



**ASIAN INFRASTRUCTURE
INVESTMENT BANK**

P000814
June 12, 2024

**Sovereign-backed Financing
Program Document**

People's Republic of Bangladesh

PD000814 - Climate Resilient Inclusive Development Program (Subprogram 1)

Currency Equivalents

(As at date, April 24, 2024)

Currency Unit – Bangladesh Taka (BDT)
BDT 1.00 = USD 0.0091
USD 1.00 = BDT 109.62

Borrower's Fiscal year
July 1 to June 30

Abbreviations

ADB	Asian Development Bank
ADP	Annual Development Program
AIIB	Asian Infrastructure Investment Bank
APU	Auxiliary Power Unit
BAU	Business As Usual
BB	Bangladesh Bank
BCCTF	Bangladesh Climate Change Trust Fund
BCDP	Bangladesh Climate and Development Partnership
BDP2100	Bangladesh Delta Plan 2100
CAP	Climate Action Plan
CCDR	Country Climate Development Report
CPBF	Climate Policy-Based Financing
COVID-19	Coronavirus Disease 2019
CReLIC	Climate Resilient Local Infrastructure Center
CRT	Climate-Resilient Tools
ECF	Extended Credit Facility
EFF	Extended Fund Facility
ESP	Environmental and Social Policy of AIIB
E&S	Environmental and Social
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GESI	Gender Equality, and Social Inclusion
GHG	Greenhouse Gas
GJ	Gigajoule
GoB	Government of Bangladesh
GW	Gigawatts
IAM	Independent Accountability Mechanism
ICLEI	International Council for Local Environmental Initiatives
IEG	Independent Evaluation Group of the World Bank
IEPMP	Integrated Energy and Power Masterplan
IMF	International Monetary Fund
LGED	Local Government Engineering Department
MCPP	Mujib Climate Prosperity Plan
MDBs	Multilateral Development Banks
MoA	Ministry of Agriculture
MoEFCC	Ministry of Environment, Forestry, and Climate Change
MoF	Ministry of Finance
MoLGRDC	Ministry of Local Government, Rural Development and Co-operatives

MoP	Ministry of Planning
MoPEMR	Ministry of Power, Energy, and Mineral Resources
MoRTB	Ministry of Road Transport and Bridges
MoWR	Ministry of Water Resources
MT	Metric Tons
MtCO ₂ e	Metric tons of Carbon Dioxide equivalent
MW	megawatts
NAP	National Adaptation Plan
NCECC	National Committee for Environment and Climate Change
NDC-U	Nationally Determined Contributions 2021 update
NPL	Non-Performing Loan
NSCs	National Savings Certificates
PA	Paris Alignment
PBF	Policy-Based Financing
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPM	Project-affected People's Mechanism
RA	Reform Area
RSF	Resilience and Sustainability Facility
SDR	Special Drawing Rights
SPS	Safeguard Policy Statement of ADB
SREDA	Sustainable and Renewable Energy Development Authority
TA	Technical Assistance
USD	US Dollar

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1. Summary Sheet

Program No.	P000814
Program Name	Climate Resilient Inclusive Development Program (Subprogram 1)
AIIB Member	People's Republic of Bangladesh
Borrower	People's Republic of Bangladesh
Program Executing Agency	Finance Division of the Ministry of Finance
Program Implementing Agencies	Ministry of Environment, Forest, and Climate Change, Planning Commission, Cabinet Division, Bangladesh Bank, Local Government Division of Ministry of Local Government, Rural Development and Co-operatives, Ministry of Water Resources, Ministry of Agriculture, Ministry of Railways, Road Transport and Highways Division of Ministry of Road Transport and Bridges, Power Division, Energy and Mineral Resources Division, and Sustainable and Renewable Energy Development Authority
Lending Instrument	Climate Policy-Based Financing (CPBF)
Program Objective(s)	To help the Government of Bangladesh (GoB) implement critical policy and institutional reforms to mainstream climate change adaptation and mitigation actions for a sustainable, resilient and inclusive growth of Bangladesh.
Program Description	<p>Bangladesh is the world's seventh most vulnerable country to climate hazards with an average annual loss of about USD3 billion. Climate change is also disproportionately affecting the poor and most vulnerable groups of people in the country including women, whose livelihoods are increasingly affected by more frequent and severe flooding, cyclones, and heat stress. The damage from tropical cyclones in the country is estimated at between 1.5 and 6 percent of Gross Domestic Product (GDP). In case of severe flooding, GDP could fall by as much as 9 percent.</p> <p>Bangladesh has a significant financing need to address the immediate and urgent intertwined challenges of climate change and development. The country lacks a holistic enabling institutional framework, climate-responsive planning and policies to scale up climate finance especially from private sector participation. Climate-critical sectors also suffer from a lack of sector-specific, climate-responsive institutions, policies, strategies and actions to adapt and mitigate the impacts of climate change.</p> <p>Structured as a programmatic series of two Sub-programs, the Climate Resilient Inclusive Development Program will support the GoB in undertaking key policy and institutional reforms to mainstream climate adaptation, mitigation, and disaster resilience in climate-critical sectors and unlock climate investments in Bangladesh. It supports the implementation of the GoB-led national climate objectives as articulated in the</p>

	<p>National Adaptation Plan (NAP), 2023–2050 and the Nationally Determined Contributions 2021 Update (NDC-U) by strengthening the intergovernmental policy and institutional framework, mobilizing climate finance, and mainstreaming gender and social inclusion.</p> <p>The GoB requested AIIB and ADB financing (of USD400 million each) for a proposed Subprogram 1 (the Program), which aims to help the GoB create the enabling policy and institutional reform programs and expand its fiscal space needed to support climate investment priorities identified in the national climate plans. The Program includes the following reform areas: (i) enhancing the enabling environment for climate change actions; (ii) reinforcing climate change adaptation actions; and (iii) accelerating climate change mitigation actions. The Program focuses on immediate policy and institutional actions in each reform area and aligns with the short-term priorities of NAP and NDC-U in climate-critical sectors including agriculture, water resources, urban, transport, and energy.</p>
Proposed Amount of AIIB Financing	USD400 million, equivalent
Financing Plan	<p>Total Program cost: USD800 million</p> <p>Indicative financing plan: Asian Infrastructure Investment Bank (AIIB): USD400 million (50 percent); Asian Development Bank (ADB): USD400 million (50 percent)</p>
Risk (Low/Medium/High)	Medium
Policy Waivers Requested	No
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the Program.
Economic Capital (ECap) Consumption	ECap: USD87.3 million (ECap Ratio: 27.2%)

President	Liqun Jin
Vice President	Rajat Misra (Acting)
Director General	Rajat Misra
Team Leader	Sangmoo Kim, Sr. Investment Operations Specialist (Urban)
Team Members	<p>Abderrahim Assab, Climate Finance Specialist Abhijit Sen Gupta, Sr. Economist Asma Bachikh, Investment Associate (Water) Farhad Ahmed, Sr. Investment Operations Specialist (Transport) Jinghui Li, Project Assistant Julija Kuklyte Polycarp, Climate Change Specialist Luiz Eduardo Rodrigues, Counsel Parthapriya Ghosh, Sr. Social Development Specialist Partha Protim Nath, Investment Associate (Energy) Md. Towshikur Rahman, Investment Associate (Transport) Yi Geng, Sr. Financial Management Specialist Yijun Jiang, Climate Adaptation Specialist Yunlong Liu, Sr. Procurement Specialist Xiang Xu, Investment Associate (Urban)</p>

2. Program Description

A. Program Overview

1. The Climate Resilient Inclusive Development Program comprises a programmatic series of two Subprograms, i.e., Subprograms 1 and 2 aimed at helping the Government of Bangladesh (GoB) implement its national climate objectives as articulated in the National Adaptation Plan (NAP), 2023–2050¹ and the Nationally Determined Contributions 2021 update (NDC-U)² by strengthening the policy and institutional environment, mobilizing climate finance, and mainstreaming gender and social inclusion.

2. The GoB requested AIIB and ADB financing of USD400 million each for the Subprogram 1 (the Program) to help the GoB create the enabling policy and institutional reform programs, and expand its fiscal space needed to support climate investment priorities identified in the country-led national climate plans, help catalyze additional climate financing, and build resilience against long-term climate risks. The Program focuses on immediate policy actions in each reform area and aligns with the short-term priorities of NAP and NDC-U in climate-critical sectors including agriculture, water, urban, transport, and energy. The Program includes the following reform areas and select policy actions (see Section C. Policy Actions, Results, and Sustainability and Annex 1. Policy and Results Matrix for details).

- (i) *Reform Area #1: Enhancing the enabling environment for climate change actions.* To mainstream climate priorities in government planning and budgeting, all concerned ministries have been mandated to include NAP and NDC-U priorities in their annual plans and budgets. All climate fund projects have been brought under the annual development plan system to improve transparency and efficiency. Additionally, to support the private sector's green transition, the Bangladesh Bank set up a local currency refinancing scheme called the Green Transformation Fund, which helps manufacturing and export-oriented entities more easily purchase eco-friendly capital equipment and parts. In addition, Bangladesh Bank issued green bond guidelines and amended its sustainable finance policy and sustainability rating systems to mobilize climate finance.
- (ii) *Reform Area #2: Reinforcing climate change adaptation actions.* The GoB has facilitated the approval and adoption of the NAP and approved action plans to address NAP priorities around food security and climate-resilient agriculture, and to scale up climate-smart practices. The GoB has strengthened institutional governance of water resource management to implement NAP water sector projects. Additionally, Narayanganj and Rajshahi city corporations have

¹ NAP establishes a roadmap for enhancing adaptation capacity and resilience of Bangladesh to climate change, with priority sectors, adaptation actions and implementation arrangement.

² NDC-U adopted mitigation goals and confirmed the commitments for adaptation. It aims to reduce GHG emissions from energy, transport, agriculture, waste, and industry by 15.12 percent from business-as-usual by 2030, if there is external financing and technical other support. Regarding adaptation, the NDC-U, in line with the NAP, highlighted the priority pillars including food security, disaster management, infrastructure development, research and knowledge management, mitigation and low carbon development, and capacity building and institutional development.

approved climate-resilient city action plans to address local climate-related shocks and stresses, such as heat stress, flooding, and tropical cyclones. To promote a climate-resilient transport network, the Ministry of Local Government, Rural Development and Co-operatives has introduced climate-resilient tools in infrastructure project planning and selection.

- (i) Reform Area #3: Accelerating climate change mitigation actions. To meet its NDC-U Greenhouse Gas (GHG) emissions target for the transport sector, the GoB is encouraging the use of electric and hybrid vehicles, reducing road traffic congestion, implementing a modal shift from road to rail, and developing urban transport master plans aligned with city plans. To unlock the electric vehicle market, the Ministry of Road Transport and Bridges has approved the necessary policy framework and initiated the procurement of electric buses for the public transport system. The Ministry of Power, Energy, and Mineral Resources has approved a solar irrigation roadmap which aims to roll out solar irrigation pumps and the Ministry of Road Transport and Bridges has approved an electric vehicle charging guideline to set up electric vehicle charging stations. In addition, mandatory installation of net metering for rooftop solar Photovoltaics (PV) will help achieve the 12 Gigawatts (GW) rooftop solar target by 2050.

3. The Program will be co-financed with the ADB. Taking a programmatic approach for the Climate Resilient Inclusive Development Program, ADB has provided a sovereign-backed loan of USD400 million for Subprogram 1 and plans to provide USD300 million for Subprogram 2.³ AIIB intends to co-finance Subprogram 2 (of USD300 million). As a lead co-financier, ADB will provide Program preparation and Environmental and Social (E&S) services to AIIB. Co-financing arrangements between the AIIB and ADB will be subject to the Co-financing Framework Agreement and will be documented through a Memorandum of Understanding (MoU) to be entered by the ADB and AIIB.⁴

B. Background and Development Constraints

4. **Macroeconomic Background.** Bangladesh made rapid social and economic progress prior to the Coronavirus Disease 2019 (COVID-19) pandemic, growing at an average annual rate of 6.6 percent between FY2010 and FY2019. The strong growth was aided by prudent macroeconomic management, demographic dividend, strong performance in exports of ready-made garments and significant gains across various human development indicators. Growth weakened to 3.6 percent in FY2020, owing to pandemic-induced lockdowns and decline in export orders. Growth recovered to 6.9 percent and 7.1 percent in FY2021 and FY2022, respectively aided by the stimulus package and resumption of economic activity.

³ Subprogram 1 (the Program) focuses on immediate policy actions with the short-term priorities of NAP and NDC-U in climate-critical sectors - agriculture, water resources, urban, transport, and energy. Subprogram 2 further advances these reforms and aligns with the short- to medium-term priorities of NAP and NDC-U in those sectors.

⁴ A MoU has been signed to confirm the understandings reached between AIIB and ADB for this Program.

5. However, the geopolitical tensions impacted the Bangladesh economy through a variety of channels including rising commodity prices, weak external demand and global monetary tightening. While, Bangladesh's economy remains fundamentally sound, it has been affected by a confluence of shocks that proved to be more persistent than expected. The stress was exacerbated by delayed response of the policymakers. Growth slowed down to 6.0 percent in FY2023 while inflation surged, and current account deficit and public debt increased markedly. This was associated with a depreciating currency and sharp depletion of reserves. The authorities recognized the need to undertake a comprehensive set of measures to deal with the immediate economic challenges but also address the long-standing structural issues and vulnerabilities related to climate change. Bangladesh signed up for a 42-month SDR2.5 billion (USD3.3 billion) under International Monetary Fund (IMF)'s Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements. Concurrently, Bangladesh has also signed for a SDR1.0 billion (USD1.4 billion) under the Resilience Sustainability Facility (RSF). The IMF in the first review of the program concluded that the overall program performance has been broadly on track despite difficult environment with few exceptions.

6. **Climate Vulnerability.** Bangladesh is among the most vulnerable countries to climate change and natural disasters.⁵ With approximately 56 percent of its population highly exposed to climatic hazards, the country has experienced significant economic damage and loss of life due to heatwaves, sea-level rise, cyclones, and floods. Between 2000-2019, Bangladesh recorded 185 climatic disasters, resulting in 11,450 fatalities and USD3.72 trillion in economic damages.⁶ The frequency and intensity of these events have been increasing, with recent years witnessing the longest and strongest cyclones in the country's history.⁷ Flooding, the most economically damaging hazard for Bangladesh, is expected to cause a GDP decline of up to 9 percent by 2050.⁸ Additionally, sea-level rise poses a two-fold increase in asset risk and negatively impacts agricultural production, water supplies, and coastal ecosystems. The urban heat island effect further exacerbates the vulnerability of highly urbanized areas of the country. These risks are expected to intensify due to climate change, leading to increased environmental degradation, health impacts, and internal migration due to deteriorating living conditions.⁹

7. **Financing Needs for Climate Actions.** Financing needs for climate actions are high. NDC-U identified a requirement of nearly USD176.0 billion between 2021 and 2030 to meet unconditional and conditional mitigation objectives.¹⁰ NAP estimated needing USD230.0 billion over 27 years—or USD8.5 billion per year—to implement 113 priority interventions, of which USD162.0 billion is expected to be mobilized from external sources and international climate funds. The private sector investment potential for NAP is estimated to be USD0.42 billion per year (a small 5.1 percent of total

⁵ [Notre Dame Global Adaptation Initiative](#).

⁶ Germanwatch. "2021. *Global Climate Risk Index 2021*" Bonn: Germanwatch. ([link](#))

⁷ The damage from tropical cyclones in the country is estimated at between 1.5 and 6 percent of GDP.

⁸ Bangladesh Country Climate and Development Report, the World Bank [content \(worldbank.org\)](#)

⁹ Ibid.

¹⁰ When targets are dependent on external financial support, these are marked as "conditional" targets. The targets a country can achieve without external financial support are referred to as "unconditional".

investment needs). The Bangladesh Delta Plan 2100 (BDP2100)¹¹ proposes USD38 billion by 2030 for physical investments and institutional strengthening for implementation and monitoring. Annual BDP2100 expenditure needs, including operations and maintenance and private investment, were estimated to start at 0.8 percent of the national GDP, and projected to increase to 2.5 percent by 2025. The BDP2100 expects 20 percent of the required investment to come from the private sector. The Mujib Climate Prosperity Plan, 2022–2041 (MCPP)¹² outlines a critical financial roadmap to address climate challenges and calls for an investment of USD89.7 billion (inclusive of the first phase of the BDP2100 and components of the conditional NDC-U), equivalent to 2.18 percent of GDP. In the MCPP, 47 percent of required investment is targeted from private sector sources, 36 percent from government expenditure, and 16 percent from development partners. The proposed investment includes a substantial allocation of USD44.1 billion specifically for accelerating adaptation measures, and an additional USD4.9 billion dedicated to climate and disaster risk financing and management.

8. The current climate-related government spending amounts to less than 1 percent of GDP against the needed 3 to 4 percent of GDP annually - at least USD12.5 billion per year. Increasing government expenditures on climate adaptation and mitigation has become more difficult as the country is confronted by other short-term costs and priorities stemming from strained government budgets, increased debt-servicing costs, and unmet development needs. Funds coming from international sources does not fill the gap in climate change funding. To tap into limited global climate funds, line ministries and the Bangladesh Climate Change Trust Fund (BCCTF)¹³ need to strengthen their transparency, auditing, and technical capacity to develop a robust pipeline of climate projects with rigorous cost–benefit analysis.

Figure 1. Composition of Climate Relevant Expenditure in FY2024

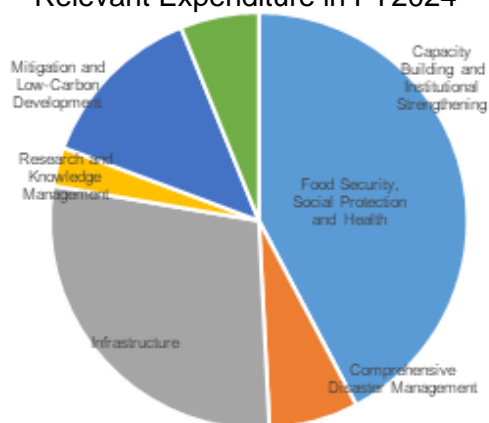
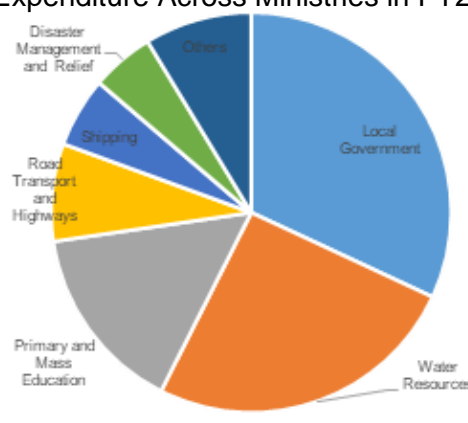


Figure 2. Distribution of Climate Relevant Expenditure Across Ministries in FY2024



- Source: Climate Financing for Sustainable Development, Budget Report 2023-24

¹¹ The plan, with the goal of achieving a safe, climate resilient, and prosperous Delta, is a long-term investment plan for climate resilience and economic growth that focuses particularly on multi-dimensional water investments and water management.

