ASIAN INFRASTRUCTURE INVESTMENT BANK

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Sovereign-backed Financing
Approval Program Document

People's Republic of Bangladesh

P000941 - Climate Resilient Inclusive Development Program (Subprogram 2)

Currency Equivalents
(As at date, March 20, 2025)

Currency Unit – Bangladesh Taka (BDT)
BDT 1.00 = USD 0.0082
USD 1.00 = BDT 121.5

Borrower's Fiscal year
July 1 to June 30

Abbreviations

ADB	Asian Development Bank
ADP	Annual Development Program
APU	Auxiliary Power Unit
AIIB	Asian Infrastructure Investment Bank
BCDP	Bangladesh Climate and Development Partnership
BAU	Business As Usual
BCCTF	Bangladesh Climate Change Trust Fund
CPBF	Climate Policy-Based Financing
CRID	Climate Resilient Inclusive Development
CRT	Climate Resilient Tool
COVID-19	Coronavirus Disease 2019
DRIP	Disaster and Climate Risk Platform
ESP	Environmental and Social Policy of AIIB
E&S	Environmental and Social
GDP	Gross Domestic Product
GESI	Gender Equality, and Social Inclusion
GHG	Greenhouse Gas
GoB	Government of Bangladesh
LGD	Local Government Division
LGED	Local Government Engineering Department
IAM	Independent Accountability Mechanism
IMF	International Monetary Fund
NSCs	National Savings Certificates
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 Cooperatives
MoRTB	Ministry of Road Transport and Bridges
MoWR	Ministry of Water Resources
MoP	Ministry of Planning
MOPEMR	Ministry of Power, Energy, and Mineral Resources
NAP	National Adaptation Plan
NDC-U	Nationally Determined Contributions 2021 update
PBF	Policy-Based Financing
PRM	Policy and Results Matrix
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPM	Project-affected People's Mechanism
RA	Reform Area
RSF	Resilience and Sustainability Facility
SPS	Safeguard Policy Statement of ADB
TA	Technical Assistance

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1. Executive Summary

1. Project P000941 is a follow-on USD400 million Climate Policy-based Financing (CPBF) program for Bangladesh, building on the foundational progress made under Subprogram 1. The Program (Subprogram 2), co-financed with the Asian Development Bank (ADB), aims to further advance the policy reforms initiated under Subprogram 1. The Program seeks to strengthen Bangladesh's climate policy framework and institutional capacity to address current and future climate challenges.

2. The Program supports the implementation of the government-led national climate goals as outlined in the National Adaptation Plan (NAP) 2023–2050 and the updated Nationally Determined Contributions (NDC-U) 2021 by strengthening the intergovernmental policy and institutional framework, mobilizing climate finance, and mainstreaming gender equality and social inclusion.

3. The Program supports reforms across three reform areas: (i) enhancing the enabling environment for climate actions; (ii) reinforcing adaptation efforts; and (iii) accelerating climate mitigation actions. Targeted climate-critical sectors include agriculture, water, urban development, transport, and energy. Through these reforms, the Program has supported Bangladesh in adopting a strengthened whole-of-government institutional approach to mainstream climate change in planning, budgeting, and resource allocation; in enabling climate and sustainable finance; and facilitating transformation of key sectors toward a climate-resilient and low-carbon economy. The combined impact of Subprograms 1 and 2 is expected to result in strengthened climate resilience and reduced emissions in climate-critical sectors.

4. The Program will help fill the large financing gap for the government's development spending, thereby supporting Bangladesh in coping with the climate crisis. The Program enables AIIB to meet the country's needs and work with international partners towards shared climate objectives, while strengthening policy and institutional frameworks towards the shared goal of scaling up investments into climate mitigation and adaptation. Since Subprogram 1, AIIB's multi-disciplinary team has played a key role in policy dialogue with the government and development partners ensuring coordination and impact. Leveraging its expertise in infrastructure investing and climate change, AIIB has supported reforms linking climate policy to infrastructure development, while deepening its in-country and sectoral knowledge and positioning itself as a key partner for climate transition infrastructure.

