achieving pro-poor growth, with social safety net programs that protect vulnerable groups. The COVID-19 pandemic has shown the importance of effective social safety net programs to respond to economic shocks. Strengthening these programs is

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critical to address the disproportionate vulnerability of women to economic shocks. This will be increasingly important as we build resilience to climate-related disasters and shocks.

In this context, our Government is committed to strengthen the efficiency and shock adaptive capacity of social protection programs, including programs that target widowed, separated and elderly women. We expanded access to cash transfer programs as a shock-responsive measure as part of DPC1, supporting the temporary expansion of cash transfer programs to protect vulnerable people during economic shock with provisions to reach previously excluded members of the population. In addition, we mandated the use of the government-to-person (G2P) payment platform by cash-based programs, with uniform fees for all mobile financial services providers using the Government's G2P payment platform. This has improved program speed, efficiency, and transparency, which will also help mitigate climate shocks.

We have continued strengthening social protection programs through enhanced financial reporting under DPC2 by adopting a circular revising social protection program reporting with a new classification system. This will increase the transparency and accountability of social protection programs and will improve our budget planning.

We have also adopted a circular mandating the National Identification (NID) verification of phone numbers used to open mobile money accounts to receive benefits under selected cash-based programs. This measure is expected to increase female ownership of mobile money accounts, while strengthening the integrity of cash transfer programs. To ensure that timely implementation of this circular, we will host an implementation workshop with relevant ministries jointly with the World Bank.

The Government is committed to ensure that the collection, use and processing of any personal data collected under any of the initiatives supported in the DPC series will be done in accordance with good international practice, ensuring legitimate, appropriate, and proportionate treatment of such data.

Transitioning to a Low-Carbon Growth Model

A sustainable development pathway that is resilient to disaster and climate change is one of six core themes of the 8th Five Year Plan. Bangladesh is one of the most climate-vulnerable countries in the world. In this context, enhancing climate adaptation is one of our most important policy priorities. Bangladesh remains a forerunner in climate adaptation. Bangladesh has prepared a National Adaptation Plan (NAP) Roadmap to reduce vulnerability to the impacts of climate change by building adaptive capacity and resilience. Our government has adopted the *Bangladesh Delta Plan 2100*, a comprehensive 100-year strategic plan aimed at gradual sustainable development through adaptive delta management process that aims to achieve a safe, climate-resilient, and prosperous delta.

Our Government is also committed to addressing the climate agenda through mitigation measures. In our Nationally Determined Contributions submission in 2021, we have committed to reduce greenhouse gas emissions by following a low carbon development pathway. Bangladesh has voluntarily committed to reduce 12 Mt CO_2 equivalent in the power, transport and industrial sectors by 2030 or 5 percent below business-as-usual (BAU) emissions for those sectors. We have also committed an

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additional 24 Mt CO_2 equivalent in these sectors by 2030 or 10 percent below BAU emissions, conditional on sufficient international support.

Under the 8th Five Year Plan, our Government will have an increased focus on energy efficiency. The Government is working towards a more sustainable energy mix with a goal to have 40 percent of energy from renewable sources by 2041. In DPC1, our Government canceled 10 coal-based power plants from the investment plan of the Ministry of Power, Energy and Mineral Resource with an estimated cost of US$ 12 billion. The Ministry of Housing and Public Works also adopted the National Building Code (BNBC) to improve energy efficiency and strengthen resilience to extreme climate events. Under DPC2, the Cabinet approved the Mujib Climate Prosperity Plan – a major national policy to guide investment in climate adaptation and mitigation as part of our long-term development objectives.

Private sector participation is important to scale up investments in the energy sector. Our Government is committed to undertake necessary reforms to operationalize the participation of the domestic and foreign private sector (IPPs and PPPs) in energy sector development under the supervision of effective regulatory authority. Our Government will seek to adopt a PPP policy for the transmission sector to enable private sector participation in power transmission projects. We will also seek to identify pilot transmission PPP projects based on Government priorities. These pilot projects may help establish model documents for future PPP projects.

4. Closing

In closing, allow me to reiterate our sincere appreciation to the World Bank for its ongoing support to Bangladesh as we continue working together in partnership. We request World Bank support for our reform agenda, which will strengthen fiscal and financial sector policies to sustain growth and will enhance resilience to future shocks, including climate change, under the First Recovery and Resilience DPC.