¹² The plan provides a strategic investment framework to mobilize financing and identified key initiatives including renewable energy, carbon finance and environment friendly transport.

¹³ BCCTF is a national fund that can be supplemented through fund matching by international climate funds.

9. Infrastructure for Climate Transition and Sustainable Development.

Infrastructure plays a significant role in the climate transition, i.e., it contributes to climate change, is severely impacted by climate change, and is also a major solution to adapting and mitigating some of its negative impacts. As reflected in the national climate plans, a vast majority of the investments required for climate mitigation and adaptation is infrastructure investment. Currently, infrastructure investment relevant to climate change accounts for almost 29 percent of the overall climate change expenditure or about 0.2 percent of GDP across these 25 Ministries and Divisions in FY2024. However, the distribution is extremely skewed. Only six Ministries and Divisions account for more than 90 percent of the infrastructure allocation.¹⁴ Moreover, nearly half of the Ministries and Divisions do not have any funds allocated towards climate relevant infrastructure expenditure.

10. Binding Constraints to Address Climate Change Challenges. Closing the gap in the climate finance needs will require not just additional finance, but also creating enabling policy and institutional frameworks to support climate investments. To date, only a small share of available private sector financing flows into climate mitigation investments, and public sector financing on climate adaptation and resilience investments remains grossly inadequate. Bangladesh needs support to address policy, regulatory and institutional hurdles in order to improve the business environment for investors, help mobilize funding more effectively and at scale (including attracting more private capital for both mitigation and adaptation), accelerate the climate transition and build resilience.

11. The GoB has prioritize addressing binding constraints to climate change challenges in climate-critical sectors such as water resources management (particularly in coastal and drought-prone zones), urban, transport, and energy. As described below (paras 12 to 20), sector-specific constraints include: (i) in water resources management, lack of updated policy framework and dedicated actions incorporating climate change consideration for various water areas; (ii) in urban, rapid urbanization has outpaced infrastructure development and local government capacities to provide climate-resilient and low-carbon urban services; (iii) in transport which contributes the second highest GHG emissions is also highly vulnerable to climate shocks; and (iv) in energy, consumption and carbon emissions have rapidly increased with economic growth without parallel efforts to promote energy efficiency and transition towards clean energy and renewable energy development. Implementing the ambitious climate agenda also require coordinated efforts and collaboration among development partners to catalyze climate finance.

12. Water Sector. Bangladesh faces a multitude of complex challenges in its water sector. Population growth, changing land use patterns, surface water pollution, and upstream water withdrawal have all put immense pressure on the country's water resources. Due to its largely flat geography and seasonal variability of surface water, Bangladesh is highly dependent on groundwater, with agriculture accounting for 80 percent of total water use. Climate change impacts, such as high temperatures, soil

¹⁴ These are Local Government Division, Ministry of Water Resources, Ministry of Primary and Mass Education, Ministry of Road Transport and Highways, Ministry of Shipping and Ministry of Disaster Management and Relief.

salinity, and flooding, further exacerbate the situation, potentially contributing to the loss of up to one-third of agricultural output by 2050 according to the BDP2100. Bangladesh's growth forecast predicts a doubling of domestic and industrial water demands by 2030, as well as a 46 percent increase in irrigation water demand. To meet this rising water demand, the BDP2100 estimates that around USD95 billion of investment in water resources projects in NAP will be required by 2050.

13. These water-related challenges are compounded by legislative gaps, a dated policy framework, and inadequate institutional capacity to effectively manage the country's water resources. Therefore, strengthening institutional governance of water resource management is imperative through the establishment of the Delta Governance Council to commence implementation of the BDP2100 and NAP water sector priority projects through informed decision-making, securing funding, and supporting institutional reforms at the ministerial level.

14. Urban Sector. Bangladesh's rapid urbanization has contributed to the economic development and social progress. However it has outpaced the capacity of local government to provide low-carbon and climate-resilient urban infrastructure and services. People and assets concentrated in urban areas are increasingly vulnerable to the impacts of climate change, including excessive urban heat, rainfall variability, cyclones, urban flooding, and rising sea level.¹⁵ The lack of climate responsive urban planning and haphazard spatial expansion have further intensified the impacts of climate change in urban and peri-urban areas and resulted in environmental deterioration.¹⁶ To tackle climate challenges, cities will require comprehensive planning with measures to mitigate climate induced disasters particularly for those areas susceptible to climate related shocks. Overlapping mandates and the lack of coordination between central and local governments further hamper adaptation and planning efforts to address climate risks. There is a need for developing consolidated plans to harmonize and integrate mandates and plans for drainage, wastewater and solid waste while establishing a conducive environment for community-based urban service delivery and locally-led adaptation.

15. There is a significant financing gap for making cities climate-resilient. NAP estimated USD33.1 billion of adaptation investment in urban areas such as investments in flood risk management and drainage systems. To complement traditional engineering approaches, urban policies need to be formulated in line with NAP's priorities, including mainstreaming nature-based solutions that enhance climate resilience while conserving urban environment. Over 40,000 tons of municipal waste¹⁷ currently being generated per day and less than half of them is collected due in large part to weak urban governance and institutional capacity. Uncollected wastes in drainage channels and

¹⁵ The country's low-lying coastal zone (consisting of 19 districts with an estimated population of 38.1 million, of which 8.6 million is urban), is highly vulnerable to cyclones, storm surge, sea level rise, and salinity intrusion. A 1.5 degree Celsius increase in temperature and 4 percent increase in precipitation would potentially result in sea levels in the Bay of Bengal rising by 27 centimeters or more by 2050 (according to the Country Climate and Development Report, the World Bank).

¹⁶ Including internal migration to urban areas, driven in part by impacts of extreme weather events and climate change.

¹⁷ AIIB Assessment of Solid Waste Management Investment Opportunities in Bangladesh (2021), according to the assessment, this figure is expected to increase to 57,000 tons by 2030 and 118,000 tons by 2040.

waterways have led to water logging and increased flooding risks, particularly posing disproportional impacts in informal settlements.¹⁸ Improved solid waste mechanisms are prioritized in the NDC-U with potential reduction in GHG emissions.

16. Transport Sector. The transport sector is one of the largest contributors to GHG emissions. The NDC-U GHG emissions reduction combined target (conditional and unconditional) is 9.72 metric tons (MT) of carbon dioxide equivalent for the sector. The country is mostly dependent on road, rail, and river transportation, and nearly all modes operate through the combustion of fossil fuels, which results in significant GHG emissions. The 2019 emission data indicates that the transport sector amounted to 9.27 percent of the country's total GHG emissions.¹⁹ Within the sector, road and inland waterways contribute the highest emissions as these two account for roughly 90 percent of all traffic generated. The limited and poorly maintained road and inland transportation infrastructure, coupled with inadequate investment in alternative modes like railways, has created a dysfunctional transportation network across Bangladesh. This has led to erratic traffic congestion and slow vehicle movement, ultimately resulting in increased travel times and greater consumption of fossil fuels. Therefore, the GoB is focused more on upgrading existing road infrastructure to reduce road traffic congestion and encouraging a modal shift to rail.

17. The consumption of oil products and natural gas by the sector in 2016 amounted to 2.62 million MT and 1.136 million cubic meters (MMcm), respectively.¹⁹ The overall energy consumption has been estimated to be roughly 11.5 percent among all sectors.²⁰ Nevertheless, with the anticipated increase in GDP per capita enabling greater vehicle ownership and transport development across multiple modalities, this figure is projected to rise substantially. Between 2011 and 2030, it is anticipated that the estimated Business As Usual (BAU) emissions for the transportation sector will increase by 132 percent, or from 15.78 million metric tons of carbon dioxide equivalent (MtCO₂e) to 36.61MtCO₂e.²⁰ NDC-U has thereby, emphasized transitioning to a greener transport mode, in particular, e-vehicles. However, insufficient availability of electric vehicle-friendly infrastructure and supportive policies could further impede the transition to more sustainable modes of transportation. Embracing such an initiative could be critical to help achieve the NDC-U targets.

18. The transport sector is also highly vulnerable to climate shocks, and as such, climate-resilient infrastructure is a cross-cutting theme of NAP. As an example, according to the Bangladesh Country Climate Development Report (CCDR), flooding regularly impacts more than 350,000 km of rural roads and 24,000 km of waterways, increasing travel and trade costs by 15 percent to 40 percent per year.²¹ The CCDR has further estimated that by 2050, an additional 7 percent of roads will be exposed to additional flooding in comparison with 2013. Despite the GoB's efforts, the lack of

¹⁸ Localized flooding due to blocked drainage could increase flooding risk between 7.6 per cent and 18.5 percent in several cities according to "Adapting to Urban Flooding: A Case of Two Cities in South Asia" Water Policy 22 (S1): 162–188.

¹⁹ Ministry of Environment, Forest and Climate Change; "Bangladesh: First Biennial Update Report to the United Nations Framework Convention on Climate Change"; June 2023; ([link](#))

²⁰ Ministry of Environment, Forest and Climate Change; "Third National Communication of Bangladesh to the United Nations Framework Convention on Climate Change"; June 2018; ([link](#))

²¹ Bangladesh Country Climate and Development Report, the World Bank [content \(worldbank.org\)](https://www.worldbank.org/content/worldbank.org)

comprehensive climate risk assessments during the planning phase limits the implementation of adaptive measures to reduce the sector's impact on climate change. As such, to enhance the climate resilience of the transport network, conducting the climate risk assessment using Climate-Resilient Tools (CRT) during the project planning has been necessary.

19. **Energy Sector.** The unconditional and conditional targets of NDC-U in the energy sector are highly ambitious considering the current energy mix. The NDC-U GHG emissions reduction combined target is 43.74 MtCO_{2e} for the sector. In Bangladesh, the estimated final consumption of total energy is around 57.20 million tones of oil equivalent (Mtoe), with an average increase of 6 percent per year.²² About 59 percent of energy demand is met by natural gas, which is mostly due to the use of gas in electricity generation (42 percent). Other major fuels for electricity generation are furnace oil (24 percent) and coal (17 percent). Hydro and on-grid solar contribute to only 3 percent of total electricity generation capacity.²³ Although initially, electricity generation in Bangladesh revolved mostly around the public sector, recently there have been some changes, especially in the renewable energy sector which is dominated by the private sector.²⁴

20. Bangladesh's electricity generation capacity currently stands at around 27 GW. 40 percent of this capacity (10.7 GW) comes from the private sector (IPP, SIPP, and rental). To meet the growing electricity demand, the GoB plans to install another 16.33 GW of capacity by 2027, which includes both fossil fuel-based capacity and renewables. Of the planned 4.85 GW of renewables, the private sector is expected to come up with 3.91 GW (80.5 percent).²⁵ However, the scale-up of renewable energy projects through the private sector in Bangladesh is getting hindered by the lack of: (i) policy and regulation to promote energy efficiency and a transition toward clean energy; (ii) robust planning and a road map on renewable energy development; (iii) availability of private land for grid-connected solar generation; and (iv) availability of institutional set-up and documentation capacity.

21. **Government Strategy and Program.** Acknowledging the climate risks and impacts and the need to address the interlinked climate and development challenges, the GoB has laid out an ambitious strategic, whole-of-government framework to integrate climate change considerations across all levels and sectors of government. This includes the NAP, NDC-U, MCPP, BDP2100, and the Climate Change and Action Plan.²⁶ Through the proposed Program, the GoB is addressing cross-cutting binding constraints to the implementation of the climate strategies including: (i) enhancement of planning, budgeting, and fiscal framework to make it responsive to the rapid advances in climate policy discourse and tools, strategies, and concessional financing; and (ii)

²² Energy Scenario of Bangladesh 2021- 22 by Hydrocarbon Unit, Energy and Mineral Resources Division, Ministry of Power, Energy and Mineral Resources (February 2023)

²³ Information on the Development of Power Sector, Bangladesh Power Development Board (January 2024)

²⁴ With around 62 percent of total investment coming from private sources according to Follow the Renewable Energy Finance: Bangladesh Perspective (FtREF-01-2023) ([link](#))

²⁵ Monthly updates of Power Sector in Bangladesh, Bangladesh Power Development Board (April 2024) ([link](#))

²⁶ It sets out short-, medium- and long-term programs within six strategic pillars including infrastructure to deal with impacts of climate change.

mobilizing the engagement of financial and private sector to meet Bangladesh's financing needs for climate actions, and also sector-specific constraints.

22. The GoB has demonstrated its significant commitment to the climate change agenda through its domestic actions and leadership in the international community. The GoB intends to use the post-pandemic recovery as an opportunity to address the massive challenges posed by climate change and sought support from AIIB, ADB and other development partners. In response to Bangladesh's needs, the IMF has approved the RSF (USD1.4 billion)²⁷ to support Bangladesh's climate change adaptation and mitigation efforts. Development partners have been ramping up their support to help the country's transition to green and climate resilient development, including the World Bank's loan of USD750 million for its Green and Climate Resilient Development Credit (Tranche 1) and Second Recovery and Resilience Development Policy Credit. AIIB and ADB have been requested to provide a USD800 million loan for the Program in FY2023-FY2024. Additional co-financing expected for the Program includes USD106 million from Agence Française de Développement (AFD) and USD100 million from the Export-Import Bank of Korea.

23. The proposed Program aims to facilitate implementation of NDC-U and NAP (e.g., mandated all concerned ministries to incorporate NDC-U and NAP priorities in their Annual Development Program, ADP), MCPP (offering a multi-sector investment plan for climate-resilient infrastructure), and BDP2100. Although the government has formulated national climate policies, the implementation of NDC-U and NAP prioritized actions remained slow due to weak institutional coordination and planning mechanism. The proposed Program includes measures to enhance policy coordination and planning mechanism through a whole-of-government approach, a government-led BCDP (See para. 29) and related reform actions (See para. 37-40 or Annex 1. Policy and Results Matrix), complemented with ADB's accompanying Technical Assistance (TA) support (See para. 45).

24. **Strategic Fit for AIIB.** The Program is well-aligned with the Bank's Articles of Agreement, meets the eligibility criteria for Climate Policy-Based Financing (CPBF),²⁸ supports the Bank's Corporate Strategy, and contributes to the Bank's climate financing, with a particular focus on adaptation. The Program will help the GoB support climate policy and institutional reforms aimed at scaling up the climate finance, accelerating the GoB transition towards a low carbon and climate resilient future, encouraging and broadening public and private financing in green infrastructure.

25. **Paris Alignment.** The Program is Paris Aligned following the joint MDB methodology on Paris Alignment (PA)²⁹ for PBF Operations as it satisfies the alignment criteria of consistency with the country's climate commitments, as well as supports activities directly contributing to the country's decarbonization pathway, and finally

²⁷ Bangladesh is the first Asian country to access the IMF's RSF program.

²⁸ The Climate Policy-Based Financing (CPBF) instrument has been approved by AIIB's Board of Directors as part of AIIB's suite of regular financing instruments to support Members in meeting the growing climate mitigation and adaptation needs and strengthening the Bank's partnership among MDBs.

²⁹ With the adoption of the methodology for assessing the alignment of AIIB's investment operations with the Paris Agreement (PA) on July 1, 2023, AIIB meets its commitment to actively support infrastructure projects that contribute to climate change mitigation, adaptation and resilience.

significantly contributes to the climate resilience of the country. The Program will also help advance the implementation of the AIIB's Climate Action Plan (CAP)³⁰ covering both mitigation and adaptation, and the achievement of the Bank's corporate strategy objectives, and climate finance and PA goals. The Program is responding to the Bangladesh's request to support their climate mitigation and adaptation efforts through the Program. The joint MDB PA methodology for PBF addresses key considerations for PBF adherence with PA goals,³¹ Given this Program is a CPBF, all criteria for PA alignment are met through explicit climate policy actions included in the Program.³² Specifically, the prior actions supported under the Program are precisely defined and all targeting the mitigation of, and adaptation to, climate change. All activities in the mitigation component, i.e., *Reform Area 3*, are part of the list of universally aligned activities.³³ The Program's adaptation components aim at enhancing the screening and management of climate risk across key sectors of the economy. In addition, the policy actions proposed are fully consistent with relevant national policies and strategies for adaptation and climate resilience. Therefore, the proposed Program is aligned with the adaptation goal of the PA. The Program will provide USD327 million for adaptation finance (82 percent) and USD73 million for mitigation finance (18 percent). For more details on the PA assessment and climate finance estimation, please see Annex 4.

26. **Enabling Financing for Climate-Resilient Infrastructure.** Adhering to the AIIB's mission of promoting green infrastructure and economic development, the Program will help promote climate resilience by fostering a favorable environment for climate-resilient infrastructure investments in climate-critical sectors, in particular, water, urban, transport and energy sectors. The Program will support core infrastructure sectors as aligned with AIIB's sectoral strategies of promoting green, resilient and inclusive infrastructure, as follows.

- (i) *Water Sector Strategy*. The strategy supports its Members' efforts to ensure the availability and sustainable management of water and sanitation for all. The Program fits within the strategy guiding principles, namely promoting sustainable infrastructure and integrated resources management, and adoption of innovative technologies. The Program will assist the GoB in enhancing its water resources management and address its NAP priorities of promoting food security and climate smart agriculture practices.
- (ii) *Sustainable Cities Strategy*. The strategy supports developing cities that are green and resilient. The Program is aligned with the objectives to protect environmental sustainability by climate mitigation approaches and in line with investment areas to enhance resilience against climate change and natural disasters. The Program will assist the GoB in implementing urban development priorities in NAP while contributing to emission reduction through enhancing waste management practices.
- (iii) *Transport Sector Strategy*. The Program will contribute to an enhanced assessment of the road transport projects, taking into account the climate

³⁰ AIIB has launched its first CAP to update and consolidate the Bank's approach to climate financing. The CAP for the period 2024 to 2030 identifies key actions to guide AIIB's investments to support Members in line with Bank targets as well as outlines joint efforts with other MDBs to unlock public and private climate finance investments for local solutions encompassing climate mitigation, adaptation, nature and biodiversity.