5. The Program meets the eligibility criteria for AIIB's CPBF instrument, as it supports Bangladesh's planned transition to a low-carbon and climate-resilient future, underpinned by a sound macroeconomic policy framework.

Program No. and Name	P000941 Climate Resilient Inclusive Development Program (Subprogram 2)		
AIIB Member	People's Republic of Bangladesh		
Borrower	People's Republic of Bangladesh		
Program Executing Agency	Finance Division of the Ministry of Finance		
Program Implementation Agencies	Ministry of Environment, Forest, and Climate Change; the Planning Commission; Bangladesh Bank; Local Government Division of the Ministry of Local Government, Rural Development and Co-operatives; the Ministry of Disaster Management and Relief; 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 of the Ministry of Power, Energy, and Mineral Resources		
Proposed Amount of AIIB Financing	USD400 million	**Lending Instrument**	Climate Policy-Based Financing (CPBF)
Sector (Subsector)	Others (Exception)	**Currency of Financing Requested**	US Dollar
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. Specifically, the Program supports a strengthened whole-of-government institutional approach; mainstreamed climate change in planning, budgeting, and resource allocation; mobilized finance; and the facilitated transformation of key sectors toward a climate-resilient and low-carbon economy.		
Program Description	Building on the successful implementation of Subprogram 1 of the Climate Resilient Inclusive Development (CRID) program, which established a solid foundation, the proposed Program (Subprogram 2) will further advance the policy reforms initiated under Subprogram 1 through co-financing with the Asian Development Bank (ADB). The CRID program has been supporting the GoB in implementing key policy and institutional reforms to mainstream climate adaptation, mitigation, and disaster resilience across climate-critical sectors, while also unlocking climate investments in the country. The GoB has requested financing of USD400 million each from AIIB and ADB for this Program to expand the fiscal space needed to support climate investment priorities identified in the national climate plans. The Program will further support the implementation of the GoB-led national climate objectives as outlined in the National Adaptation Plan (NAP) 2023–2050 and the updated Nationally Determined Contributions (NDC-U) 2021 by strengthening the intergovernmental policy and institutional framework, mobilizing climate finance, and mainstreaming gender equality and social inclusion.		

	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 policy actions in each reform area and aligns with the short- to medium-term priorities of the NAP and NDC-U in climate-critical sectors, including agriculture, water resources, urban, transport, and energy.		
Co-Financing Type	Joint co-financing	**Following other financier's E&S Policy?**	Yes
Lead Financier	Asian Development Bank	**Following other financier's Procurement Policy?**	N/A
Financing Plan	Total Program cost: USD800 million Financing plan: AIIB: USD400 million (50 percent); ADB: USD400 million (50 percent)		
Risk (Low/Medium/High)	Medium		
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the Program.		

Risk	
Key risks	**Mitigation Measures**
Political and Governance Risks	Climate change challenges remain a critical development priority of the interim government. The climate change agenda along with government-led national action plans required to achieve the climate goals of the NDC-U and NAP will continue to be a central focus for relevant ministries to guide implementation. In its Development Policy Letter, the Government reaffirms its commitment to sustaining policy and institutional reforms required to implement the said plans. Building on the reform momentum generated with the support of the Program, AIIB will work closely with key partners (including the IMF) to provide coordinated support to the government in addressing the risks and vulnerabilities posed by climate change. The Program's objectives will be further supported by ongoing country engagement by AIIB and ADB, including the proposed subsequent CPBF programs and sector operations in Bangladesh.
Macroeconomic Risks	The macroeconomic risks are partially mitigated by the GoB's reform programs supported by development partners including the