Sincerely Yours,

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ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar A – Fiscal Policies for Recovery and Resilience		
PA1: The Cabinet has approved a National Tariff Policy to reduce tariffs and simplify the tariff structure.	No	Yes, to be determined
PA2: The Ministry of Finance has adopted the A-Challan Payment System in all tax zones, for tax and non-tax payments, with mandatory use for personal income tax payments.	No	No
PA3: Publication in the Bangladesh Gazette of the BPPA Act consolidating the responsibilities and authorities of procurement in the BPPA.	Yes, Positive	Yes, Positive
Pillar B – Financial Sector Policies for Recovery and Resilience		
PA4: The Department of National Savings has limited purchases of National Savings Certificates (NSCs) to 50 percent of provident fund asset and ended automatic reinvestment of manually issued NSCs.	No	No
PA5: Publication in the Official Gazette of the amendments to the Bank Company Act (BCA) strengthening the supervisory framework in line with good international practice.	No	No
PA6: Bangladesh Bank has issued a circular on Prompt Corrective Action (PCA) for all undercapitalized banks, including state-owned banks.	No	No
PA7: Publication in the Official Gazette of the Secured Transactions Act to establish a notice-based security interest registry for movable assets.	No	Yes, Positive
Pillar C – Strengthening Resilience to Future Shocks		
PA8: The Ministry of Finance has adopted a circular revising social protection programs reporting with a new classification system.	No	Yes, Positive
PA9: The Ministry of Finance has approved a policy mandating National Identification (NID) verification of phone numbers used to open mobile money accounts to receive benefits under selected cash-based programs.	No	Yes, Positive
PA10: The Cabinet has adopted the Mujib Climate Prosperity Plan, identifying critical adaptation and mitigation investments.	No	Yes, Positive

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Program Development Objective: 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.	
Step 1: Taking into account our climate analysis (e.g., 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?	**Answer:** Yes. **Explanation:** This Program supports key CCDR recommendations to increase financial intermediation to support greater investment in climate adaptation, which is a foundation for implementation of the Government of Bangladesh's NDC commitments and the financing of its NAP. It supports greater access to shock responsive cash transfer programs, that will be of increasing importance as a result of the potential impacts of climate change (supporting NAP Goal 1). Finally, the operation supports the adoption of a national climate prosperity plan.
Mitigation goals: assessing and reducing the risks	
Pillar A – Fiscal Policies for Recovery and Resilience	
PA1: The Cabinet has approved a National Tariff Policy to reduce tariffs and simplify the tariff structure.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. The national tariff policy is not expected to have a direct impact on GHG emissions. Tariff adjustments will be made in future budgets. Tariff reform may support adoption of renewable energy technologies, many of which are currently subject to high duties.
Conclusion for PA1: This prior action is aligned with the Mitigation Goals of the Paris Agreement.	
PA2: The Ministry of Finance has adopted the A-Challan Payment System in all tax zones, for tax and non-tax payments, with mandatory use for personal income tax payments.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This prior action is expected to reduce travel and logistics costs, potentially reducing GHG emissions.
Conclusion for PA2: This prior action is aligned with the Mitigation Goals of the Paris Agreement.	
PA3: Publication in the Bangladesh Gazette of the BPPA Act consolidating the responsibilities and authorities of procurement in the BPPA.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This is an institutional reform to strengthen the procurement authority, which operates the national electronic procurement system. The adoption of electronic procurement is likely to decrease GHG by reducing travel, printing, and related requirements.
Conclusion for PA3: This prior action is aligned with the Mitigation Goals of the Paris Agreement.	
Pillar B – Financial Sector Policies for Recovery and Resilience	
PA4: The Department of National Savings has limited purchases of National Savings Certificates (NSCs) to 50 percent of provident fund asset and ended automatic reinvestment of manually issued NSCs.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This prior action is not related to GHG emissions.
Conclusion for PA4: This prior action is aligned with the Mitigation Goals of the Paris Agreement.	
PA5: Publication in the Official Gazette of the amendments to the Bank Company Act (BCA) strengthening the supervisory framework in line with good international practice.	
PA6: Bangladesh Bank has issued a circular on Prompt Corrective Action (PCA) for all undercapitalized banks, including state-owned banks.	

Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. These prior actions (PA5, 6, 7) are expected to strengthen the banking sector and will not impact GHG emissions. These PAs may help to resolve key vulnerabilities that have impaired intermediation of green and climate financing.
Conclusion for PA5, PA6: These prior actions are aligned with the Mitigation Goals of the Paris Agreement.	
PA7: Publication in the Official Gazette of the Secured Transactions Act to establish a notice-based security interest registry for movable assets.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This prior action is not expected to significantly increase GHG emissions and is expected to support the transition to a low-GHG emissions pathway by enabling new types of financial transactions.
Conclusion for PA7: This prior action is aligned with the Mitigation Goals of the Paris Agreement.	
Pillar C – Strengthening Resilience to Future Shocks	
PA8: The Ministry of Finance has adopted a circular revising social protection programs reporting with a new classification system.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This prior action will not contribute significantly to GHG emissions and is likely to reduce barriers to a low-GHG development pathway by supporting transparent management of social protection programs that are used to respond to shocks, including those related to climate change.
Conclusion for PA8: This prior action is aligned with the Mitigation Goals of the Paris Agreement.	
PA9: The Ministry of Finance has approved a policy mandating National Identification (NID) verification of phone numbers used to open mobile money accounts to receive benefits under selected cash-based programs.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This prior action will not contribute significantly to GHG emissions and is likely to reduce barriers to a low-GHG development pathway by supporting greater access and efficiency in social protection programs that are used to respond to shocks, including those related to climate change.
Conclusion for PA9: This prior action is aligned with the Mitigation Goals of the Paris Agreement.	
PA10: The Cabinet has adopted the Mujib Climate Prosperity Plan, identifying critical adaptation and mitigation investments.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This prior action will not contribute significantly to GHG emissions. This climate prosperity plan is a key national policy that will support the transition to a low-GHG emission pathway.
Conclusion for PA10: This prior action is aligned with the Mitigation Goals of the Paris Agreement.	
Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program The Program is aligned with the Mitigation Goals of the Paris Agreement.	
Adaptation and resilience goals: assessing and managing the risks	
Pillar A – Fiscal Policies for Recovery and Resilience	
PA1: The Cabinet has approved a National Tariff Policy to reduce tariffs and simplify the tariff structure.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. The national tariff policy is unlikely to be impacted by climate hazards as it is a high-level policy reform.
Conclusion for PA1: This prior action is aligned with the Adaptation Goals of the Paris Agreement.	
PA2: The Ministry of Finance has adopted the A-Challan Payment System in all tax zones, for tax and non-tax payments, with mandatory use for personal income tax payments.	

Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Electronic payment systems are not likely to be impacted by climate hazards and may strengthen resilience in periods of shocks from climate or natural disasters.
Conclusion for PA2: This prior action is aligned with the Adaptation Goals of the Paris Agreement.	
PA3: Publication in the Bangladesh Gazette of the BPPA Act consolidating the responsibilities and authorities of procurement in the BPPA.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Climate hazards are not expected to impact this PA and its contribution to the PDO, as it is an institutional reform.
Conclusion for PA3: This prior action is aligned with the Adaptation Goals of the Paris Agreement.	
Pillar B – Financial Sector Policies for Recovery and Resilience	
PA4: The Department of National Savings has limited purchases of National Savings Certificates (NSCs) to 50 percent of provident fund asset and ended automatic reinvestment of manually issued NSCs.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. This prior action is not expected to be impacted by climate hazards and does not require mitigation measures.
Conclusion for PA4: This prior action is aligned with the Adaptation Goals of the Paris Agreement.	
PA5: Publication in the Official Gazette of the amendments to the Bank Company Act (BCA) strengthening the supervisory framework in line with good international practice.	
PA6: Bangladesh Bank has issued a circular on Prompt Corrective Action (PCA) for all undercapitalized banks, including state-owned banks.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Implementation of PA5 and PA6 are unlikely to be impacted by climate hazards. Once implemented, these prior actions are expected to reduce banking sector vulnerabilities, which would in turn support financial sector resilience in the event of shocks from climate change or natural disasters.
Conclusion for PA5, PA6: These prior actions are aligned with the Adaptation Goals of the Paris Agreement.	
PA7: Publication in the Official Gazette of the Secured Transactions Act to establish a notice-based security interest registry for movable assets.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. The adoption of this legislation is not likely to be affected by climate hazards. Over the longer term, this prior action is expected to support greater financial sector intermediation, including the introduction of insurance products that may help mitigate climate risks.
Conclusion for PA7: This prior action is aligned with the Adaptation Goals of the Paris Agreement.	
Pillar C – Strengthening Resilience to Future Shocks	
PA8: The Ministry of Finance has adopted a circular revising social protection programs reporting with a new classification system.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. This prior action is unlikely to be affected by climate hazards. It is an institutional reform to increase transparency and allocative efficiency of social protection programs.
Conclusion for PA8: This prior action is aligned with the Adaptation Goals of the Paris Agreement.	
PA9: The Ministry of Finance has approved a policy mandating National Identification (NID) verification of phone numbers used to open mobile money accounts to receive benefits under selected cash-based programs.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. This prior action is unlikely to be affected by climate hazards. In the event of a climate or natural disaster, this prior

	action will support more rapid deployment of shock-responsive cash transfer programs.
Conclusion for PA9: This prior action is aligned with the Adaptation Goals of the Paris Agreement.	
PA10: The Cabinet has adopted the Mujib Climate Prosperity Plan, identifying critical adaptation and mitigation investments.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. This prior action is a national policy, unlikely to be adversely affected by climate hazards. This climate prosperity plan is designed to support medium and long-term investments in climate change adaptation and mitigation.
Conclusion for PA10: This prior action is aligned with the Adaptation Goals of the Paris Agreement.	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT:	
This Program is aligned with the Adaptation and Mitigation Goals of the Paris Agreement.	