³¹ [Methodology for assessing AIIB Investment Operations Alignment with the Paris Agreement](#)

³² [Microsoft Word - MDB PA PBL Principles final 14.06.2023.docx \(aiib.org\)](#)

³³ Annex 1 of the AIIB PA methodology.

dynamics. This would essentially lead to resilient and all-weather connectivity of road networks a decreasing in the cost and duration of travel, enhancing safety, reducing long-term operation and maintenance expenses, and promoting environmental and social sustainability. The Program will also encourage a shift to electric vehicles in both private and public transportation landscape.

- (iv) Energy Sector Strategy. The strategy reinforces AIIB's support for its members to transition to a clean energy system. By promoting energy efficiency and renewable energy, this Program will help Bangladesh achieve its long-term climate goals and commitments articulated in the NAP and NDC-U.

27. **Creating and Mobilizing Private Capital through Climate Actions.** The Program supports the national climate plans that aim to unlock both public and private finance for climate-critical sectors (See para. 7). While the Program is focused more on expanding adaptation finance, it includes policy actions to incentivize private sector participation in green transition (See para. 2. (i) Reform Area #1 and Annex 1. for policy actions and outcome indicators). In the energy sector, the Program also facilitates private participation, for example, by: (i) streamlining of the Electric Vehicle Registration process, which is expected to increase private capital mobilization in electric transportation in Bangladesh; (ii) contributing to the Electric Vehicle Charging guideline; and (iii) enhancing the institutional capacity of the relevant agency in promoting private sector participation in clean and green electricity generation. Furthermore, the Bangladesh Climate Development Partnership (BCDP), which is being supported under the Program, provides a platform to strengthen partnership and collaboration with private sector (See para. 33).

28. **Coordinated Financing Response.** The Program, through co-financing with ADB, is part of AIIB's response to calls for global coordination and collaboration on climate action and disaster resilience.³⁴ By supporting the GoB's efforts in tackling climate change challenges and catalyzing additional finance, the Program will support the country's transition towards a low carbon and climate resilient future. The Program is also well coordinated with and complement programs and policy actions supported by other multilateral and bilateral development institutions, including IMF's RSF as well as reforms under the previous PBFs under the COVID-19 Crisis Recovery Facility for Bangladesh. In particular, this Program mainstreams climate change in critical infrastructure sectors not covered under the IMF and the World Bank programs (e.g., transport, disaster management, and urbanization). The Program is expected to improve AIIB's regular operations by implementing climate-related reforms in core infrastructure sectors and creating the enabling environment for additional downstream investment and project financing opportunities.

29. The Program aligns with the GoB's climate objectives, priorities and financing needs articulated in NDC-U, NAP and as further elaborated in national climate plans, i.e., MCPP and BDP2100, ensuring country ownership and buy-in. The Borrower's Development Policy Letter (Annex 2) articulates the Program's alignments with the

³⁴ Through various fora including the G20 and the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP), the international community has reached a consensus and specifically called on MDBs to increase their ambition and work together systematically and more effectively in using the breadth of their financing capacity and financial instruments to unlock more financing and help governments pursue interlinked development and climate goals.

GoB's plans and reflects its commitment to the Program objectives and policy and institutional reform actions. The Program is proposed given the importance of the country's policy and institutional frameworks and an enabling environment for scaling up climate financing for mitigation and adaptation. It also presents a whole-of-government approach to climate actions involving a range of stakeholders and partners and supports the establishment and operationalization of the country-led Bangladesh Climate and Development Partnership (BCDP) as a collaborative approach to implement the country's climate agenda to mitigate and adapt to the effects of climate change in Bangladesh.

30. **Value Addition by AIIB.** AIIB financing will fill the large climate financing gap for the GoB's development expenditures, thereby supporting Bangladesh in coping with climate crisis. AIIB's involvement will further help increase Bangladesh's public expenditure and its management relating to climate change adaptation and mitigation and catalyze additional finance by facilitating an enabling policy, institutional and investment environment. With an enabling environment for stronger institutional capacity, Bangladesh can accelerate the implementation of the existing policies and plans for green growth and disaster resilience. AIIB's involvement will support the GoB in adopting a clear methodology for climate budget tagging and specific selection criteria that will allow the government to effectively link climate policies to expenditures and, therefore, effectively allocate resources to invest more in climate adaptation and mitigation.

31. Since it received the GoB's request, AIIB formed a multi-disciplinary team that has actively participated in the policy dialogue with the Government and partners, in the Program preparation led by the ADB team and in coordinating with IMF on program complementarity. Leveraging its expertise and knowledge in infrastructure investing and climate change, AIIB has worked closely with the government and through the inter-ministerial coordination to help strengthen the link between the climate policy and institutional reform actions and the resulting infrastructure development, the alignment of the reforms with the goals of the PA, and their consistency with the country's NDC-U to accelerate Bangladesh's transition to low GHG and increase climate resilience in its infrastructure investments.

32. AIIB is committed to maintaining its engagement with the GoB through both policy dialogue and investment portfolio, and in coordination with development partners. Through its policy dialogue, AIIB will help sustain policy and institutional reform actions taken under the Program (Subprogram 1) and planned under Subprogram 2 (See Annex 1. Policy and Results Matrix). AIIB will further support implementation of policy reforms through inclusion of institutional development components in its sectoral investment projects.³⁵ It will also leverage its ongoing partnership with development partners to

³⁵ For urban sector, the AIIB is partnering with the Global Center on Adaptation (GCA), City Climate Finance Gap Fund, and City Development Initiative for Asia (CDIA) for upstream policy and technical support, such as development of city climate action plans and locally-led adaptation plans. In addition, AIIB-supported solid waste management project has a robust institutional development component to provide critical policy and institutional support in waste sector. For transport sector, AIIB, in collaboration with the GCA, completed a comprehensive climate risk assessment for the proposed Hatikumrul-Bonpara-Jhenaidah Highway Improvement Project - Phase I. This collaboration is likely to continue for the project's next phase, as well

enhance the financial sustainability and development impact of its investment project financings. This will be achieved through broad and sectoral policy dialogues and macroeconomic and fiscal reforms supported by the IMF and peer MDBs.

33. AIIB's collaborating with other multilateral development actors and international partners will ensure consistency in AIIB's policy advice as well as orderly coordination, selection, and sequencing of reforms, investment plans, and financing. In close coordination with other partners, AIIB is actively supporting the GoB in the establishment of the BCDP platform, participating in consultations on it on April 18, 2024 prior to its official launch by the Prime Minister on April 22, 2024. The BCDP is intended to generate a robust pipeline of climate projects, integrated with a financing strategy to mobilize finance, particularly private finance, build knowledge and capacity and develop outcome metrics. AIIB is actively contributing as a member of BCDP working groups thereby enhancing AIIB's climate engagement and collaboration with development partners, in particular, in areas of climate finance, project development support, and private sector engagement.³⁶

34. **Value Addition to AIIB.** The Program will enable AIIB to meet the country's needs in close partnership with other international development partners working towards shared climate objectives, while supporting the implementation of its CAP and enhancing the achievement of its corporate objectives. The Program is expected to ramp up climate engagement in mitigation and adaptation financing in Bangladesh, creating opportunities to broaden and deepen climate reforms with a focus on AIIB's core infrastructure sectors and generate downstream infrastructure investments.³⁷

35. AIIB's participation in the Program provides a good opportunity for AIIB to gain experience in assisting the GoB implement its national climate plans using a new CPBF instrument and strengthen the Bank's partnership with the GoB. It also helped learn sector-specific policy and institutional knowledge in order to promote green and climate-resilient infrastructure investments in Bangladesh. This engagement will continue to help deepen its in-country and sectoral knowledge in core infrastructure sectors and establish the Bank as a partner of choice for support to climate transition infrastructure, offering both financing and knowledge.

36. **Lessons learnt.** Key lessons learned from this first CPBF operation as well as from the previous operations³⁸ in Bangladesh by AIIB and other development partners include, among others:

as for future transportation initiatives. Emphasis is also being placed on the mobilization of private finance for projects that might require AIIB support, especially for those that have the potential to impose tolls on highways and bridges.

³⁶ The consultation meeting on February 7, 2024 discussed the following working groups: (i) Climate Finance (domestic) (WG-1); (ii) Climate Finance (External) (WG-2); (iii) Policy Knowledge and Capacity Building (WG-3); and (iv) Project Development Support, Monitoring and Evaluation (WG-4). On April 18, 2024, the GoB conducted consultation on the BCDP where AIIB and other partners participated. The BCDP was formally launched by the Prime Minister during the NAP Expo on April 21, 2024.

³⁷ The Program dialogues and interventions have been supporting an ongoing formulation of the Bank's multi-year rolling pipeline for Bangladesh. For instance, during policy dialogues, further investment demands for greener transport including railway and e-bus, urban drainage, pollution control, and irrigation.

³⁸ It includes investment projects in core infrastructure sectors and policy-based financings provided for Bangladesh under the COVID-19 Crisis Recovery Facility since 2020.

- (i) *Strong Government Ownership*. Through its various policy and strategy documents, the GoB has demonstrated its commitment to implementing the required policies and institutional reforms in a timely manner to maximize the impact of this first CPBF operations. It is also committed to collaborating with all stakeholders including concerned public institutions, private sector, civil society organizations, and local communities. The AIIB and ADB have worked iteratively with the GoB on the design, selection, and sequencing of policy actions under the Program, and the adoption of a common Policy and Results Matrix that reflects the government's commitment to the supported policy agenda, tailored to the country's circumstances and clearly linked to achieving the government's climate-le policy objectives.
- (ii) *Programmatic Approach*. The Climate Resilient Inclusive Development Program is structured as a programmatic series of two Subprograms to provide sustained support for Bangladesh's climate policy agenda, and help bridge the short-term financing needs while addressing climate policy reforms over the medium-term.
- (iii) *Whole-of-Government Approach*. The Program supports a whole-of-government approach for the coordination of reforms across various sectors, including energy, transport, agriculture, water, and urban development, to drive a comprehensive and effective climate response.
- (iv) *Upstream Policy Engagement*. The AIIB and ADB have conducted extensive policy dialogue with the GoB to inform the Program, and have used analytical works (See Annex 6: Policy Actions and Analytical Underpinnings) to underpin the design, selection and sequencing of critical reform actions required to address key institutional and policy constraints to climate-compatible infrastructure development.
- (v) *Embedding inclusive policies*. The Program design includes specific measures to support and empower vulnerable communities, especially women who are disproportionately impacted by climate change, and enhance their adaptive capacity, participation and leadership.
- (vi) *Close Coordination with Development Partners*. For the reason of policy coordination and consistency and more effective, impactful policy dialogue, the AIIB and ADB have actively engaged with other multilateral and bilateral partners working in Bangladesh to align the Program with their respective initiatives and foster synergy based on each partner's comparative advantages and ensure policy consistency.
- (vii) *Adopting a New Way of Working*. The AIIB has assembled a multi- and cross-sector team of experts for the preparation of this first CPBF operation and for the upstream engagement in policy dialogue as described above. The team comprises specialists in macroeconomics, climate-critical infrastructure sectors, climate adaptation and mitigation with country knowledge and experience.

C. Policy Actions, Results, and Sustainability

37. **Policy Actions.** The proposed Program will help the GoB implement its climate priorities, particularly those in NAP and the NDC-U, and incorporate well-coordinated and sequenced reforms mainstreaming gender equality, and social inclusion (GESI) issues. The Program will include three policy Reform Areas (RAs): (i) enhancing enabling environment for climate change actions; (ii) reinforcing climate change adaptation actions; and (iii) accelerating climate change mitigation actions to address

some of the critical binding constraints. The RAs and policy actions under the Program are described in more detail in Annex 1 (Policy and Results Matrix).

38. RA 1: Enabling environment created. To embark on a whole-of-government approach to implement NAP and NDC-U priorities across ministries and agencies, selected policy actions are considered:

- (i) Strengthen the institutional framework for coordinating, implementing and monitoring climate commitments and capacity development;
- (ii) embed climate actions in government planning, budgeting, and monitoring and evaluation; and
- (iii) mobilize climate finance by expanding public and private financing for climate actions, promoting sustainable finance, and increasing women beneficiaries.

39. RA 2: Adaptation priorities strengthened. To articulate Bangladesh's adaptation priorities, implementation strategy, financing needs, and Monitoring and Evaluation (M&E) framework, selected policy actions are considered:

- (i) emphasize GESI-focused adaptation efforts;
- (ii) enhance management of natural water resources and community water security through updated policy, optimization of water resource use, and flood risk management;
- (iii) heighten disaster preparedness through early warning systems and disaster risk financing strategy;
- (iv) facilitate climate-resilient agriculture through modernization and use of advanced technology, adoption of climate-smart agriculture practices, use of clean (solar) energy for irrigation, and gender-focused extension services;
- (v) strengthen climate-resilient transport infrastructure with updated policy framework, reduced congestion, and transport modal shift; and
- (vi) promote climate-resilient urban sector development through updated strategy for wetlands and biodiversity, adequate drainage and waste management, reduced urban congestions, emissions, and pollution, and increased local government capacity.

40. RA 3: Climate change mitigation actions accelerated. To meet the NDC-U GHG emissions target for the energy and transport sectors, selected government priority actions include:

- (i) two key NDC-U priorities for the power sub-sector – promoting energy efficiency and renewable energy; and
- (ii) encouraging the use of electric and hybrid vehicles, reducing road traffic congestion by upgrading roads, implementing a modal shift from road to rail, and developing urban transport master plans aligned with city plans for all major cities and urban areas.

41. **Expected results.** The Program is in line with Bangladesh's development objectives articulated in the 8th Five Year Plan, July 2020–June 2025; NAP; and NDC-U to: (i) enhance the sustainable and climate-focused development pathway; (ii) strengthen resilience and reduce risk and vulnerability to adverse climate change impacts; and (iii) mitigate GHG emissions and transition to a low-carbon economy. The expected Program outcomes are strengthened climate resilience, and reduced emissions from climate-critical sectors.

Table 1. Outcome Indicators for Climate Resilient Inclusive Development Program

Indicators Name	Baseline	Target
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		(by FY2026)
Reform Area 1: Enabling environment for the implementation of climate actions created		
Climate expenditure as a share of total expenditure increased.	Baseline: 8.5% [\$3.04 billion] in FY2022; (Source: Climate Financing for Sustainable Development Budget Report 2023–24)	at least 10%
Total volume of sustainable finance provided by banks and financial institutions grew.	Baseline: \$12.01 billion in FY 2022; (Source: Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions)	at least 40%
Number of women entrepreneur beneficiaries of sustainable finance increased.	Baseline: 1.26 million in FY2022; (Source: Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions)	at least 40%
Reform Area 2: Climate change adaptation priorities strengthened		
The share of farmers who benefitted from or who are recipients of climate-smart and climate-resilient agricultural extension services increased.	Baseline: 7.25 million farmers or 10% (of which women farmers' share is 20%) in FY2022; (Source: MOA Agriculture Extension Plan)	at least 20%, with at least 35% of which are females
Climate proofed agriculture land increased.	Baseline: 10% [808,200 hectares] in FY 2022; (Source: MOA Agriculture Extension Plan)	to at least 20%
Investment initiated in the water resources sector to promote water security.	Baseline: \$300 million in FY2022; (Source: MOWR)	at least \$400 million
Number of people who benefitted from the river erosion forecast and early warning system	Baseline: 0 in FY2023; (Source: MOWR database)	at least 5 million people, at least 50% of whom are female
CRT used in selection of projects, implemented by the MOLGRDC.	Baseline: 0 in FY2022; (Source: LGED database)	at least (i) 10% of the total number of projects for transport networks, and (ii) 30% of the total number of projects for transport networks with an estimated cost of more than \$200 million
Flood inundation period in 14 pourashavas reduced.	Baseline: average 10.5 days in FY2022; (Source: MOLGRDC database)	at least 30% during average monsoon period, benefiting 1.4 million population
Priority investments for climate resilient and inclusive infrastructure approved and implementation commenced.	Baseline: 0 in FY2022; (Source: MOLGRDC database)	at least two strategic city regions
Each of the four city corporations with climate resilient action plans, including in Dhaka, commenced implementation.	Baseline: 0 in FY2022; (Source: ICLEI - Local Governments for Sustainability, Bangladesh)	at least one climate resilient investment project
Reform Area 3: Climate change mitigation actions accelerated		
Locomotives with APU operated on Bangladesh	Baseline: zero in FY2022; (Source: Bangladesh Railways)	40

Railways lines following the new standard for energy use and emissions.		
Energy sector GHG emissions reduced.	Baseline: 93.09 MtCO ₂ e from energy sector in 2012, with NDC-U unconditional CO ₂ reduction target of 26.31 MtCO ₂ e by 2030 from energy sector; (Source: NDC-U [2021])	at least 10.0 MtCO ₂ e unconditionally
Power generation capacity from renewable energy sources.	Baseline: 459 MW in FY2022; (Source: SREDA database)	800MW
Solar irrigation systems installed.	Baseline: 2,718 in FY2022; (Source: National Solar Energy Database, SREDA)	At least 8,000
Energy intensity (national primary energy consumption as a proportion of GDP) reduced	Baseline: 7.0GJ/\$1,000 [2015 prices] in FY2020; (Source: International Energy Association database)	by 6% from 2020 level
Solar photovoltaic rooftop installed.	Baseline: 157MW; in FY2023 (Source: SREDA database)	1GW

42. **Policy actions and resulting infrastructure investment.** The Program aims to support reform actions that have tangible links to infrastructure investment. The examples of policy and institutional reform actions outlined above, such as mobilizing climate financing, enabling climate-compatible infrastructure investments, greening public finance and institutions, and enhancing regulatory and governance frameworks for climate action, may result in infrastructure investment. For instance, the adoption of policies to promote renewable energy, energy efficiency, and electric vehicles could lead to the installation of 8,000 solar irrigation systems, a 6 percent reduction in energy intensity from 2020 levels, and the installation of 1GW of solar PV rooftop capacity. By improving the enabling environment for climate actions, the GoB will increase the volume of climate expenditure (10 percent as a share of total expenditure). The linking of the government's budgeting process with the climate actions of the various ministries will translate to increase in green infrastructure investment. The newly established local currency Green Transformation Fund refinancing scheme will encourage development of eco-friendly capital equipment for export- and production-oriented industries. While some of the reform actions may help lay the groundwork for Bangladesh's efforts to promote climate-compatible infrastructure investments, resulting investments may however take time to materialize, potentially extending beyond the Program period.