	ADB, AIIB, IMF and World Bank. The macroeconomic and debt situations will be monitored in coordination with IMF and partners. The GoB is committed to: (i) implementing a national strategy for economic recovery and domestic resource mobilization to expand the fiscal space; (ii) addressing the emerging external financing gap and fully implementing exchange rate reforms to enhance exchange rate flexibility; and (iii) fostering a sound and competitive financial sector. Within its commitments to advancing macroeconomic and fiscal reforms, the GoB is also committed to mainstreaming climate change in planning, budgeting, and resource allocation. Sustaining both the pace of implementation of the IMF-supported program and the alignment between macroeconomic and climate policies will enhance coherence and impact of the Program.
Fiduciary Risks	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.
Institutional Capacity for Implementation	Technical assistance (TA) will support institutional capacity building, strategic knowledge work, and strong agency level engagement. The creation of BCDP will provide implementation support to concerned ministries and help to address both the coordination and monitoring of policy actions and climate projects. The ADB TA is mobilized to support institutional capacity building, strategic knowledge work, and strengthening agency-level engagement.
Environmental and Social	RA1 under the Program does not trigger 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 consultations and capacity development initiatives will be undertaken to enhance understanding of safeguards risks and triggers to avoid any adverse impact.
Economic Capital (Ecap) Consumption (USDm)	USD108.58 (ECap Ratio: 27.15%)

Strategic Alignment	
Alignment with AIIB's Thematic Priorities	Green infrastructure
Alignment with AIIB's Strategies	Others

President	Liqun Jin
Chief Investment Officer	Rajat Misra, Acting Chief Investment Officer
Director General	Rajat Misra
Manager	Toshiaki Keicho
Team Leader	Xiang Xu, Investment Officer (Urban)
Team Members	Abhijit Sen Gupta, Sr. Economist, ECON Asma Bachikh, Investment Associate (Water), PSC-1 Gregor Herda, Sr. Urban Development Consultant, PSC-1 Jinghui Li, Sr. Project Assistant, PSC-1 Jingrong He, Sr. Procurement Specialist, SFD Julija Kuklyte Polycarp, Sr. Climate Specialist, STF Luiz Eduardo Rodrigues, Counsel, LEG Partha Protim Nath, Investment Officer (Energy), PSC-1 Sangmoo Kim, Sr. Investment Officer, PSC-1 Sabyasachi Mitra, CPBF Advisor, STF Towshikur Rahman, Investment Associate (Transport), PSC-1 Vladimir Hecl, Sr. Environment Specialist, SFD Victoriano Macasaquit, Social Development Specialist, SFD Yi Geng, Sr. Financial Management Specialist, SFD Yuan Xiao, Sr. Specialist (Sustainable Cities), STF Zahed Khan, Sr. Urban Sector Consultant, PSC-1 Zahir Uddin Ahmad, Sr. Water Sector Consultant, PSC-1

2. Program Description

A. Program Overview

1. The proposed Climate Resilient Inclusive Development Program - Subprogram 2 (the Program) will support the Government of Bangladesh (GoB) in achieving its national climate objectives as articulated in the internationally recognized National Adaptation Plan (NAP), 2023–2050[1] and the Nationally Determined Contributions 2021 update (NDC-U)[2] by strengthening the policy and institutional environment conducive for attracting and mobilizing climate finance. The GoB requested AIIB and ADB financing of USD400 million each for this Program to expand the fiscal space 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 will be co-financed with ADB through AIIB's Climate Policy-Based Financing (CPBF) instrument. 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)[3] to be entered by the ADB and AIIB.

2. In 2024, AIIB provided a sovereign-backed loan of USD400 million for Subprogram 1 through co-financing with ADB.[4] Key achievements under Subprogram 1 included the adoption of the NAP, the establishment of the Delta Governance Council with a stronger institutional framework for climate actions, the adoption of climate-resilient city action plans and sustainable technology solutions for mitigation (see more details paragraphs 26-28). The Program (Subprogram 2) builds on these achievements to further advance policy actions in three reform areas, which are aligned with the NAP, NDC-U, and the priorities of the Government in climate-critical sectors including agriculture, water, urban, transport, and energy as per the Policy and Results Matrix, detailed in Annex 1. The reform areas are:

i. *Reform Area #1: Enhancing the enabling environment for climate change actions.* The Ministry of Environment, Forest and Climate Change (MoEFCC) established and operationalized the Bangladesh Climate Development Partnership (BCDP) to mobilize climate finance, support project development and implementation, enhance institutional capacity, and improve coordination among ministries, the private sector, and development partners to execute the country's climate strategy. The Ministry of

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[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.
[3] A draft MoU has been prepared and will be signed to confirm the understandings reached between AIIB and ADB for this Program.
[4] Subprogram 1 focused 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 (the Program) further advances these reforms and aligns with the short- to medium-term priorities of NAP and NDC-U in those sectors.