ANNEX 6: MATRIX OF KEY CHANGES TO ORIGINAL POLICY MATRIX IN A PROGRAMMATIC SERIES

DPC2 triggers at time of DPC1 approval	Proposed DPC2 Prior Actions	Substantive Changes (if any)
Pillar A – Fiscal Policies for Recovery and Resilience		
Trigger 1: Cabinet approves a National Tariff Policy to reduce tariffs and simplify the tariff structure.	**PA1:** The Cabinet has approved a National Tariff Policy to reduce tariffs and simplify the tariff structure.	None.
Trigger 2: The Ministry of Finance has rolled out the A-Challan system for at-source income tax withholding in all tax zones across the country.	**PA2:** The Ministry of Finance has adopted the A-Challan Payment System in all tax zones, for tax and non-tax payments, with mandatory use for personal income tax payments.	Broadened to cover tax and non-tax payment types covered by the A-Challan payment system and adding mandatory use for personal income tax payments. This expands coverage beyond the original trigger.
Trigger 3: The Recipient has enacted the Bangladesh Public Procurement Authority (BPPA) Act to consolidate the responsibilities and authorities of the BPPA, including in emergency situations.	**PA3:** Publication in the Bangladesh Gazette of the BPPA Act consolidating the responsibilities and authorities of procurement in the BPPA.	None.
Pillar B – Financial Sector Policies for Recovery and Resilience		
Trigger 4: The Department of National Savings adopts an automated system to link issuance of instruments to national identity cards.	**PA4:** The Department of National Savings has limited purchases of National Savings Certificates (NSCs) to 50 percent of provident fund asset and ended automatic reinvestment of manually issued NSCs.	Controlling provident fund purchases of NSCs with individual ID cards was not feasible as institutions purchase these instruments at a portfolio level for all plan participants. The prior action was strengthened to reach the same result, with a cap on provident fund assets invested in NSCs and a limitation on automatic reinvestment of NSCs issued outside of automated systems.
Trigger 5: The Recipient has enacted amendments to the Bank Company Act (BCA) to strengthen the supervisory framework in line with good international practice.	**PA5:** Publication in the Official Gazette of the amendments to the Bank Company Act (BCA) strengthening the supervisory framework in line with good international practice.	None.
Trigger 6: Bangladesh Bank has issued a circular on Prompt Corrective Action (PCA) for all undercapitalized banks, including state-owned banks.	**PA6:** Bangladesh Bank has issued a circular on Prompt Corrective Action (PCA) for all undercapitalized banks, including state-owned banks.	None.
Trigger 7: The Ministry of Finance has issued a circular with strengthened corporate governance requirements for SOBs in line with international good practice.	Dropped.	This reform has not yet been fully implemented. Key recommendations on board composition, remuneration, and accountability remain under discussion. In the LDP, the authorities have committed to introducing a minimum of one-third independent directors on SOB boards within 12 months.
Trigger 8: The Recipient has enacted the Secured Transactions Act and established	**PA7:** Publication in the Official Gazette of the Secured Transactions Act to establish	None.

a notice-based security interest registry for movable assets.	a notice-based security interest registry for movable assets.	
Pillar C – Strengthening Resilience to Future Shocks		
Trigger 9: The Ministry of Finance has approved a reclassified list of social protection programs in the FY23 budget.	**PA8:** The Ministry of Finance has adopted a circular revising social protection programs reporting with a new classification system.	Amended to remove reference to the FY23 budget, given the additional time taken for completion of the action and to reflect that this reporting will continue in all future annual publications.
Trigger 10: The Recipient has approved a policy mandating use of the National Household Database (NHD) for beneficiary identification by major social protection programs.	**PA9:** The Ministry of Finance has approved a policy mandating national identification (NID) verification of phone numbers used to open mobile money accounts to receive benefits under selected cash-based programs.	The NHD is not ready for use in social protection programs, and the system requires further investment. The action was amended to close a key control gap in existing social protection program.
Trigger 11: The Ministry of Power, Energy and Mineral Resources has adopted a PPP policy for the transmission sector to allow private sector participation in power transmission projects.	Dropped.	This policy remains under development with IFC support and strong GoB commitment (see LDP). However, further technical assistance was required to design this policy, moving it beyond the timeline of the DPC.
Trigger 12: The Recipient adopts the Mujib Climate Prosperity Plan, which includes retrofitting the built environment to adapt to the impacts of climate change.	**PA10:** The Cabinet has adopted the Mujib Climate Prosperity Plan, identifying critical adaptation and mitigation investments.	This action remains substantially unchanged. The prior action was amended to reflect the broad strategic coverage of the plan.