43. **Implementation Arrangements.** The Finance Division of the Ministry of Finance (MoF) is the executing agency for the Program. The implementing agencies include the Ministry of Environment, Forest, and Climate Change, the Planning Commission, the Cabinet Division, Bangladesh Bank, Local Government Division of the Ministry of Local Government, Rural Development and Co-operatives, the Ministry of Water Resources, the Ministry of Agriculture, the Ministry of Railways, the Road Transport and Highways Division of the Ministry of Road Transport and Bridges, the Power Division, the Energy and Mineral Resources Division, and the Sustainable and Renewable Energy Development Authority. A steering committee will be formed and chaired by the secretary of the Finance Division. The committee will comprise

representatives from all implementing agencies. A senior official³⁹ from the Finance Division will be the Program focal person.

44. **Sustainability.** Sustainability is anchored in the GoB's strong ownership of the Program and its commitment to continuing the prioritized reforms under the Program as reflected in the GoB's national climate plans and reflected in the GoB's Development Policy Letter (Annex 2) and also IMF's programs which the Program policy actions are aligned with. Mainstreaming climate change priorities through a whole-of-government approach and government planning, budgeting, and resource allocation, complemented by a robust M&E system, strengthens sustainability. Mainstreaming GESI and mobilizing the private sector will also facilitate sustainability.

45. The BCDP, as a long-term platform for coordinated planning, project preparation, implementation, monitoring, and climate finance mobilization, will further enhance sustainability and mitigate the risks of policy reversal. The Program will be supported by AIIB's and ADB's ongoing engagements in climate-critical sectors. ADB's TA support for institutional capacity building, analytical and knowledge-sharing work, and communications and awareness initiatives under the post-program partnership framework (Annex 1)⁴⁰ will further provide strategic direction and implementation tools for ministries to enhance climate change interventions. The Program and AIIB's continued policy dialogues will increase the supply of viable infrastructure investment projects for financing by AIIB and others. In turn, by committing to finance some of these projects once climate reforms are taken with Program support, AIIB effectively ties its upstream policy engagement with its downstream infrastructure lending, thereby increasing market confidence in, and sustainability of, the reforms in a generative cycle of climate financing.

D. Macroeconomic Policy Framework and Outlook

46. **Monetary and Exchange Rate Policy.** Bangladesh is progressing on the path of modernizing monetary policy framework and operations. It has transitioned to an interest rate corridor and announced the adoption of the policy rate as an operating target. At the same time Bangladesh Bank has been taken several steps to improve the monetary policy transmission including replacing the lending interest rate cap with a market-driven reference lending rate and removing the restriction to keep deposit rates above 3-month average inflation. The devolvement of government securities on Bangladesh Bank has been discontinued from August 2023. The Monetary Policy Committee has been constituted with the inclusion of external members. The Monetary Policy Statement. To contain inflation the central bank has raised the policy rates by a cumulative 300 basis points since May 2022, resulting in government bond yields being in positive territory. This is likely to go up as monetary transmission improves.

47. Greater exchange rate flexibility is needed to build external resilience. Bangladesh Bank has allowed the USD-BDT exchange rate to fluctuate within a wider band and have shifted to use the market determined exchange rate for all official Foreign

³⁹ Additional Secretary of Finance Division.

⁴⁰ The post-program partnership framework has been formulated to ensure the sustainability of the reforms initiated under the Program and strengthen the continued policy dialogue on the focused reform areas.

Exchange (FX) transaction. This move towards a market-determined unified exchange rate ensures greater exchange rate flexibility, although there still exist gaps between formal and informal market rates. The gap is expected to gradually close bolstering external stability. Bangladesh Bank plans to implement a crawling peg arrangement in the interim, based on a currency basket, initially featuring a broad corridor before moving towards a free-floating rate.⁴¹

48. **Fiscal Policy.** At only 7.6 percent, Bangladesh has one of the lowest tax revenue-to-GDP ratio in the world. The low revenue collection has significantly constrained vital spending for economic development, including climate related spending. The government has introduced an array of measures to improve the ratio of tax-to-GDP. These include modernization of tax administration by increasing taxpayer registration, digitalizing revenue collection and incentivizing filing of tax return. A new and modernized Income Tax Act was introduced in 2023, which makes declaration mandatory, repeals exemptions and reduce authorities' arbitrary power. The Planning Commission is focusing on improving medium-term investment planning, strengthening the linkages between the five-year plan, ADP and Medium-Term Budget Framework. On the expenditure side the government has been reducing the reliance on high-cost National Savings Certificate (NSC) to raise revenue as well as reforms the NSC system. The government has developed a plan to reduce the net NSC issuance to below 25 percent of total net domestic financing by FY2026. A roadmap for periodic formula-based price adjustment of petroleum products was adopted by end-2023 and prices of fuel and electricity were increased in 2022 and 2023 to reduce subsidies.

49. **Debt Sustainability.** As per IMF (2023) Bangladesh remain at low risk of external and overall debt distress.⁴² The external and domestic debt indicators remain below the respective thresholds under the baseline and stress scenarios. Public and Publicly Guaranteed (PPG) debt increased from 32 percent of GDP in FY2019 to 39.8 percent of GDP in FY2023 and is expected to stabilize around 44 percent of GDP in the medium term. Most of the public debt (55.6 percent) is domestic and denominated in local currency. About 37 percent of the outstanding domestic debt is composed of NSC, which by offering a higher yield than government bonds, raise the cost of borrowing and stifle the development of bond markets. The issuance of NSCs declined in FY2023 as rising domestic bond yields narrowed the gap with interest offered on NSCs and the government embarked on reforms to align the NSC interest rates with market determined rates.

50. PPG external debt stood around 17.7 percent of GDP in FY2023 and is estimated to rise to 18.1 percent of GDP by FY2025, due to the depreciation of the domestic currency before declining in subsequent years. Nearly 86 percent of the external debt is owed to multilateral and bilateral creditors at concessional rates. Healthy growth, stronger fiscal revenue mobilization, and a stabilization in the current account deficit is expected to drive the moderation in debt. Risks to the debt path emerge from rising commodity prices, higher domestic interest rates, elevated non-performing loans, and prospective losses from natural disasters.

⁴¹ Monetary Policy Statement January-June 2024, Bangladesh Bank

⁴² IMF (2023) IMF Country Report 23/409

51. **Financial Sector Policy.** Bangladesh’s financial sector faced numerous challenges prior to the pandemic, including lack of mechanism to identify distressed assets, absence of a strong Non-Performing Loan (NPL) resolution strategy, weak supervision and monitoring of the banking sector and a nascent domestic capital market. Bangladesh has made progress in addressing some of these challenges. Bangladesh Bank has completed a pilot risk-based supervision action plan and started to publish banks’ distressed assets in the annual financial stability report. The government and the State-Owned Commercial Banks, who own the majority of the NPLs, have formulated a strategy to reduce NPLs and restore capital by 2026. Bangladesh Bank has established sound procedures for the compilation and reporting of official reserve assets and started publishing its financial statements in compliance with International Financial Reporting Standards (IFRS). The authorities have also developed a roadmap for capital market development.

52. **External Sector Policy.** In a bid to attract Foreign Direct Investment (FDI), targeted efforts are underway focusing on Export Processing Zones. A National Tariff Policy has been published in 2023 and the authorities are making progress on negotiating bilateral and preferential trade agreements. In the near-term the key priority is to contain inflation and rebuild reserves and appropriate tightening of the monetary policy, a neutral fiscal policy and exchange rate flexibility is expected to help inflation moderate, alleviate FX pressures and rebuild external buffers. The progress on modernization of the monetary policy will promote macroeconomic stability and contain inflation. Similarly, progress on steps to enhance revenue collection and streamline expenditure are essential to channel resources to much needed social, developmental and climate related spending. Strengthening the financial sector and developing domestic capital market will support the long-term development goals including those related to climate change. The above assessment, combined with discussions with peer MDBs and IMF indicate that Bangladesh’s economy is fundamentally sound has an adequate macroeconomic policy framework.⁴³ Authorities are moving towards coherent and sustainable policies that are consistent with medium- and long-term growth and macroeconomic stability, including debt sustainability.

53. **Macroeconomic Outlook and Risks.**⁴⁴ Growth slowed down to 4.8 percent in the first half of FY2024 due to weak external demand, government’s measures to curb import, difficulties in opening import letters of credit and domestic shortages of electricity and fuel. Estimates from IMF, World Bank and ADB indicates that growth is expected to edge up in the second half of FY2024 as easing inflation strengthens economic activity, mega infrastructure projects drive public investment and exporters use domestic inputs due to dollar shortage (Table 2). Private investment is also expected to inch up as political uncertainty has diminished after election in January 2024.

Table 2. Projected Annual GDP growth for Bangladesh

	FY2024	FY2025
ADB	6.1	6.6
IMF	5.7	6.6

⁴³ AIIB has been engaged with peer MDBs and IMF continuously while developing the project. The most recent discussions took place in April 2024.

⁴⁴ A more detailed assessment is provided in the Sovereign Credit Fact Sheet.

World Bank	5.6	5.7
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Source: Asian Development Outlook 2024; South Asia Economic Focus 2024; and World Economic Outlook 2024

54. Growth is expected to rise further in FY2025 due to continuing rebound in exports, easing of energy costs and reduced import restrictions. Inflation is expected to moderate in the remaining months of FY2024 from an average of 9.7 percent during the first nine months, but the decline is likely be gradual due to second round effects from rising food and fuel prices and the passthrough of currency depreciation. Public debt is expected to stabilize around 44 percent of GDP in the medium term, while external debt is expected to peak around 18 percent of GDP before declining. The current account deficit is expected to widen as import compression measures are relaxed and large infrastructure projects with imported inputs gather pace. Remittances are likely to pick up on the back of cash incentives and the availability to residents of foreign exchange saving accounts. However, the continuing divergence between official and market exchange rate would encourage remittance transfers through informal channels. The gradual move towards market driven exchange rate should alleviate this problem and help accelerate repatriation of export proceeds. Net international reserves are expected to more than double from USD20.1 billion (financing 2.8 months of imports) in FY2024 to USD50.1 billion (financing 3.9 months of imports) in FY2028.

55. The risks are skewed towards downside. Geopolitical shocks resulting in high and volatile commodity policies could exacerbate the pressures on inflation and external sector. Prolonged global monetary tightening and delays in progress on reforming domestic monetary and exchange rate policies could widen the financial account deficit. Slowdown in efforts to resolve the high levels of NPLs in the banking sector would also undermine financial stability and weaken growth prospects. On the upside, swift implementation of the priority reforms could bolster potential growth.

E. Public Financial Management, Disbursement, and Auditing Aspects

56. **Public Financial Management (PFM).** The governance risk assessment carried out by ADB in 2021 noted that Bangladesh's PFM systems have improved with effective fiscal measures. However, further improvement is needed — mainly in treasury functions, legislative framework, internal and external oversight, and financial reporting. The risks are being adequately managed through several activities undertaken by development partners. The World Bank and ADB have supported the GoB in conducting the Public Expenditure and Financial Accountability (PEFA) assessment and PFM Reform Action Plan Update. The World Bank also supports reforms to the public procurement system, and the Program complements these efforts by helping secure Cabinet approval for the establishment of an autonomous public procurement authority, implementation of electronic contract management, and linking of the Integrated Budget and Accounting System (iBAS++) and National e-Government Procurement (e-GP) systems. The Program complements support for PFM from other development partners in Bangladesh through the local consultative group, an established forum of all relevant development partners. ADB has helped build the capacity of the Office of the Comptroller and Auditor General of Bangladesh, strengthening the conduct of audits of foreign-aided projects through the preparation of an audit manual, developed in line with the International Standards of Supreme Audit Institutions, as well as training for officers

and auditors. Internal auditing remains weak. The GoB is working to introduce an internal audit charter, guidelines, and risk-based audit procedures to strengthen the internal audit function.

57. **Disbursement.** The proceeds of the Program will be disbursed in a single tranche once the Loan Agreement is deemed effective and all policy actions were achieved. The PBF operation would not be linked to specific expenditures. Once the Loan Agreement becomes effective and a withdrawal application has been received, the Bank will deposit the loan proceeds into an account designated by the GoB at the Bangladesh Bank (BB)—provided the Bank is satisfied with the progress achieved in carrying out the Program and with the adequacy of the country’s macroeconomic policy framework. The proceeds of the loan may be used for any productive activity, provided that the proceeds may not be used for excluded expenditures as defined in the Loan Agreement.

58. **Auditing Arrangements.** There is reasonable assurance that the control environment for foreign exchange in the BB is satisfactory for the purposes of this Program. The BB’s audit report and published annual financial statements for the recent two financial years (FY2021-2022 and FY2022-2023) were reviewed by the team. Both audit reports have a clean and unqualified opinion and were conducted by private firms of chartered accountants. Upon the Bank’s request, the Borrower shall have the financial statements for the Deposit Account (in which all withdrawals from the Loan Account shall be deposited) audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to the Bank, in accordance with international standards for auditing or the national equivalent acceptable to the Bank. Promptly after their preparation but in any event not later than 6 months after the date of Bank’s request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to the Bank.

F. Environmental and Social

59. **Environmental and Social.** The Program will be co-financed with ADB as the lead co-financier. To ensure a harmonized approach to addressing the E&S risks and impacts of the Program, and as permitted under AIIB’s Environmental and Social Policy (ESP), the ADB’s Safeguards Policy Statement (SPS) will apply to the Program in lieu of AIIB’s ESP. AIIB has reviewed the ADB’s SPS and is satisfied that: (i) it is consistent with the Bank’s Articles of Agreement and materially consistent with the ESP, including the Environmental and Social Exclusion List and relevant Environmental and Social Standards; and (ii) the monitoring procedures that are in place are appropriate for the Program.

60. Based on the E&S assessments carried out according to the SPS requirements, no adverse impacts have been identified concerning involuntary resettlement or indigenous peoples. Therefore, ADB has categorized the Program as Category C for involuntary resettlement and indigenous peoples, and Category B for the environment. The Program focuses on policy and institutional reforms that do not entail involuntary resettlement or impact the lives of indigenous peoples. The downstream investment activities resulting from some policy actions may lead to some adverse impacts that are anticipated to be indirect, short term, and temporary. The Implementing Agencies under

the Program will use their respective existing grievance mechanism to address concerns and complaints of stakeholders, if any. An E&S impact assessment matrix has been developed (Annex 5). The TA support will build capacity to ensure compliance with the SPS and country safeguard system.

61. **Climate Vulnerability Context.** Bangladesh is at risk from river, coastal and urban flooding, cyclones, landslides, extreme heat and wildfire. For coastal areas, potentially damaging waves are expected to flood the coast at least once in the next 10 years. The country is also likely to be affected by water scarcity, earthquake and tsunami. Climate change will exacerbate Bangladesh's already high level of exposure to climate hazards and add new challenges. Bangladesh, considered to be the world's largest delta, is a riverine country that is highly vulnerable to climate and weather-related and geophysical impact drivers due to its topography and geographic location. In the future, climate change is projected to lead to changed precipitation patterns with unprecedented extremes, increase in temperature, and sea level rise.⁴⁵

62. Bangladesh's infrastructure will also be increasingly vulnerable to climate risks.⁴⁶ With more days of extreme temperatures, road surfaces and railway materials, including tracks and signals, are prone to quicker deterioration. Intense monsoon rainfall not only weakens roads and rail tracks but also contributes to river floods and flash floods, eroding and causing direct damage to these transportation networks. Frequent and intense cyclones, bringing high winds and storm surges, pose additional threats by scattering debris, blocking routes, and inflicting structural damage, especially in coastal areas. Indirectly, climate change impacts lead to the overuse of infrastructure by disaster-affected populations and reduced maintenance funds, as budgets are diverted to urgent needs such as disaster relief. As climate change intensifies, the demands and stress on Bangladesh's rural infrastructure are set to increase, highlighting the need for resilient and adaptive infrastructure development.

63. **Gender and Climate Change.** Climate change disproportionately affects women because of preexisting vulnerabilities, which present barriers to women's adaptive capacity and resilience to shocks. Women from vulnerable groups, such as older and rural women, face additional barriers in coping with climate change impacts. Women typically lack access to land, assets, and credit; have lower labor force participation than men; and still face discrimination, including in access to finance for female entrepreneurs. Gender-based violence remains a critical issue that increases after extreme weather events and economic shocks. About 68 percent of women in Bangladesh are engaged in agriculture, which is highly sensitive to climate impacts.

64. For women and girls, climate risk is associated with location and socioeconomic factors. For example, women in coastal areas are exposed to salinity and cyclones, while women in the northwestern highlands face drought. Floods, droughts, and salinity intrusion impact time spent fetching water and the health of pregnant and older women. Women and girls spend considerable time gathering fuel, cooking, and performing other household chores, leading to their time poverty, which is another dimension of gender inequality. Promoting climate resiliency in the agriculture sector along with GHG

⁴⁵ Annex 7, Climate vulnerability assessment, ADB

⁴⁶ IUCN, Climate Change and Infrastructure in Bangladesh. [01 \(iucn.org\)](http://01.iucn.org)

mitigation measures would improve the lives, livelihoods, and food security of women. Women are critical in organizing communities, raising awareness, and adopting innovative approaches to promote climate actions and resilience. The Program is classified as effective gender mainstreaming, and the policies adopted will enhance women's participation and support women's adaptive capacity. The gender targets are set in the Policy and Results Matrix (Annex 1) and will be monitored and tracked, and adequately reported on in regular Program progress reports. The progress of the gender-related policy actions will be monitored by the steering committee appointed by the MoF.

65. **Country-led Stakeholder Consultations.** The Program has undergone extensive government-led consultations with multiple government departments and agencies, development partners, private sector stakeholders, and other key stakeholders. These consultations were conducted in alignment with the GoB's 'whole-of-government' approach. Additionally, the BCDP, a cross-sector, multi-stakeholder, and multi-year partnership, will facilitate further consultations, strengthening linkages across multiple government agencies and ministries for climate actions. This collaborative approach provides a cohesive and coordinated response to the challenges of climate change in Bangladesh. The consultation process has created an opportunity for stakeholders to be informed about the Program's objectives, actions and impacts, as well as to provide valuable feedback and suggestions to shape the program's design, implementation and mitigation of any negative impact.

G. Monitoring, Evaluation, and Accountability

66. **Monitoring and Evaluation.** The Finance Division of the MoF, as the executing agency, will report to AIIB and ADB against each of the indicators and targets included in the Policy and Results Matrix (Annex 1). ADB and AIIB will jointly conduct Program monitoring semiannually. The BCDP under the government leadership, with participation by all relevant government agencies, development partners, and the private sector, will support ministries to monitor climate policy and projects, including the policy actions under the Program. A single program completion report for the entire CPBF program, i.e., the Climate Resilient Inclusive Development Program (including Subprogram 1 and 2) will be prepared by ADB and AIIB after 12 months of subprogram 2 closure.