Planning (MoP) launched and implemented the Disaster and Climate Risk Information Platform (DRIP) to assess risks and promote climate-sensitive project appraisals in key infrastructure sectors. The Finance Division (FD) of the Ministry of Finance (MoF) integrated activities from the Green and Climate Resilient Development Guideline into the FY2025-26 budget. In addition, Bangladesh Bank introduced and implemented climate-related financial disclosure guidelines for banks and prepare Climate Risk Management Guidelines to ensure financial sector stability in the face of climate risks.

ii. *Reform Area #2: Reinforcing climate change adaptation actions.* The MoEFCC approved, with immediate effect, the updated Locally Led Adaptation Framework, integrating youth, gender, and disability considerations, and formulated NAP investment roadmap focusing on biodiversity, wetland conservation, and air pollution reduction. At least 50 percent of Ministry of Agriculture (MoA) projects are aligned with NAP priorities to enhance resilience and support women farmers. The Ministry of Water Resources (MoWR) commenced the Haor Area Masterplan and a River Erosion Forecast and Early Warning System for water security and disaster management. A National Disaster Risk Financing Strategy has been developed to improve disaster risk management and recovery. The Ministry of Local Government, Rural Development, and Cooperatives (MoLGRDC) approved and initiated implementation of climate-resilient city action plans for Dhaka and other regions, enhanced flood risk management through drainage master plans, and is using the Climate Vulnerability Index for resource allocation to prioritize climate-resilient investments. It also approved the National Urban Policy 2025, focusing on integrated urban drainage, eco-waste management, climate-resilient Water, Sanitation, and Hygiene (WASH) facilities, and conservation of urban wetlands and biodiversity.

iii. *Reform Area #3: Accelerating climate change mitigation actions.* The Ministry of Road Transport and Bridges (MoRTB) approved the updated Strategic Transport Masterplan for Dhaka (2025-2041), promoting rail-based transport, improved bus services, multi-modal integration, and traffic demand management. The Ministry of Railways (MoR) enhances operational efficiency through a new operational strategy and implements new energy use standards to reduce GHG emissions. The Ministry of Power, Energy, and Mineral Resources (MoPEMR) approved and started monitoring of the implementation of Integrated Energy and Power Master Plan (IEPMP) to achieve a low-carbon society by 2050, promote renewable energy, improve power plant efficiency, and reduce Greenhouse Gas (GHG) emissions. It also implements energy audit regulations and energy efficiency guidelines for existing and new buildings to promote energy efficiency.

B. Background and Development Constraints

3. **Macroeconomic Background.** Bangladesh made significant socioeconomic progress over the past two decades, growing annually at an average rate of 6.1 percent from FY2000 to FY2019, which resulted in a 4.5-fold increase in GDP per capita. This strong growth was aided by prudent macroeconomic management, demographic dividend, strong performance in exports of ready-made garments and significant improvements in human development indicators. While growth slowed to 3.6 percent in FY2020, owing to the pandemic-induced lockdowns and decline in export orders,

Bangladesh's resilience was evident as the economy bounced back quickly with an average growth of 7.0 percent in FY2021 and FY2022, driven by stimulus package and the recovery of economic activity.

4. Since FY2022, Bangladesh's economy has been buffeted by a series of external and domestic shocks, including rising commodity prices, weak external demand, and global monetary tightening. These have resulted in the economy facing significant macroeconomic challenges. Growth moderated to 5.8 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. In recognition of the need to address both immediate and long-term structural vulnerabilities, including climate change-related risks, Bangladesh signed 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 Resilience Sustainability Facility (RSF).