67. **Governance and Anti-corruption.** AIIB's Policy on Prohibited Practices applies to the Program. The Bank reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive or obstructive practices, and misuse of resources and theft relating to the Program.

68. **Independent Accountability Mechanism.** ADB's SPS applies to this Project. All complaints relating to compliance with ADB's SPS under this Program will be handled by ADB's Independent Accountability Mechanism. In accordance with AIIB's Policy on the Project affected People's Mechanism (PPM), submissions of such complaints to the PPM will not be eligible for consideration by the PPM. Information on ADB's Accountability Mechanism is available at: [Accountability Mechanism | Asian Development Bank \(adb.org\)](https://www.adb.org/accountability-mechanism).

H. Risks and Mitigation Measures

69. ADB categorizes the Program’s risk as ‘*Complex*’. The Program’s risks are mitigated by the existing engagements of ADB and AIIB in key areas of governance, climate change and climate-relating sectors, and financial inclusion that allow for regular dialogue and the provision of support to the GoB. Risk mitigation includes strong government ownership of the policy reforms, and its efforts to strengthen continuous stakeholder engagement as stated in the Borrower’s Development Policy Letter (Annex 2). ADB will provide TA to strengthen the institutional capacity of the executing and implementing agencies and keep AIIB informed of Program implementation in accordance with the Memorandum of Understanding between AIIB and ADB. The Finance Division of the MoF will provide quarterly progress reports to ADB on Program implementation. The post-program partnership framework, to be implemented with TA support, will facilitate the monitoring of the continued achievement of outcomes and outputs, and ensure continuity of policy reforms.

Table 3. Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
<p>Political and Governance Risks</p> <p>Resistance from special interest groups may delay subsidy reforms and implementation of climate-friendly measures (e.g., new standards for energy use and emissions, greening the industrial value chain, transition to renewable energy).</p>	<p>Medium</p>	<p>The government’s climate strategies and plans will be enhanced with a mix of fiscal, financial, and structural policies needed for such a transition. An increased climate focus among major trading partners also incentivizes the green transition.</p>
<p>Macroeconomic risks</p> <p>The prolonged impact of external economic shocks tightens the government’s budget allocation for climate actions.</p>	<p>Medium</p>	<p>The Bangladesh economy has experienced strong growth⁴⁷ and is expected to remain robust over the next five years.⁴⁸ The GoB’s balance sheet remains healthy with public debt of 41.4 percent of GDP in FY2023. However, uncertainty over the geopolitical conflicts along with rising commodity prices, and slow growth in key export destinations may impinge upon growth in near-term. The GoB is implementing a national strategy for economic recovery and domestic resource mobilization to expand the fiscal space, in addition to mainstreaming climate change in planning, budgeting, and resource</p>

⁴⁷ GDP growth rate between FY2010-2022 averaged over 6 percent despite the growth slowed down to 3.4 percent in FY2020.

⁴⁸ According to International Monetary Fund (IMF) data.

		allocation. The microeconomic and debt situations will be monitored in coordination with IMF and relevant partners.
<p>Institutional Capacity for Implementation and Sustainability</p> <p>Varied levels of institutional capacities across implementing agencies hinder the holistic (whole-of-government) approach to climate action.</p>	High	TA support both directly to ministries and through the BCDP will support institutional capacity building, strategic knowledge work, and inter-ministerial coordination.
<p>Fiduciary risk</p> <p>Delays in annual government financial statements being prepared, tabled in Parliament, audited, and disclosed to the public will impact transparency and accountability in the use of public funds and may lead to corruption and dilute the impact</p>	Medium	The new public financial management reform action plan is under implementation to enhance fiduciary management. The National Committee for Environment and Climate Change's oversight will prevent potential corruption risks.
<p>Environmental and Social</p>	Low	RA1 under the Program does not trigger ADB E&S safeguards. No mitigation measure is required in the proposed policy actions. For RA2 and RA3, ADB TA will incorporate the E&S safeguards provisions and inclusive consultation and capacity development initiatives will be undertaken to enhance understanding of safeguards risks and triggers to avoid any adverse impact.

Annex 1: Policy and Results Matrix

Prior Actions: Subprogram 1 (September 2021–November 2023)	Policy Actions: Subprogram 2 (December 2023–June 2025, indicative)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)	Monitoring Responsibility & Frequency
Reform Area 1: Enabling environment for the implementation of climate actions created				
<p>1.1. The Cabinet established the National Committee for Environment and Climate Change (NCECC), headed by the Prime Minister and became effective in 2023, as the highest-level inter-ministerial body to oversee the progress of the overall implementation of the government’s climate strategy through a “whole of government” approach.</p> <p>1.2. Planning Commission, MOP, through a ministerial order, (i) mandated all concerned ministries to incorporate NAP and NDC-U priorities in their Annual Development Program (ADP), and (ii) introduced Climate Budgeting through ex-ante climate-tagging of all ADP projects to mainstream climate priorities in government’s planning and budgeting, leading to a transparent and increased climate expenditure.</p> <p>1.3. Planning Commission, MOP implemented the ministerial order on consolidating all Bangladesh Climate Change Trust Fund projects under the ADP system to enhance transparency, efficiency, and expansion of climate expenditure under the national budgetary framework.</p>	<p>2.1. The MOEFCC will establish the Bangladesh Climate Development Partnership among government ministries, private sector, civil society, and development partners^d with the objectives to (i) mobilize climate finance, (ii) provide project development, implementation, and M&E support across ministries, (iii) strengthen knowledge and capacity of the ministries, and (iv) enhance coordination between NCECC, concerned ministries, private sector, and development partners to implement the government’s climate strategy.</p> <p>2.2. MOP will implement (i) Disaster and Climate Risk Information Platform at sub-district (upazila) level, covering at least 250 out of 500 Upazilas, to enhance climate risk and vulnerability assessment and required expenditure allocation for public projects to address climate shocks^e, and (ii) Cost-Benefit Analysis Framework that incorporates both the cost and expected benefits of the projects from the perspective of climate, gender equality and social inclusion (GESI), in project preparation, appraisal, and approval processes of development projects in two largest ADP sectors - power and transport.</p> <p>2.3. MOF will approve with immediate effect the Updated Climate Fiscal Framework that includes enhanced focus on climate-linked fiscal and financial policies and instruments, green PFM system, incentivizing private sector participation in green transition and climate finance mobilization, and enhance domestic and international resource mobilization to address climate change.</p>	<p>By FY2026</p> <p>a. Climate expenditure as a share of total expenditure increased to at least 10%. (Baseline: 8.5% [\$3.04 billion] in FY2022; Source: Climate Financing for Sustainable Development Budget Report 2023–24)</p> <p>b. Total volume of sustainable finance^f provided by banks and financial institutions grew by at least 40%. (Baseline: \$12.01 billion in FY 2022; Source: Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions)</p> <p>c. Number of women entrepreneur beneficiaries of sustainable finance increased by at least 40%. (Baseline: 1.26 million in FY2022; Source: Quarterly Review Report on Sustainable Finance of Banks & Financial Institutions)</p>	<p>a. MOEFCC capacity enhanced to effectively utilize a robust inter-governmental M&E system to support NCECC to oversee the implementation of the government’s climate agenda.</p> <p>b. Concerned ministries’ capacity enhanced to regularly undertake stakeholder communication and engagement to implement NAP and NDC-U priorities.</p> <p>c. MOEFCC, through BCDP, develops the integrated Climate Change Information Database and Climate Change Knowledge Management Portal.</p> <p>d. Bangladesh Bank’s and Banks’ and Financial Institutions’ capacities enhanced to implement climate finance instruments.</p>	<p>Finance Division of MOF; MOP; Semi-annually</p>

Prior Actions: Subprogram 1 (September 2021–November 2023)	Policy Actions: Subprogram 2 (December 2023–June 2025, indicative)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)	Monitoring Responsibility & Frequency
<p>1.4. Bangladesh Bank (i) established a local currency Green Transformation Fund Refinancing Scheme; and (ii) issued with immediate effect (a) Policy on Green Bond Financing for Banks and Financial Institutions to facilitate sustainable investment in climate change mitigation and adaptation, (b) gender-inclusive Updated Sustainable Finance Policy and Reporting Guidelines for Banks and Financial Institutions⁹, and (c) Sustainability Rating of Banks and Financial Institutions to provide financing for green and sustainable business activities, with a focus on women entrepreneurs.</p>	<p>2.4. Bangladesh Bank will implement through policy circulars (i) Climate Finance Policy to (a) prioritize banks' financing to address climate change mitigation and adaptation priorities in NAP and NDC-U, (b) enable women entrepreneurs' access to climate finance, (c) introduce climate-related financial disclosure of the financial sector, and (d) introduce innovative climate-finance instruments and financial products; and (ii) Carbon Footprint Measurement Policy to (a) enable banks and financial institutions to identify industries with highest carbon footprint, which would require additional transition finance to mitigate major economic disruption from green transformation, and (b) develop carbon trading guidelines, to further enhance the climate finance regulatory framework for banks and financial institutions aligned with NAP and NDC-U priorities.</p>		<p>e. ADB to provide MOF with technical and analytical support to prepare and operationalize the Enhanced Climate Fiscal Framework coordinating with concerned ministries and agencies.</p> <p>f. ADB to provide concerned line ministries with analytical support on the design and implementation of climate fiscal tools and approaches.</p> <p>g. ADB/AIIB will provide technical support to MOP for DRIP system enhancement and design and implementation of climate-responsive cost-benefit framework.</p> <p>h. ADB to provide support for green PFM by assisting MOF to produce, annually, a supplementary financial statement on climate expenditure.</p>	<p>Finance Division of MOF; Bangladesh Bank; Semi-annually</p>

Prior Actions: Subprogram 1 (September 2021–November 2023)	Policy Actions: Subprogram 2 (December 2023–June 2025, indicative)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)	Monitoring Responsibility & Frequency
Reform Area 2: Climate change adaptation priorities strengthened				
<p>1.5. The government approved with immediate effect National Adaption Plan 2023-2050 with six national adaptation goals: (i) protection against climate change variability and natural disasters; (ii) climate-resilient agriculture; (iii) climate-smart cities; (iv) nature-based solutions for forestry and biodiversity; (v) adaptation practices integrated into the planning process; and (vi) transformative capacity building and innovation in ministries and agencies, to address climate change adaptation priorities, implementation strategy, financing needs, and M&E framework in a holistic way and to mainstream GESI in climate actions through the provisions for diverse gender identities, youth, elderly people, persons with disabilities, ethnic communities, and socially disadvantaged groups in all eight priority sectors (i.e., water resources; disaster, social safety and security; agriculture, fisheries, aquaculture and livestock; urban areas; ecosystems, wetlands and biodiversity; policies and institutions; and capacity development, research and innovation) and 11 climatic regions.</p>	<p>2.5. MOEFCC will approve, with immediate effect, (i) Updated Bangladesh Climate Change Strategy and Action Plan,^h Climate Change Gender Action Plan, Youth- Led Adaptation Plan, and the Climate Adaptation Plan for Persons with Disabilities to mainstream GESI in climate change-related policies, strategies and interventions; and (ii) begin implementation of NAP investment roadmap by obtaining ADP approval of at least 30% of MOEFCC's priority NAP projects focusing on (a) reducing biodiversity loss, (b) wetland conservation, and (c) reducing air pollution.</p>	<p>By FY2026</p> <p>d. The share of farmers who benefitted from or who are recipients of climate-smart and climate-resilient agricultural extension services increased to at least 20%, with at least 35% of which are females. (Baseline:7.25 million farmers or 10% (of which women farmers' share is 20%) in FY2022; Source: MOA Agriculture Extension Plan)</p> <p>e. Climate proofed agriculture land increased from 10% to at least 20%.^l (Baseline:10% [808,200 hectares] in FY 2022; Source: MOA Agriculture Extension Plan)</p> <p>f. Reached at least \$400 million investment initiated in the water resources sector to promote water security. (Baseline: \$300 million in FY2022; Source: MOWR)</p>	<p>i. MOA to provide awareness and outreach support to the farmers, with a focus on women farmers and households, for adopting climate smart agricultural practices.</p> <p>j. ADB to provide MOA with support for capacity development of agricultural extension service workers.</p> <p>k. ADB/AIIB to provide concerned agencies of the government with technical and analytical support for the Disaster Risk Financing Strategy instruments development and piloting.</p>	<p>Finance Division of MOF; MOEFCC; Semi-annually</p>

Prior Actions: Subprogram 1 (September 2021–November 2023)	Policy Actions: Subprogram 2 (December 2023–June 2025, indicative)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)	Monitoring Responsibility & Frequency
1.6. The MOA approved with immediate effect, in line with the priorities identified in the NAP, (i) Action Plan of the National Agriculture Extension Policy (2023) to promote farmers', with a focus on women farmers', access to climate-smart agriculture practices, and (ii) the Action Plan of the 4th Industrial Revolution Policy (2022) to increase farmers', especially women farmers', crop production through climate smart farming and marketing such as precision agriculture technologies, use of Artificial Intelligence and Big data, use of advanced technologies in early warning system for farmers, and development of e-commerce platforms for climate resilient agriculture value chain development.	2.6. The MOA will obtain ADP approval for at least 20% of NAP priority interventions aligned with the implementation of the Action Plans approved under subprogram 1 to strengthen resilience of the sector and ensure farmers', especially women farmers' access to enhanced agriculture extension services and to develop climate proofed agricultural land. ⁱ	g. Number of people who benefited from the river erosion forecast and early warning system reached at least 5 million people, at least 50% of whom are female. (Baseline: 0 in FY2023; Source: MOWR database) h. CRT used in selection of at least (i) 10% of the total number of projects for transport networks, and (ii) 30% of the total number of projects for transport networks with an estimated cost of more than \$200 million, implemented by the MOLGRDC. (Baseline: 0 in FY2022; Source: LGED database)		Finance Division of MOF; MOA; Semi-annually
1.7. (i) The Government established the Delta Governance Council to commence implementation of Delta Plan 2100 and NAP water-sector priority projects through informed decision-making and strategic direction, securing funding, and supporting institutional reforms at ministerial levels; and (ii) the MOWR commenced implementation of all NAP water sector projects through (a) established with dedicated staff a delta wing for implementation, and (b) established 7 regional offices for climatic data collection. ^k	2.7. The MOWR, in consultation with the Delta Governance Council, will (i) commence implementation of Barind, Coastal, and Haor Area Masterplans to promote water security by (a) securing water for irrigation, (b) reducing coastal erosion, and (c) managing floods; and (ii) implement River Erosion Forecast and Early Warning System to improve disaster risk management through (a) the application of remote sensing, (b) ground observation, (c) advance river flow modelling. 2.8. The government, through MDMR, MOWR, MOA, Bangladesh Bank and others concerned, will develop and implement a National Disaster Risk Financing Strategy through appropriate risk retention and transfer instruments (such as crop insurance, disaster risk insurance, contingent disaster financing) to enhance disaster risk management and post-disaster recovery.	i. Flood inundation period in 14 pourashavas reduced by at least 30% during average monsoon period, benefiting 1.4 million population. (Baseline: average 10.5 days in FY2022; Source: MOLGRDC database)		Finance Division of MOF; MOWR, MDMR, MOA, Bangladesh Bank; Semi-annually

Prior Actions: Subprogram 1 (September 2021–November 2023)	Policy Actions: Subprogram 2 (December 2023–June 2025, indicative)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)	Monitoring Responsibility & Frequency
<p>1.8. MOLGRDC mandated LGED to use CRT^l in transport sector project planning and selection to enhance climate-resilience of transport network.</p> <p>1.9. Two city corporationsⁿ of Narayanganj and Rajshahi approved climate resilient city action plans that include measures to address climate-related shocks and stresses including heat stress, flooding, and tropical cyclones to promote climate-smart urbanization, and LGED approved master plans for 14 <i>pourashavas</i> to promote flood risk management and salinity prevention, in line with the priorities in the NAP.</p>	<p>2.9. The MOLGRDC in its organogram will establish CReLIC as permanent office to mainstream climate- resilient road infrastructure designs with enhanced use of CRT and start implementation of nature-based solutions and innovative and sustainable road construction materials in rural road construction adopting Climate-resilient Design Policy Guidelines.^m</p> <p>2.10. The MOLGRDC (i) through city corporations, and <i>pourashavas</i> will approve and initiate implementation of at least two more climate resilient city action plans for Dhaka and two city region strategic plans;^o (ii) through 14 <i>pourashavas</i>, will implement the drainage system master plans; and (iii) through LGD use the Climate Vulnerability Index as a criterion for resource allocation for the city corporations to prioritize climate resilient investments, to scale up implementation of the urban priorities identified in the NAP.</p> <p>2.11. The MOLGRDC will approve and implement the National Urban Policy, 2025 to develop climate resilient cities and regions through (i) integrated urban drainage management and eco-engineered waste management, (ii) climate-resilient WASH facilities, (iii) conservation of urban wetlands and biodiversity, and (iv) implementing locally-led adaptation actions.</p> <p>2.12. The LGD will approve and implement Updated National Strategy for Pourashava Governance, 2026-2035 to increase domestic resource mobilization to address climate priorities in pourashavas through (i) improving property tax assessment method, (ii) updating property valuation, (iii) increasing coverage of property tax; and (iv) enhancing capacity of pourashava officials on property tax assessment, auditing, and enforcement.</p>	<p>j. Priority investments for climate resilient and inclusive infrastructure for at least two strategic city regions approved and implementation commenced. (Baseline: 0 in FY2022; Source: MOLGRDC database)</p> <p>k. Each of the four city corporations with climate resilient action plans, including in Dhaka, commenced implementation of at least one climate resilient investment project. (Baseline: 0 in FY2022; Source: ICLEI - Local Governments for Sustainability, Bangladesh)^p</p>		<p>Finance Division of MOF, MOLGRDC; Semi-annually</p>

Prior Actions: Subprogram 1 (September 2021–November 2023)	Policy Actions: Subprogram 2 (December 2023–June 2025, indicative)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)	Monitoring Responsibility & Frequency
Reform Area 3: Climate change mitigation actions accelerated				
<p>1.10. The MORTB approved with immediate effect (i) the Electric Vehicle Registration and Operation Policy 2023 to streamline electric vehicle registration process and achieve at least 30% share of electric vehicles by 2030⁹; and (ii) the procurement of electric buses for public transportation to reduce GHG emissions from the road transport sector by promoting electric vehicles.</p> <p>1.11. MOPEMR approved with immediate effect (i) Solar Irrigation Roadmap (2023-2031) to roll-out 45,000 SIPs; (ii) Electric Vehicle Charging Guideline that provides the regulatory framework to set tariffs for electricity consumption for charging, technical standards for charging stations and institutional arrangements for authorization of setting up electric vehicle charging stations; and (iii) enforced mandatory installation of net metering for any customer with a roof space of 1,000 square feet for a solar photovoltaic rooftop to contribute to the IEPMP Rooftop Solar Power target of 12GW by 2050 to meet energy NDC-U target.</p>	<p>2.13. The MORTB will (i) approve and commence implementation of Revised Strategic Transport Masterplan for Dhaka, 2025-2041 that promotes (a) rail-based urban transport services including MRT, (b) improved bus and other public transport services including BRT and e-buses, (c) multimodal transport integration, use of non- motorized transport and pedestrian facilities, and (d) efficient traffic demand management among others; and (ii) approve an electric vehicle roadmap, all aiming to promote modal shift and further reduce GHG emission from the road transport sector.</p> <p>2.13. The Ministry of Railways and the Bangladesh Railway will (i) implement from January 2024-December 2025 of New Operational Strategy for Railways to promote operational efficiency through (a) enhancing service -wise operation target and monitoring with new key indicators, (b) accelerating transition to broad gauge, to make modal shift from road to railways viable, and (ii) implement New Energy Use Standards for locomotives to reduce GHG emissions from the rail transport sector.</p> <p>2.15. MOPEMR (i) will approve and commence implementation of the IEPMP to achieve Net Zero by 2050 through measures to promote renewable energy and enhanced efficiency of existing power plants and improved technology use in power generation; (ii) implement Solar Irrigation Roadmap as approved in subprogram 1; and (ii) approve with immediate effect Renewable Energy Policy to deploy renewable energy solutions and further reduce GHG emissions in the energy sector.</p>	<p>By FY2026</p> <p>i. 40 locomotives with APU operated on Bangladesh Railways lines following the new standard for energy use and emissions. (Baseline: zero in FY2022; Source: Bangladesh Railways)</p> <p>m. Energy sector GHG emissions reduced by at least 10.0 MtCO₂e unconditionally. (Baseline: 93.09 MtCO₂e from energy sector in 2012, with NDC-U unconditional CO₂ reduction target of 26.31 MtCO₂e by 2030 from energy sector; Source: NDC-U [2021])</p> <p>n. 800MW of total power generation capacity from renewable energy sources. (Baseline: 459 MW in FY2022; Source: SREDA database)</p> <p>o. At least 8,000 solar irrigation systems installed. (Baseline: 2,718 in FY2022; Source: National Solar Energy Database, SREDA)</p>	<p>l. ADB to provide concerned government agencies with analytical support in studying and evaluating options for carbon taxation, congestion charges, and the adoption of a circular economy.</p> <p>m. ADB/AIIB to provide MORTB and MOR with capacity building support in designing and implementing a multimodal transport strategy.</p> <p>n. MORTB and MOPEMR to conduct awareness raising and stakeholder buy-in to green technology adoption.</p> <p>o. ADB/AIIB to provide concerned government agencies with analytical and capacity building support for the design and implementation of fiscal and non-fiscal incentives for green transition.</p>	<p>Finance Division of MOF, MORTB, MOPEMR; Semi-annually</p>

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Policy Actions: Subprogram 2 (December 2023–June 2025, indicative)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)	Monitoring Responsibility & Frequency
	2.16. MOPEMR will (i) approve and enforce Energy Audit Regulations and (ii) implement Building Energy Efficiency and Environment Rating Guidelines applicable for existing and new buildings to promote energy efficiency.	<p>p. Energy intensity (national primary energy consumption as a proportion of GDP) reduced by 6% from 2020 level. (Baseline: 7.0GJ/\$1,000 [2015 prices] in FY2020; Source: International Energy Association database)</p> <p>q. 1GW of solar photovoltaic rooftop installed.^f (Baseline: 157MW;^g in FY2023 Source: SREDA database)</p>		Finance Division of MOF MOPEMR; Semi-annually

A = assumption, ADP = Annual Development Program, APU = Auxiliary Power Unit, BCDP = Bangladesh Climate and Development Partnership, CReLIC = Climate Resilient Local Infrastructure Center, CRT = Climate Resilient Tool, CO2 = carbon dioxide, DRIP = Disaster and Climate Risk Information Platform, FY = fiscal year, GDP = gross domestic product, GESI = Gender equality and social inclusion, GHG = greenhouse gas, GJ = gigajoule, ICLEI = International Council for Local Environmental Initiatives, IEPMP = Integrated Energy and Power Masterplan LGD = Local Government Division, LGED = Local Government Engineering Department, MDMR = Ministry of Disaster Management and Relief, MOA = Ministry of Agriculture, MOEFCC = Ministry of Environment, Forestry, and Climate Change, MOLGRDC = Ministry of Local Government, Rural Development and Co-operatives, MOP = Ministry of Planning, MOPEMR = Ministry of Power, Energy, and Mineral Resources, MOR = Ministry of Railways, MORTB = Ministry of Road Transport and Bridges, MOWR = Ministry of Water Resources, MRT = mass rapid transit, MW = megawatts, M&E = monitoring and evaluation, NAP = National Adaptation Plan, NDC-U = Nationally Determined Contributions-Update, NCECC = National Committee for Environment and Climate Change, PFM = public financial management, R = risk, SREDA = Sustainable and Renewable Energy Development Authority, WASH = water sanitation and hygiene.

^a Government of Bangladesh. 2020. [Eighth Five-Year Plan 2021–2025](#). Dhaka.

^b Government of Bangladesh. 2022. [National Adaptation Plan of Bangladesh \(2023-2050\) | United Nations Development Programme \(undp.org\)](#). Dhaka.

^c Government of Bangladesh. 2021. [Bangladesh Nationally Determined Contributions \(NDCs\) 2021 \(Updated\)](#). Dhaka.

^d A cross-sectoral partnership between Government Ministries, Private Sector, Civil Society, and Development Partners supported by ADB. It will coordinate climate financing from multilateral and bilateral development partners and leverage financing from private sector and other potential sources to develop innovative financing instruments in the medium term, including developing green financing institutions and strengthening Bangladesh Climate Change Trust Fund (BCCTF).

^e 50% of the 500 Upazilas are targeted because covering all Upazilas will require additional resources and time beyond the scope of the current program.

^f Sustainable finance refers to any form of financial service that includes investment, insurance, banking, accounting, trading, economic and financial advice integrating environmental, social and governance (ESG) criteria into the business or investment decisions for lasting benefits of both clients and society at large. Sustainable Finance is about Green Banking, Sustainable Agriculture, Sustainable CMSME, CSR that includes Socially Responsible Finance activities with respect to sustainability.

^g The introduction of Sustainable Finance Policy has given an ample opportunity for the banks and other financial institutions to contribute to inclusive Sustainable Green Growth, where Green Finance Sustainable Agriculture, sustainable cottage micro small and medium enterprises (CMSME), socially responsible financing, other financing and corporate social responsibility activities linked to sustainability are structurally addressed.

^h The Bangladesh Climate Change Strategy and Action Plan is currently being used for planning, climate fiscal framework, BCCTF-funded projects, and project formulation by different ministries and agencies.

i The total allocated development budget of MOA in 2024 is \$395 million, and in 2023 is \$394 million.

j Climate-proofed area is defined as cultivated areas with drought tolerant crops, waterlogging tolerant crop varieties, and cold tolerant crops, achieved through polders construction, flood control measures, erosion control measures, irrigation systems, salinity monitoring and prevention, and resilient crop farming.

k The government through (i) Ministry of Planning established a high-level forum for Delta Governance Council (2022); and (ii) Ministry of Water Resources (MOWR) established a reform management and policy research division at the ministry (2022), Delta Cell at Bangladesh Water Development Board (2023); and seven water policy units under seven regions (2023). Bangladesh Water Development Board also (i) approved project planning and design guidelines (2023), (ii) endorsed climate sensitive research policy (August 2021), and (iii) established research unit (June 2023). The National Action Plan (NAP) has incorporated 54 projects based on their forms in Delta Plan 2100. The National Council of Environment and Climate Change is responsible for formulating national policies and plans, as well as overseeing the progress made by implementation-focused delta governance council.

l CRT is a three-step process: (i) identification of adaptation challenges; (ii) climate impact assessment; and (iii) planning and design specifications of adaptation options. By making the use of the CRT as mandatory in planning and designs, climate change adaptation will be incorporated into its institutional business process, and thus promoting climate change resiliency in LGED's transport projects.

m Such as uniblocks and plastic (roads), concrete hollow blocks (buildings), and non-fired bricks.

n City Corporation is the largest administrative unit in Bangladesh. There are 12 of them including Dhaka North and South City Corporations.

o A city region is an agglomeration of a large city (city corporation), surrounding pourashavas (secondary towns), and adjacent peri-urban areas with close economic and social links. City region development can decongest core cities and promote investments to improve climate resilience and economic growth. AIIB can provide support in preparing climate resilient city action plans for more municipalities under the Smart Cities Development Project; preparation grant is being mobilized.

p The climate resilient investment projects will include those identified under the climate resilient city action plans in four city corporations.

q The Electronic Vehicle (EV) Registration and Operation Policy 2023 was introduced to provide standardized technical specifications of electronic vehicles and the registration process and requirements of electronic vehicles.

r Integrated Energy Power Master Plan target for rooftop solar installation by 2030 is 1.6GW.

s Rooftop Solar Except Net Metering | National Database of Renewable Energy, SREDA; Net Metering Rooftop Solar | National Database of Renewable Energy, SREDA. Source: Asian Development Bank.

Annex 2: The Borrower's Development Policy Letter



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

Mr. Jin Liqun
President
Asian Infrastructure Investment Bank
Beijing, China.

Subject: Climate-Resilient Inclusive Development Program (Subprogram 1)

Dear Mr. Liqun,

Representing the Government of Bangladesh, we extend our gratitude to the Asian Infrastructure Investment Bank (AIIB) for its unwavering support in our national climate change and development initiatives. This Development Policy Letter (DPL) presents our priorities and communicates our request for an AIIB Climate Policy-Based Financing (CPBF) of USD 400 million in co-financing with the Asian Development Bank (ADB) to support the Program. The Program for CPBF support is aligned with the Government's key strategic goals and priorities in the National Adaptation Plan (NAP) 2023-2050 and the Nationally Determined Contributions 2021 Update (NDC-U), and as further elaborated in national climate plans, i.e., the Mujib Climate Prosperity Plan and Bangladesh Delta Plan 2100.

The proposed CPBF loan will address the development financing requirements for Fiscal Year (FY) 2024, projected at USD 24.5 billion by financing immediate policy and institutional reform actions to support the implementation of the government-led national climate priorities as outlined in the NAP and the NDC-U. This includes scaling up public and private investments in green infrastructure, strengthening climate governance, promoting adaptation and mitigation actions in critical sectors including agriculture, water resources, urban, transport, and energy, and mobilizing climate finance.

Bangladesh achieved impressive economic growth in the past decade, reaching lower-middle-income status in 2015 and expecting to graduate from the least developed country status in 2026. While the pandemic caused a temporary slowdown and the growth fell to 3.5 percent in FY2020 from 7.9 percent in FY2019, swift government actions led to a strong rebound and the growth reached 7.1 percent in FY2022. However, this has been severely interrupted by external shocks emanating from the geopolitical tensions in Europe, rising global commodity prices, supply chain disruptions, and slowing external demand. The compounding impact of these shocks has caused, among others: (i) decade-high inflation, rising to 9.86 percent in January 2024 from 5.7 percent in October 2021, (ii) a sharp increase in the current account deficit to 4.1 percent of GDP in FY2022 from 1.1 percent of GDP in FY2021, though narrowed later to 0.7 percent in FY2023 through import compression measures, and (iii) rise in public debt from 32.4 percent of GDP in FY2021 to 36.0 percent of GDP in FY2023. Growth slowed down to 5.78 percent in FY2023 with significant depletion of reserves.

The Government of Bangladesh has introduced a broad-based reform package, with the support of partners, to stabilize the economy. These include: (i) creating additional fiscal space for public investment; (ii) modernizing the monetary policy framework to control inflation; (iii) moving towards a greater exchange rate flexibility to help accelerate repatriation of export receipts and remittances; and (iv) addressing financial sector vulnerabilities and other structural reforms to buttress longer-term growth. Going forward the economy is expected to revert to 7 percent plus growth, moderate levels of inflation and fiscal deficit, and a balance of surplus leading to a rebuilding of reserves.

Despite being a negligible contributor to greenhouse gas (GHG) emissions, Bangladesh is among the most vulnerable countries affected by climate change. Due to its geographical location in the low-lying delta region of the Earth and high population density, Bangladesh is a disaster-prone country severely

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impacted by climate change, posing significant risks to human life and livelihoods. According to the Global Climate Risk Index 2021 published by Germanwatch, Bangladesh ranks 7th among the countries most affected by climate change from 2000 to 2019. Climate change has led to various natural disasters, increased sea levels, salinity intrusion, and extreme weather events, presenting numerous challenges to the country's development journey.

However, Bangladesh has been actively addressing climate challenges since the mid-1990s, adopting policies and establishing funds like the Bangladesh Climate Change Trust Fund. The updated version of the Climate Fiscal Framework, 2020 guides infrastructure investment that can address climate change challenges. The government currently spends USD 1 billion annually on adaptation. However, to meet climate action goals outlined in the NDC-U, Bangladesh estimates a combined requirement of USD 175.8 billion by 2030. NAP also estimates a need for USD 230 billion over 27 years. This staggering volume is far beyond the financing capacity of the public sector, so the bulk of these investments need to come from the development partners and the private sector. We believe partnering with institutions like the AIIB is crucial to help bridge the funding gap and support the government's effort to implement climate-focused enabling policy and institutional reforms for mobilizing climate finance at scale including from the private sector and increasing the supply of sustainable climate infrastructure investments.

Recognizing the critical importance of international collaboration and the cross-sectoral complexity of climate issues, the government of Bangladesh actively seeks partnerships to combat climate change. This commitment involves collaborating with other partners and organizations to exchange knowledge and best practices while exploring multi-stakeholder partnerships to accelerate progress on climate action initiatives. The proposed program presents a whole-of-government approach to climate actions involving a range of stakeholders and partners and supports the establishment and operationalization of the country-led Bangladesh Climate and Development Platform (BCDP) spearheaded by the Ministry of Environment, Forest, and Climate Change. The BCDP is a long-term country platform for coordinated planning, project preparation, implementation, monitoring, and climate finance mobilization, further enhancing the sustainability of climate actions and operations.

This proposed loan will assist Bangladesh in implementing a robust climate change development policy that focuses on the following key areas:

1. Building a Strong Foundation and Enabling Environment

To tackle climate change, the government is embarking on a whole-of-government approach to implement the NAP and NDC-U priorities, building a comprehensive framework like the BCDP. This framework focuses on improved coordination across government agencies, fostering collaboration with the private sector and international partners. It also emphasizes strengthening local and national institutions for effective climate action. By adopting proper measures, the government aims to build green infrastructures and increase overall resilience. The framework incorporates mobilizing climate finance through innovative instruments and capacity-building initiatives.

2. Adapting to Change

To adapt to the changing climate, Bangladesh is prioritizing several key measures. These include building infrastructures that would be climate-friendly and enhancing water security through improved resource management and flood resilience strategies. Strengthening disaster preparedness is another focus, with investments in early warning systems and improved risk management. The country is also promoting climate-smart agriculture by encouraging modern infrastructure, technology adoption, and sustainable practices. Bangladesh is also investing in developing resilient infrastructure, focusing on climate-friendly



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transportation and urban development. These measures aim to safeguard the nation and its people from the harshest impacts of climate change.

3. Mitigating Emissions

Bangladesh is taking a multi-pronged approach to reduce greenhouse gas emissions to meet the NDC-U GHG emissions target for the energy and transport sectors. This includes actively transitioning to cleaner energy sources like renewables, alongside efforts to enhance energy efficiency across various sectors. Additionally, the promotion of public transport and electric vehicles aims to create a more sustainable and green transportation infrastructure, further contributing to lower emissions.

The proposed AIIB Climate Policy-Based Financing Loan will be instrumental in helping implement our national climate objectives and priorities outlined in the NAP and NDC-U. It will be the first in a programmatic series of two CPBFs in cofinancing with ADB and covering two well-coordinated sub-programs of policy and institutional reforms that integrate investment in climate-friendly infrastructure, gender equality, and social inclusion.

The government is fully committed to implementing the required policies and institutional reforms in a timely manner to maximize the impact of this first CPBF operation. We are committed to collaborating with all stakeholders, including government, private sectors, NGOs, and local communities. By prioritizing sustainability and environmental awareness, this partnership with AIIB paves the way for a more resilient and sustainable future for Bangladesh. We look forward to our continued engagement and AIIB's support in our efforts to achieve the ambitious climate and development targets.

Sincerely

Abul Hassan Mahmood Ali, MP

Mr. Jin Liqun
President
Asian Infrastructure Investment Bank
Beijing, China.

Annex 3: International Monetary Fund Assessment Letter

1. The IMF confirmed on January 31, 2024 that the Article IV Consultation [Press Release](#) may serve as the IMF Assessment Letter.