5. The challenges were further exacerbated by public demonstrations in 2024 followed by severe floods across many areas. Growth is projected to moderate to 3.8 percent in FY2025 due to ongoing external challenges such as reduced demand and high interest rates, and also interruptions to economic activity during these demonstrations supply disruptions, floods, power and energy shortages within Bangladesh. Tight policies and financial sector vulnerabilities would further weigh in on growth. Over the last year, Moody's, Fitch and S&P have downgraded Bangladesh, citing heightened political risks, slowdown in economic growth and weakening external buffers. However, progress on critical reforms, relaxation in monetary and fiscal policies, easing of supply pressures along with improved external conditions is expected to aid a revival of growth in FY2026.

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. The frequency and intensity of these events have been increasing, with recent years witnessing the longest and strongest cyclones in the country's history.[6] Flooding, the most economically damaging hazard for Bangladesh,[7] is expected to cause a GDP decline of up to 9 percent by 2050. 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.[8]

[5] Notre Dame Global Adaptation Initiative.
[6] The damage from tropical cyclones in the country is estimated at between 1.5 and 6 percent of GDP.
[7] Bangladesh Country Climate and Development Report, the World Bank content (worldbank.org)
[8] Ibid.

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.[9] 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 (5.1 percent of total investment).

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. The limited amount mobilized from international sources is a major constraint to bridging the climate finance gap.

9. 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 investment required for climate mitigation and adaptation is infrastructure investment.

10. **Institutional and policy constraints.** Climate change efforts require effective coordination across various ministries and agencies, private sector, civil society, and development partners. Line ministries face several challenges including (i) insufficient awareness and knowledge of the government's climate priorities; (ii) a weak link among government climate priorities; and (iii) limited capacity in using climate data and analytics to inform policies. Local government institutions remain weak in terms of institutional and fiscal empowerment and technical capacity. Achieving the goals outlined in the NAP will depend on good governance that prioritizes institutional strengthening, improved policy environment and robust vertical integration between ministries and local government institutions is essential. This includes establishing a well-organized, inclusive, and holistic institutional mechanism; fostering strong interministerial coordination; defining business rules for relevant ministries to integrate national climate visions and strategies into their relevant mandates and operations; implementing a robust monitoring and evaluation (M&E) system; strengthening local level institutions; and promoting more locally-led initiatives.

11. **Binding Constraints on Climate Finance.** 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 of climate adaptation and resilience investments remains grossly inadequate. Bangladesh needs further support to address policy, regulatory and institutional hurdles in order to improve the business environment for investors, help

[9] 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*".

mobilize funding more effectively and at scale (including attracting more private capital for both mitigation and adaptation), accelerate the climate transition and build resilience.

12. **Binding Constraints in Climate-Critical Sectors.** Climate-critical sectors such as water resources management (particularly in coastal and drought-prone zones), urban, transport, and energy suffer from sector-specific constraints. In water resources management, there is a lack of an updated policy framework and dedicated actions incorporating climate change consideration for various water areas; in urban, rapid urbanization has outpaced infrastructure development and local government capacities to provide urban services; the transport sector contributes the second highest GHG emissions and is also highly vulnerable to climate shocks; and 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. Details of these binding constraints along with the GoB's responses in addressing them follow.

13. **Water Sector.** Bangladesh faces immense challenges in the water sector due to population growth and urbanization, which concentrate water demand in cities and strain existing infrastructure. Land use changes, disrupt natural water cycles and increase competition for water resources. Surface water pollution from industrial and domestic sources contaminates water, reducing its usability for drinking and irrigation, and forces greater reliance on groundwater. Groundwater depletion is a critical issue, with excessive use for irrigation and urban supply leading to significant drops in water levels, particularly in areas like Dhaka and the northwest. Upstream withdrawal of water adds to the complexity of managing water resources, as it affects Bangladesh's water availability and quality.

14. Floods and other climate change related disasters also pose significant risks that threaten infrastructure and human settlements while climate change is projected to increase their frequency and severity. Because of its largely flat geography and seasonal variability of surface water, the country is highly dependent on groundwater resources with agriculture accounting for 80 percent of water use. Although Bangladesh has adequate approved policies, plans, strategies, and acts in the water sector, their proper implementation and operationalization are hindered by legislative gaps, a dated policy framework, inadequate institutional capacity, and technological limitations in water management. The lack of infrastructure for surface water abstraction, treatment, and distribution further limits its use, exacerbating the reliance on groundwater.

15. Moreover, environmental and health risks arise from the contamination of water sources with arsenic, salinity, and heavy metals. The country's growth forecast predicts a doubling of domestic and industrial water demands by 2030 and an over 46 percent increase in irrigation water demand. To meet the increasing water demand, about USD95 billion of investment in water resources projects is required by 2050, according to NAP. Some of the project examples that would be enabled through the relevant policy reforms in the water sector include erosion, flood, and drought mitigation projects, particularly in key climatic hotspots such as Barind (the northwest dry region), haor (a type of wetland ecosystem), and coastal regions. These regions require updating investment master plans and strengthening the institutional, financial, and implementation capacity of the ministries.

16. **Urban Sector.** Bangladesh's rapid urbanization has driven economic growth and social progress, but it has also introduced significant challenges. As urbanization has outpaced the capacity of local governments to provide sufficient infrastructure and services, the strain on cities has grown. Historically, Bangladesh's cities have struggled with weak urban governance, overlapping mandates, and a lack of coordination, which have led to institutional conflicts between central and local governments. Additionally, the capacity to formulate and enforce integrated urban plans and development regulations at the local level remains inadequate. The absence of proper urban planning and regulation has resulted in haphazard spatial expansion, contributing to environmental degradation and increased vulnerability to disasters.

17. Climate change has exacerbated the challenges faced by these rapidly growing cities. Bangladesh's urban areas are particularly vulnerable to climate risks, including excessive urban heat, flooding, and rising sea levels.[10] These urban and climate issues are deeply interconnected, necessitating integrated solutions. For instance, Bangladesh generates over 40,000 tons of waste per day,[11] but due to weak urban governance and institutional capacity, less than half of this waste is collected. This is not merely a matter of inadequate urban service provision; it also has serious climate and health implications. Uncollected waste in drainage channels has led to waterlogging and heightened flooding risks, particularly affecting residents in informal settlements where resilience is already limited. To address these issues, local urban plans must integrate strategies for drainage, wastewater, and solid waste management, while integrating the community-based approach at a tertiary-level with city-wide urban service delivery by local governments and locally-led adaptation. On a higher level, cities need comprehensive planning that includes measures to mitigate climate-induced disasters, especially in the most vulnerable areas. However, there remains a significant financing gap to make cities climate-resilient. The NAP estimates that the required investment in urban adaptation totals USD33.1 billion, including necessary investments in flood risk management and drainage systems.

18. To address climate change in the urban sector, institutional and organizational changes need to take place in three broad areas: (i) developing and implementing coordinated national-level urbanization policy; (ii) prioritizing the urban content of the NAP; and (iii) ensuring that infrastructure and services are resilient. Specifically, the National Urban Policy 2025 offers a key opportunity to establish a common framework that fosters coordination between sectors and ministries, enabling cities to tackle their interconnected challenges in a cohesive and integrated manner. It will play a crucial role in guiding the development of resilient cities and regions. The NAP provides the overarching direction for incorporating climate considerations into urban planning. Its urban content, along with local government priorities, will need to be translated into action through city-level climate action plans. Finally, new investments in urban infrastructure and service delivery must incorporate a strong resilience perspective,

[10] NAP requires an investment of USD21.4 billion for flood control, drainage system improvement, and development of city climate action plans.

[11] 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 per day by 2030 and 118,000 tons per day by 2040.

such as changing the design guidelines of infrastructure as well as leveraging nature-based solutions whenever possible to ensure long-term sustainability.