Annex 4: Paris Alignment and Climate Finance Assessment

1. The rationale behind the Paris Alignment Assessment results for the proposed Program is grounded in the critical need for Bangladesh to address its vulnerability to climate hazards and the disproportionate impact of climate change on its population, especially the poor and most vulnerable. The Program is designed to meet these challenges head-on by implementing key policy reforms aimed at enhancing climate adaptation, mitigation, and disaster resilience, as well as unlocking climate investment. This approach directly supports Bangladesh's climate agenda as outlined in its National Adaptation Plan (NAP) and Nationally Determined Contributions 2021 update (NDC-U), focusing on multisector efforts and the mobilization of necessary climate finance.
2. The Paris Alignment assessment results indicate that the program aligns with the goals of the Paris Agreement (PA) by adhering to the Joint MDBs PA methodology for policy-based financing.⁴⁹ This alignment is evidenced through the program's explicit climate policy actions that address both adaptation to and mitigation of climate change.
3. Specifically, the Program's mitigation component is aligned with the Mitigation Goals of the PA (BB1) by focusing on universally aligned activities that target the reduction of climate change impacts as described in Reform Area 3: "*Accelerating Climate Change Mitigation Actions*". Under this reform area, the program seeks to accelerate actions that reduce greenhouse gas emissions and promote sustainable energy and clean transportation. Policy Action 1.10, for instance, details the approval of the Electric Vehicle Registration and Operation Policy 2023, aiming for a significant share of electric vehicles by 2030. Policy Action 1.11 includes the Solar Irrigation Roadmap and Electric Vehicle Charging Guideline, targeting the roll-out of solar irrigation pumps and the establishment of electric vehicle charging infrastructure. These actions reflect a strategic approach to mitigating climate change by transitioning towards clean energy and sustainable transportation, contributing to the reduction of GHG emissions.
4. Additionally, the Program's approach to addressing investments in vulnerable assets/supporting vulnerable populations through the proposed climate risk screening and its commitment to reinforcing climate change adaptation across the economy and promoting climate-resilient infrastructure design, as described in Reform Areas 1 and 2, are in line with the adaptation goals of the PA (BB2).
5. Reform Area 1 "*Enabling Environment for Climate Change Actions*" focuses on strengthening the governmental framework to integrate climate change actions into planning, budgeting, and monitoring processes. For example, Policy Action 1.1 involves the establishment of the National Committee for Environment and Climate Change (NCECC), led by the Prime Minister, to oversee the government's climate strategy through a "*whole of government*" approach. Similarly, Policy Action 1.2 mandates the incorporation of NAP and NDC-U priorities into the Annual Development Program (ADP), introducing climate budgeting to mainstream climate priorities in government planning and budgeting. These

⁴⁹ [Microsoft Word - MDB PA PBL Principles_final_14.06.2023.docx \(aiib.org\)](#)

measures justify the adaptation finance by establishing a solid foundation for systematic climate action and financial transparency.

6. Reform Area 2 “*Climate Change Adaptation Reinforced*” will enhance the nation's resilience to climate impacts across various sectors. Policy Action 1.5, for example, focuses on the approval and immediate effectuation of the NAP, which outlines six national adaptation goals encompassing climate-resilient agriculture, climate-smart cities, and nature-based solutions, among others. Policy Action 1.6 and 1.7 further specify actions in agriculture and water management, such as promoting climate-smart agriculture practices and implementing the Bangladesh Delta Plan 2100. These actions underscore the program's commitment to reinforcing the economy-wide and sector-specific adaptation strategies, with a keen focus on inclusivity and sustainability.

7. **Climate finance.** The Program is considered 100 percent climate finance, with 81.9 percent for adaptation and 18.1 percent for mitigation, which is accounted using the joint MDB methodology for tracking mitigation and adaptation finance.⁵⁰ The Program's vulnerability context is explained in detail through the Program document, particularly paragraphs 6, 61 and 62, and direct linkages to the expected program policy actions are demonstrated through the number of reform areas, particularly Reform Area 2. The Program is addressing Bangladesh's vulnerabilities to cyclones, flash floods, increased temperature, including extreme heat, and sea level rise.

⁵⁰ [Joint methodology for tracking climate change adaptation finance \(eib.org\)](https://www.eib.org/en/projects/2019/01/20190101-joint-methodology-for-tracking-climate-change-adaptation-finance)

Annex 5: Matrix of Potential Environmental and Social Impacts and Measures⁵¹

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
Subprogram 1				
Reform Area 1: Enabling environment created.				
S1 P1	1.1. The Cabinet established the National Committee for Environment and Climate Change (NCECC), headed by the Prime Minister and became effective in 2023, as the highest-level inter-ministerial body to oversee the progress of the overall implementation of the government’s climate strategy through a “whole of government” approach.	Positive: The establishment of the (i) National Committee for Environment and Climate Change, (ii) National Technical Advisory Committee on Climate Change and (iii) Technical Working Group on NAP and NDC-U Implementation by MOEFCC will have significant positive impact on the environment and government policy. The National Committee will improve coordination and coherence in climate-related policies and actions across various government departments and agencies, ensuring a more effective and efficient response to climate change. National Technical Advisory Committee on Climate Change will provide a platform for experts and scientists with diverse backgrounds and expertise in climate change to contribute their knowledge and advice to government policies and initiatives. The Technical Working Group on NAP and NDC-U is a positive step toward strengthening the technical and policy aspects of climate change adaptation and mitigation.	No potential impact on involuntary resettlement and indigenous people	The subprogram does not trigger environmental or social safeguards. No mitigation measures required in the proposed policy action.

⁵¹ The Matrix of Potential Environmental and Social Impacts and Measures was prepared by the ADB as Annex 6 of the project documentation package.

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
		<p>Negative: No negative impacts identified for establishment of National Committee for Environment and Climate Change, Technical Working Group on NAP and NDC-U Implementation.</p>		
S1 P2	<p>1.2. Planning Commission, MOP, through a ministerial order, (i) mandated all concerned ministries to incorporate NAP and NDC-U priorities in their Annual Development Program (ADP), and (ii) introduced Climate Budgeting through ex- ante climate-tagging of all ADP projects to mainstream climate priorities in government's planning and budgeting, leading to a transparent and increased climate expenditure.</p>	<p>Positive: By mandating the incorporation of NAP and NDC-U priorities into budget planning and ex-ante tagging of climate change components, the government will align its development investments with climate and environmental objectives. This approach helps not only mitigate environmental impacts but also fosters a more sustainable and climate-resilient economy.</p> <p>Negative: No negative impacts identified to implement NAP and NDC-U through planning and budgeting process.</p> <p>Positive: Incorporating all projects in the Annual Development Plan (ADP) through the BCCTF offers an opportunity to ensure that climate and environmental considerations are integrated into the development efforts. Some BCCTF projects may include components aimed at conserving or restoring natural ecosystems, such as mangroves, wetlands, or forests, which can have positive impacts on biodiversity and carbon sequestration.</p>	<p>No potential impact on involuntary resettlement and indigenous people</p>	<p>The subprogram does not trigger environmental or social safeguards. Hence, no mitigation measures required for the proposed policy action.</p>

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
S1 P3	1.3. Planning Commission, MOP implemented the ministerial order on consolidating all Bangladesh Climate Change Trust Fund projects under the ADP system to enhance transparency, efficiency, and expansion of climate expenditure under the national budgetary framework.	Negative: No negative impacts identified	No land acquisition or potential impact on involuntary resettlement and indigenous people are anticipated.	The subprogram does not trigger environmental or social safeguards. Hence, no mitigation measures required for the proposed policy action.
S1 P4	1.4. Bangladesh Bank (i) established a local currency Green Transformation Fund Refinancing Scheme; and (ii) issued with immediate effect (a) Policy on Green Bond Financing for Banks and Financial Institutions to facilitate sustainable investment in climate change mitigation and adaptation, (b) gender-inclusive Updated Sustainable Finance Policy and Reporting Guidelines for Banks and Financial Institutions, and (c) Sustainability Rating of Banks and Financial Institutions to provide financing for green and sustainable business activities, with a focus on women entrepreneurs.	Positive: The initiatives taken by Bangladesh Bank (BB) to update its Sustainable Finance Policy and Reporting Guidelines, incorporate a gender aspect in sustainability, issue Green Bond Guidelines, and establish a local currency Green Transformation Fund refinancing scheme will have significant positive environmental impacts. These measures align with promoting sustainable development and climate resilience, and they will contribute to addressing environmental challenges in Bangladesh. Negative: No negative impacts identified.	No potential impact on involuntary resettlement and indigenous people	The subprogram does not trigger environmental or social safeguards. Hence, no mitigation measures required for the proposed policy action.

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
Reform Area 2: Climate change adaptation priorities facilitated.				
S1 P5	1.5. The government approved with immediate effect National Adaption Plan 2023-2050 with six national adaptation goals: (i) protection against climate change variability and natural disasters; (ii) climate-resilient agriculture; (iii) climate- smart cities; (iv) nature-based solutions for forestry and biodiversity; (v) adaptation practices integrated into the planning process; and (vi) transformative capacity building and innovation in ministries and agencies, to address climate change adaptation priorities, implementation strategy, financing needs, and M&E framework in a holistic way and to mainstream GESI in climate actions through the provisions for diverse gender identities, youth, elderly people, persons with disabilities, ethnic communities, and socially disadvantaged groups in all eight priority sectors and 11 climatic regions.	<p>Positive: Approval of a gender-responsive and inclusive NAP by the MOEFCC will lead to more inclusive, effective, and sustainable climate adaptation efforts in the country. A gender-responsive NAP and its robust implementation and monitoring mechanisms can contribute to more equitable, effective, and sustainable climate adaptation, benefiting vulnerable communities.</p> <p>Negative: No negative impacts identified.</p>	No potential impact on involuntary resettlement and indigenous people	The subprogram does not trigger environmental or social safeguards. Hence, no mitigation measures required for the proposed policy action.

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
S1 P6	<p>1.6. The MOA approved with immediate effect, in line with the priorities identified in the NAP, (i) Action Plan of the National Agriculture Extension Policy (2023) to promote farmers', with a focus on women farmers', access to climate-smart agriculture practices, and (ii) the Action Plan of the 4th Industrial Revolution Policy (2022) to increase farmers', especially women farmers', crop production through climate smart farming and marketing such as precision agriculture technologies, use of Artificial Intelligence and Big data, use of advanced technologies in early warning system for farmers, and development of e-commerce platforms for climate resilient agriculture value chain development.</p>	<p>Positive: The Action Plan of the National Agriculture Extension Policy and 4th Industrial Revolution Policy may have significant positive impacts on food security and water use efficiency. It will support in producing stress-tolerant and pest-disease resistant crop varieties. The sustainable farming practices can enhance soil health, improve water resources, and reduce the need for pesticides. Further, precision agriculture technologies, such as GPS-guided machinery and sensor-based systems, can optimize resource use leading to sustainable development.</p> <p>Negative: Although the policy action itself does not have direct negative impacts, expanding agriculture practices to increase crop production, and will develop climate proof land, conversion of wetlands, deforestation and habitat loss, and ecosystem disruption, increased use of chemical fertilizer and water if farmers are not well aware and policy actions missed to reach to the grass-root level. In addition, digital infrastructure and precision agriculture technologies may require additional energy for operation, potentially increasing the carbon footprint of farming operations if the energy source is not green.</p> <p>Considering downstream investment impacts in the longer-term, this policy action can be categorized as B.</p>	<p>Positive impacts: Promoting food security will enhance livelihood capacity to the farmers.</p> <p>Negative impacts: None anticipated. The policy actions will not cause land acquisitions and no potential impact on involuntary resettlement and indigenous people are anticipated.</p>	<p>MoA and DAE will adopt and implement good agricultural practices (GAP) to minimize impact on the environment in accordance with ADB SPS 2009 and application Rules and Acts of the government.</p> <p>ADB TA will incorporate the environmental safeguards provisions and build safeguard capacity of DAE. No mitigation measures for social safeguards.</p>

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
S1 P7	<p>1.7. (i) The Government established the Delta Governance Council to commence implementation of Delta Plan 2100 and NAP water-sector priority projects through informed decision-making and strategic direction, securing funding, and supporting institutional reforms at ministerial levels; and (ii) the MOWR commenced implementation of all NAP water sector projects through (a) established with dedicated staff a delta wing for implementation, and ((b) established 7 regional offices for climatic data collection.</p>	<p>Positive: Establishment of a high-level forum for Delta Governance Council, Delta Cell, Research Unit and Water Policy Units at regional levels will significantly improve the governance, management, and development of natural water resources through the implementation of the Delta Plan and NAP. These initiatives will lead to more integrated, science-based, and community-centered approaches to water resource management, ultimately enhancing water security and sustainability in delta regions.</p> <p>Negative: Although the policy action itself does not directly involve civil works, indirect environmental impacts in the longer-term may occur from downstream investment activities, such as implementation climate resilient infrastructure projects (NAP has included 54 projects based on their forms in the Delta plan 2100; Delta Investment Plan has included 65 physical infrastructure projects). Considering downstream investment impacts in the longer-term, this policy action can be categorized as B.</p>	<p>No Land Acquisition will be triggered for the policy actions. No potential impact on involuntary resettlement and indigenous people.</p>	<p>A safeguard focal person will be included in the Delta Governance Council who will coordinate and collaborate with the BWDB and other target agencies for ensuring compliance with the Bangladesh Environmental Conservation Rules 2023.</p> <p>ADB TA will support in building capacity of the Delta Government Council and relevant agencies in improving safeguard compliance.</p> <p>For social safeguards, inclusive consultation and capacity development initiatives will be undertaken to enhance understanding of safeguards risks and triggers with MoWR to avoid any actions that will trigger.</p>

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
S1 P8	1.8. MOLGRDC mandated LGED to use CRT in transport sector project planning and selection to enhance climate-resilience of transport network.	<p>Positive: Enforcing the mandatory use of Climate Resilience Tools (CRT) in project planning and selection will facilitate climate-resilient transport network. It will also help in identifying vulnerabilities to climate change that will assist in designing mitigation measures and develop strategies to make the transport network more resilient to extreme weather events.</p> <p>Negative: The policy action itself does not directly involve any civil works, however, environmental impacts may occur in the longer-term from downstream investment activities such as construction and expansion of transport infrastructure that may lead to habitat destruction, land use change, and fragmentation of ecosystems, and pollution. With the policy action under subprogram 2 will mandate LGED for all road constructions, to ensure 5 km in each district to include nature-based solutions to climate resilience. Additionally, materials and energy required for transport infrastructure projects may have significant resource and energy consumption impacts, contributing to resource depletion and greenhouse gas emissions. Considering downstream investment impacts in the longer-term, this policy action can be categorized as B.</p>	No potential negative impact on involuntary resettlement and indigenous people	LGED will ensure environmental assessment of the rural road projects and prepare EMP consistent with SPS 2009 to be implemented under the CReLIC. The safeguard capacity of LGED has been developed through ADB's ongoing finance. However, the safeguard capacity of newly established CReLIC will be developed through ADB TA. The social safeguards capacity of LGED will be enhanced through consultation and capacity enhancement in avoiding negative impacts caused by involuntary resettlement.

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
S1 P9	<p>1.9. Two city corporations of Narayanganj and Rajshahi approved climate resilient city action plans that include measures to address climate-related shocks and stresses including heat stress, flooding, and tropical cyclones to promote climate-smart urbanization, and LGED approved master plans for 14 pourashavas to promote flood risk management and salinity prevention, in line with the priorities in the NAP.</p>	<p>Positive: Implementation of 2 city action plans, 14 drainage master plans will significantly enhance urban environment, climate resilience, and sustainability. Adopting climate resilient city action plans in urban planning and management and drainage master plans will adaptability and provide better services and quality of life for the city residents.</p> <p>Negative: The policy action may lead to ineffective city action plans or drainage master plans, if required studies are not undertaken by a multi-disciplinary expert team. In addition, downstream investment activities such as urban development interventions under the city action plans for Dhaka and drainage systems for 14 cities might lead to pollution, degradation of environment, waste generation, conversion of urban wetlands and changes in land use. Considering downstream investment impacts in the longer-term, this policy action can be categorized as B.</p>	<p>Positive impacts: better drainage facility, less flood, better crops production and enhanced livelihood due to salinity prevention.</p> <p>No potential negative social safeguards impact related to involuntary resettlement and indigenous people</p>	<p>LGED will engage multi-disciplinary team for preparation of the plans and validate the plans with experts in the relevant field from BUET and Dhaka University.</p> <p>The safeguard capacity of LGED has been developed through ADB's ongoing finance. However, ADB TA will provide further support to enhance safeguard capacity of LGED to ensure compliance with ADB SPS 2009 and Environmental Conservation Rules 2023.</p> <p>The social safeguards capacity of LGED to be enhanced through continuous consultation and better coordination for avoiding Involuntary Resettlement related social safeguards impacts.</p>

No.	Policy Actions	Environmental Impacts	Safeguards	Social Safeguards Impacts	Mitigating Measure/Remarks
Reform Area 3: Climate change mitigation actions accelerated.					
S1 P10	1.10. The MORTB approved with immediate effect (i) the Electric Vehicle Registration and Operation Policy 2023 to streamline electric vehicle registration process and achieve at least 30% share of electric vehicles by 2030; and (ii) the procurement of electric buses for public transportation to reduce GHG emissions from the road transport sector by promoting electric vehicles.	<p>Positive: Approval of the Electric Vehicle (EV) Registration and Operation Policy, 2023 and transitioning to electric buses for public transportation has the potential to significantly reduce GHG emissions from the road transport sector. With the adoption of EVs, there will be a decrease in the emission of harmful pollutants such as nitrogen oxides (NOx) and particulate matter, leading to improved air quality in urban areas. This might have positive health effects, reducing respiratory illnesses and related healthcare costs.</p> <p>Negative: While the policy action itself does not directly involve civil works, the indirect environmental impacts may occur from downstream activities such as, managing battery waste from EVs at the end of their useful life is a major concern. Developing effective recycling and disposal methods will be crucial to prevent environmental contamination. However, management of battery must be done in compliance with Hazardous E-waste Management Rules 2021 and all relevant environmental, industrial, and other regulatory requirements. This holistic approach helps identify areas where improvements can be made to minimize negative impacts and maximize the positive environmental benefits of electric vehicles in public transportation systems.</p>		<p>The project will not involve land acquisition or Involuntary Resettlement or restriction to land use.</p> <p>No potential impact on involuntary resettlement and indigenous people</p>	<p>ADB TA will enhance capacity of the MoRTB for operation and charging e- vehicles and disposal of hazardous e-waste.</p> <p>Per E-Waste Management Rules 2021, any company that will register for e-vehicle needs to obtain clearance from DOE.</p> <p>Capacity enhancement of MoRTB to be ensured through consultation to avoid negative social safeguards impacts.</p>

No.	Policy Actions	Environmental Safeguards Impacts	Social Safeguards Impacts	Mitigating Measure/Remarks
S1 P11	<p>1.11. MOPEMR approved with immediate effect (i) Solar Irrigation Roadmap (2023-2031) to roll-out 45,000 SIPs; (ii) Electric Vehicle Charging Guideline that provides the regulatory framework to set tariffs for electricity consumption for charging, technical standards for charging stations and institutional arrangements for authorization of setting up electric vehicle charging stations, and (iii) enforced mandatory installation of net metering for any customer with a roof space of 1,000 square feet for a solar photovoltaic rooftop to contribute to the IEPMP Rooftop Solar Power target of 12GW by 2050 to meet energy NDC-U target.</p>	<p>Positive: The approval and implementation of energy- related initiatives will have several positive environmental impacts in reducing greenhouse gas (GHG) emissions in the energy sector. By encouraging energy efficiency, promoting renewable energy adoption, and supporting the use of solar power in agriculture, the country will take substantial steps towards a cleaner and more sustainable energy future, mitigating climate change, and protecting natural resources and ecosystems.</p> <p>Negative: While the policy actions, itself do not directly involve civil works, environmental impacts may occur from downstream activities for implementation of energy and power master plan such as retrofitting and upgrading existing power plants, setting up solar panel for irrigation, construction and operations of charging infrastructure. Upgradation of existing power plants can involve construction and modifications that might disturb local ecosystems and habitats or solar irrigation system as a downstream action might involve over- extraction of groundwater. To mitigate this impact, consider manage aquifer recharge and prioritize the use of non-agricultural and non-ecologically sensitive lands for solar installations.</p>	<p>The policy actions will cause no land acquisition or Involuntary resettlement impacts. No potential impact on involuntary resettlement and indigenous people.</p>	<p>ADB TA will incorporate the environmental safeguards provisions such as sustainable natural resource management, biodiversity management, ecological restoration and habitat management, pollution prevention and abatement, and community as well as occupational health and safety in investment plan to address any potential indirect impacts of the subprogram.</p> <p>Capacity enhancement of MOPEMR through consultation and avoiding any negative impacts to be ensured.</p>

ADB = Asian Development Bank, ADP = Annual Development Program, AMS = ADP Management System, BCCTF = Bangladesh Climate Change Trust Fund, CRT = Climate Resilient Tool, GHG = greenhouse gas, IEPMP = Integrated Energy and Power Masterplan, LGED = Local Government Engineering Department, MOA = Ministry of Agriculture, MOEFCC = Ministry of Environment, Forestry, and Climate Change , MOLGRDC = Ministry of Local Government, Rural Development and Co-operatives, MOP = Ministry of Planning, MOPEMR = Ministry of Power, Energy, and Mineral Resources, MORTB = Ministry of Road Transport and Bridges, MOWR = Ministry of Water Resources, M&E = monitoring and evaluation, NAP = National Adaptation Plan, NDC-U = Nationally Determined Contributions-Update, NCECC = National Committee for Environment and Climate Change.

Annex 6: Policy Actions and Analytical Underpinnings

Policy Actions	Analytical Underpinnings
Reform Area 1 – Enabling environment for the implementation of climate actions created	
<p>Policy Actions: The Cabinet established the National Committee for Environment and Climate Change (NCECC).</p> <p>Planning commission, MOP (i) mandated all concerned ministries to incorporate NAP and NDC-U priorities in their Annual Development Program (ADP), (ii) introduced Climate Budgeting through ex-ante climate-tagging of all ADP projects; and (iii) consolidated all Bangladesh Climate Change Trust Fund projects under the ADP system.</p> <p>Bangladesh Bank established a local currency Green Transformation Fund Refinancing Scheme; and (ii) issued with immediate effect (a) Policy on Green Bond Financing for Banks and Financial Institutions to facilitate sustainable investment in climate change mitigation and adaptation, (b) gender-inclusive updated Sustainable Finance Policy and Reporting Guidelines for Banks and Financial Institutions, and (c) Sustainability Rating of Banks and Financial Institutions to provide financing for green and sustainable business activities, with a focus on women entrepreneurs.</p>	<p>2022 Bangladesh Climate Change Development Report (CCDR); 2020 Assessment of Public Investment Management in Bangladesh; 2021 Infrastructure Governance Assessment; 2018 Public Investment Management, IMF. Climate-Resilient Inclusive Program (Subprogram 1)-Program Economic Assessment ADB</p> <p><i>Key findings:</i> The Program Economic Assessment by ADB has identified longstanding structural problems including weak institutional and administrative capacity. CCDR has highlighted the need for creating a high-level national coordination committee for climate change as an important step in meeting the NDCs and improving institutional coordination can help ensure local adaptation.</p> <p>CCDR suggested prioritized investments should be included in the national budget and the ADP and emphasized identifying the need to crowd in financing and support micro, small-, and medium-size enterprises (MSME) as important sources of livelihoods for vulnerable communities, especially women groups that are disproportionately impacted by climate variability and extreme events. Significantly higher profit margins in subsectors, such as fruits and vegetables can provide higher opportunities for women’s economic empowerment. Efforts at private capital mobilization for Bangladesh Delta Plan 2100 (BDP2100) are underway but need to be accelerated. These efforts include a statutory regulatory order for a green bond to accelerate private capital investment for water quality improvement initiatives and plastic pollution mitigation.</p> <p>At a minimum, public and private financing options will need to support an estimated US\$12.5 billion in climate investment expenditure over the medium term (approximately 3 percent of FY21 GDP). Operationalizing financing at this scale will require strengthening public investment management as well as building an appropriate regulatory environment attract private investment. Domestic accountability mechanisms, stronger coordination with local governments and improved public finance management are crucial to the enabling environment for climate action.</p>
Reform Area 2: Climate change adaptation priorities strengthened	
<p>Policy Actions: The government approved with immediate effect National Adaption Plan 2023-2050 with six national adaptation goals: (i) protection</p>	<p>2022 Bangladesh CCDR; Bangladesh Delta Plan 2100; Climate-Resilient Inclusive Program (Subprogram 1)-Program Economic Assessment & Climate Change Assessment ADB; WB Policy Research Working Paper: Climate Proofing Infrastructure in Bangladesh: The Incremental Cost of Limiting</p>

against climate change variability and natural disasters; (ii) climate-resilient agriculture; (iii) climate-smart cities; (iv) nature-based solutions for forestry and biodiversity; (v) adaptation practices integrated into the planning process; and (vi) transformative capacity building and innovation in ministries and agencies.

The MOA approved with immediate effect, in line with the priorities identified in the NAP, (i) Action Plan of the National Agriculture Extension Policy (2023) to promote farmers', with a focus on women farmers', access to climate-smart agriculture practices, and (ii) the Action Plan of the 4th Industrial Revolution Policy (2022) to increase farmers', especially women farmers', crop production through climate smart farming and marketing.

MOLGRDC mandated LGED to use CRT in transport sector project planning and selection to enhance climate-resilience of transport network.

Two city corporations of Narayanganj and Rajshahi approved climate resilient city action plans that include measures to address climate-related shocks, and LGED approved master plans for 14 pourashavas to promote flood risk management.

Future Inland Monsoon Flood Damage; Bangladesh Climate Smart Agriculture Investment Plan

Key findings:

Climate Change Assessment by ADB has identified multiple future climate impact risks such as temperature increases, coastal flooding, sea level rise, cyclones, droughts, and heatwaves and proposed reinforcing climate change adaptation economy-wide and in prioritized sectors through promotion of climate resilient infrastructure design and climate smart urbanization. CCDR recommended climate policies and national adaptation goals should be integrated into the planning and decision-making process in all core ministries (including energy, power, transport, water, local government, agriculture, disaster management), and ministries should merge climate adaptation principles into existing government rules and regulations (e.g., urban storm water regulations, sewerage connection). According to Bangladesh Delta Plan 2100, climate disasters may contribute to the loss of one-third of agricultural output by 2050. Realizing the growth potential of the agriculture sector hinges upon large-scale adoption of climate-smart agriculture practices and enabling women to climate adaptive technologies will provide additional benefits with a significant impact on women's economic empowerment. Access to these climate resilient technologies can be enabled by adapting crop diversification tools, capacity building, and agricultural finance to meet women's specific needs, and by supporting transitions to paid agricultural work and own-enterprise development. The Bangladesh Climate Smart Agriculture Investment Plan has called for strengthening resilience and boost inclusive of growth of women-run small-scale production of livestock. According to WB Policy Research Working Paper, an estimated USD 2,671 million of climate resilient investment in the land transport infrastructure is essential by 2050. A total of 353,332 km of rural roads and 24,000 km of waterways are highly impacted by flooding, resulting in a 15–40 percent increase in travel and trade costs. A multimodal resilient rural transport system can support spatial integration and help alleviate stress on large cities. CCDR highlighted how environmental degradation (e.g. pollution, natural resources depletion) contributed to and increased vulnerability to climate change, as well as co benefits between environmental and climate actions. Program Economic Assessment by ADB has found rapid urbanization has outpaced infrastructure development and local government capacities to provide urban services. Embedding preparedness for internal climate migration into urban development planning can support adaptation. Increasing rainfall precipitation, coupled with vulnerable-built environment will lead to high flood impacts. Regular urban flooding in smaller cities may increase internal migrations to larger cities. Smaller cities can serve as migrant-friendly and climate-resilient centers.

Reform Area 3: Climate change mitigation actions accelerated

Policy Actions:

The MORTB approved with immediate effect (i) the Electric Vehicle Registration and Operation Policy 2023 to streamline electric vehicle registration process and achieve at least 30% share of electric vehicles by 2030; and (ii) the procurement of electric buses for public transportation.

MOPEMR approved with immediate effect (i) Solar Irrigation Roadmap (2023-2031) to roll-out 45,000 SIPs; (ii) Electric Vehicle Charging Guideline; and (iii) enforced mandatory installation of net metering for any customer with a roof space of 1,000 square feet for a solar photovoltaic rooftop.

2022 Bangladesh CCDR; Road Map to Scale Up Solar Irrigation Pumps in Bangladesh (2023-2031) ADB; Climate-Resilient Inclusive Program (Subprogram 1)-Program Climate Change Assessment ADB. E-Mobility Options for ADB Developing Member Countries.

Key findings:

The CCDR recommended prioritizing investments in energy-efficient and climate-resilient urban infrastructure, including for water storage and incentives for conservation. A shift of paradigm in urban mobility is highlighted to enhance urban livability and productivity as electric vehicles (EV) offer a viable opportunity to reduce carbon emissions. An enabling ecosystem is needed by establishing a national nodal agency; preparing an EV policy that focuses on vehicles, batteries, and charging ecosystems. ADB's

Report of E-Mobility Options for ADB Developing Member Countries has suggested a program addressing legal registration and charging problems. Finalization and implementation of the proposed National Logistics Development policy has been emphasized with a focus on modal shift, resilient and low-carbon multimodal transport logistics. Large-scale development of renewable energy can be facilitated by addressing key constraints, such as access to land, with options including incentivizing by the rooftop photovoltaic net-metering policy. Higher energy efficiency and effective metering can also improve access for the most vulnerable and excluded communities. ADB's Climate Change Assessment has identified major geographic area that will be affected by inadequate rainfall and limited surface water with high dependence on groundwater for irrigation. According to ADB's Solar Irrigation Road Map in Bangladesh, replacing diesel pumps with modern and efficient solar irrigation pump systems is an appropriate and sustainable solution that reduces irrigators' dependency on imported diesel fuel and enables a transition to clean energy. Introducing SIP systems will enable Bangladesh to gradually displace the consumption of 1 million tons of diesel fuel annually, thereby avoiding 3 million metric tons of carbon dioxide equivalent (MtCO_{2e}) every year. Modifications in irrigation practices can reduce water and energy consumption and lower emissions. Increased adoption of solar irrigation, buried pipe irrigation, and climate resilient farming technologies are expected to reduce water use (projected to decrease by 10 million liters) and GHG emissions (projected to decrease by 8 MtCO_{2e} per annum by 2040) compared to a BAU scenario.

Annex 7: Sovereign Credit Fact Sheet

A. Recent Economic Development

1. Bangladesh is a lower-middle income country with GDP per capita at USD 2621 and a population of 170 million in 2023.¹ Despite growing at a healthy rate of 7.1 percent between FY2016 and FY2019, various global shocks hit Bangladesh's economy in the recent years.² Growth declined to 3.4 percent in FY2020, as the COVID-19 pandemic led to a sharp fall in domestic economic activity and a reduction in exports of ready-made garments. A strong stimulus package and the easing of lockdown measures helped growth recover to 6.9 and 7.1 percent in FY2021 and FY2022. However, growth slowed down to 6.0 percent in FY2023 due to high commodity prices, supply disruptions and slowing external demand. This forced the government to undertake demand management measures like curtailing energy demand and curbing import of non-essential items. Increasing prices eroded purchasing power constraining consumption while investment remained muted as the need to preserve foreign exchange reduced capital spending. The economy grew by 4.8 percent in the first half of FY2024.

2. Fiscal deficit, after being contained to around 4.0 percent of GDP in FY2021 and FY2022 rose to 4.6 percent of GDP in FY2023 primarily due to a shortfall in tax collection, resulting from import compression and sluggish aggregate demand. Under-execution of capital spending, including the Annual Development Program resulted in containing the fiscal deficit. Current expenditure grew at a strong pace aided by a sharp increase in subsidies. Bangladesh remains at low risk of debt distress with majority of the debt being domestic and denominated in local currency. External debt is primarily owed to multilateral and bilateral creditors.

3. Weak agricultural production, limited passthrough of high global commodity prices including fuel and energy and sizeable depreciation of the domestic currency resulted in inflation averaging 9.0 percent in FY2023, up from 6.1 percent in FY2022. Inflation increased to average 9.7 percent between July 2023 and February 2024 driven by higher prices of vegetables, utilities and transportation. To contain inflationary pressures, the central bank raised the key policy rate by 300 basis points since May 2022 which currently stands at 8.00 percent. Bangladesh is in the process of modernizing its monetary policy framework that would help in improving monetary policy transmission and building central bank credibility.

4. After rising to a record 4.1 percent of GDP in FY2022, the current account deficit moderated to 0.7 percent of GDP in FY2023 because of the sharp import compression measures introduced by the government and relatively resilient exports. Remittances remained weak in FY2023 as foreign workers chose to send funds through informal channels that were offering better exchange rates. The trade deficit has moderated in the first half of FY2024 primarily due to a reduction in import bill. Remittances have picked up in recent months as government increased the incentive to route remittances through official channels. Despite an improvement in the current account balance, a sharp reversal in the financial account resulted in reserves declining to less than USD26 billion in November 2023, compared to the peak of USD48 billion in August 2021.³

¹ The income group classification for fiscal year 2021 is based on World Bank criteria. The data sourced from World Economic Outlook October 2023 Database.

² In Bangladesh, the fiscal year starts on 1 July ending on 30 June. FY2023 started on 1 July 2022 and ended on 30 June 2023.

³ Traditionally, Bangladesh reported reserves that include funds allocated to Export Development Fund and other schemes. According to the standard BPM6 definition reserves were USD 20.8 billion in January 2024.

5. Macroeconomic stress in the form of a rapid slowing economy, rising inflation, widening of the current account deficit, depreciation of the Bangladeshi Taka and significant decline in foreign exchange reserves have resulted in Bangladesh signing up for a 42-month SDR2.5 billion (USD3.3 billion) under IMF's Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements. Concurrently, Bangladesh has also signed for a SDR1.0 billion (USD1.4 billion) under the newly created Resilience Sustainability Facility (RSF). Despite challenging circumstances, the IMF, in its first review in December 2023, assessed the program to be broadly on track with few exceptions.

6. In May 2023, Moody's downgraded Bangladesh's rating to B1 from Ba3 due to deteriorating external position and government liquidity risks. In July 2023, S&P affirmed a BB- for Bangladesh's sovereign long-term rating but revised the outlook to negative from stable. Fitch ratings in November 2022 also retained BB- and B for long-term and short-term ratings respectively, but also revised the outlook to negative.

B. Economic Indicators

Selected Macroeconomic Indicators - Bangladesh (FY2021-FY2025)

Economic Indicators	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP growth	6.9	7.1	6.0	6.0	6.6
CPI Inflation (average, % change)	5.6	6.1	9.0	9.3	6.1
Current account balance (% of GDP)	-1.1	-4.1	-0.7	-0.8	-2.7
General government overall balance (% of GDP)	-3.6	-4.1	-4.6	-4.6	-4.6
General government gross debt (% of GDP)	35.6	39.8	41.4	41.8	42.4
External public debt (% of GDP)	15.1	15.4	17.7	18.1	18.1
Gross international reserves (USD bil.)**	46.4	33.4	31.2	20.8	
Exchange rate (BDT/USD, EOP)**	84.8	86.20	104.5	110	

Note: FY2023 ran from July 2022 to June 2023.

* denotes projected figures.

** FY2024 reserves, and exchange rate are from Bangladesh Bank and are as of February 2024. The reserves are as per BPM6 definition.

An upward revision in nominal GDP with a new base year has resulted in lower current account and fiscal deficit ratios than previous years.

Source: IMF Report 23/409, IMF World Economic Outlook Database October 2023, and Bangladesh Bank

C. Economic Outlook and Risks

7. According to IMF's estimates, the economy is expected to grow by 6.0 percent in FY2024, similar to FY2023. Domestic consumption is expected to remain subdued as high inflation erodes purchasing power and continued monetary policy tightening. Some recovery in investment can be expected as foreign exchange pressures abate. A recovery in key export destinations, especially in the Euro Area is expected to provide some momentum to exports but part of this is likely to be offset by a rise in imports as restrictions are eased. A normal monsoon and various government initiatives like improved seed quality and training to farmers would help bolster agriculture growth. Similarly, an improvement in the power supply and easing of access to imports would augment the recovery in the industrial sector. Growth will rise further in FY2025 driven by

a rebound in exports, an easing in energy costs, and reduced import restrictions as external pressures ease.

8. The fiscal stance is expected to remain neutral in FY2024 with both revenue and expenditure increasing by 0.5 percent of GDP compared to the previous year. Tax revenue is expected to grow strongly with the new Income Tax Act 2023 aiming for greater tax compliance ease of self-assessment and a better return process. Capital expenditure is targeted to grow at a faster pace than current expenditure to speed up the execution of projects. However, the subsidy bill is expected to remain high due to significant outlay on fuel and energy subsidies. Incentives for exports and remittances would also have a strong outlay. Bangladesh's debt profile is expected to remain favorable with majority of the public debt is denominated in domestic currency and held by residents. External public debt is also expected to remain around the current levels.

9. After averaging 9.7 percent in the first nine months of FY2024, inflation is expected to decline modestly in the remaining months FY2024 aided by normalization of global commodity prices and lagged effect of monetary policy tightening. The monetary policy is expected to remain tight as Bangladesh switches from a monetary aggregate framework to interest rate targeting framework. The replacement of capped lending rates with market-driven rates comprising of a reference rate and margin is also expected to keep interest rates high. A tight monetary policy and improved transmission mechanism is expected to aid inflation declining in FY2025.

10. The current account deficit is expected to remain stable at around 0.8 percent of the GDP in FY2024. Export growth is likely to recover as demand picks up in advanced economies. However, relaxation of import concession measures may lead to an increase in imports. Greater exchange rate flexibility and lower volatility and a rebound in workers going abroad are expected to improve remittance flow through formal channels. A relaxation in import compression measures will release a pent-up demand resulting in the current account deficit widening in FY2025.