19. **Transport Sector.** The transport sector is the second-largest contributor to GHG emissions. The consumption of energy (i.e., oil products and natural gas) by the sector has been estimated to amount to roughly 11.5 percent among all sectors.[12] 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. Road transport alone is estimated to account for 75 percent of GHG emissions within the sector.[13][14] 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 emissions for the transportation sector under the business-as-usual (BAU) scenario will increase by 132 percent, or from 15.78MtCO2e[15] to 36.61MtCO2e. The NDC-U's combined GHG emissions reduction target (conditional and unconditional) is 9.72 metric tons of carbon dioxide equivalent for the sector.[16]

20. The transport sector is also highly vulnerable to climate shocks, and as such, climate-resilient infrastructure is a cross-cutting theme of NAP. Despite the GoB's efforts, the lack of comprehensive climate risk assessments during the planning phase limits the implementation of adaptive measures in reducing the sector's impact on climate change. Enhancing climate-adaptive transport infrastructure, mainstreaming sustainable construction materials and techniques, and improving institutional capacity to assess and mitigate climate risks are critical steps toward reducing the sector's vulnerability. Furthermore, the insufficient availability of electric vehicle-friendly infrastructure and supportive policies further impede the transition to more sustainable modes of transportation. Strengthening long-term planning for transport infrastructure, improving efficiency in the rail and road sectors, and encouraging a shift towards sustainable mobility solutions will be crucial in mitigating future emissions. Embracing such initiatives could be pivotal in achieving the NDC-U targets.

21. **Energy Sector.** Bangladesh's per capita energy consumption is among the lowest in South Asia, at approximately 335 kgoe[17] per year, [18] though demand is growing rapidly annually due to industrialization and urbanization. The country's energy mix is heavily reliant on natural gas, which accounts for around 43 percent of electricity generation, followed by furnace oil and coal[19]. Renewable energy, while expanding, still represents a small fraction (4 percent) of the total supply. To meet its NDC-U targets,

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[12] Sustainable and Renewable Energy Development Authority (SREDA) and Power Division, Ministry of Power, Energy and Mineral Resources; *"Energy Efficiency and Conservation Master Plan up to 2030"*; March 2015; (link)
[13] Asian Transport Observatory; *"Bangladesh E-mobility Country Profile"*; May 2023; (link)
[14] Ministry of Environment, Forest and Climate Change; *"Third National Communication of Bangladesh to the United Nations Framework Convention on Climate Change"*; June 2018; (link)
[15] Megatonnes of Carbon Dioxide Equivalent
[16] Transport sector would contribute GHG emissions reductions of 9 percent below "*Business As Usual (BAU)*" by 2030, or 24 percent below BAU by 2030, conditional on support from developed countries, according to NDC-U.
[17] Kilogram Oil Equivalent
[18] Energy Scenario of Bangladesh 2022-23, Hydrocarbon Unit, Energy and Mineral Resources Division (February 2024)
[19] Information of Power Sector, Bangladesh Power Development Board (February 2025)

Bangladesh aims to cut GHG emissions by up to 21.85 percent by 2030,[20] primarily through increased renewable energy adoption, enhanced energy efficiency, and generation technology modernization.

22. Several challenges hinder large-scale renewable energy deployment and, in turn, the NDC-U targets of Bangladesh. Land scarcity limits the expansion of solar and wind projects, while grid limitations and storage constraints affect integration. Investment and financing risks pose additional hurdles, requiring stronger public-private partnerships and incentive mechanisms. Policy and regulatory bottlenecks also slow down approvals, while the intermittent nature of solar and wind energy necessitates advanced storage solutions and grid upgrades. Addressing these challenges will be critical for Bangladesh to achieve its ambitious renewable energy transition, enhance energy security, and support long-term economic growth.

23. **Government Strategy and Program.** Acknowledging the climate risks and impacts and the need to address them, the GoB has laid out an ambitious strategic framework to strengthen the climate resilience of its economy and infrastructure. This includes the NAP, NDC-U, and the Bangladesh Delta Plan 2100.[21] The NAP outlines adaptation priorities across eight sectors and nine crosscutting issues. Key outcomes of the NAP include: (i) protection of 1.1 million hectares of croplands, leading to 10.3 million tons of additional rice production, (ii) improved drainage and reduced heat islands benefitting 30 million people in urban areas, (iii) a 30 percent increase in average income for marginal urban communities, and (iv) vulnerability reduction for 15 million climate migrants. The NDC-U target reductions in GHG emissions from energy, agriculture, land use, and waste, with a 2030 goal of 21.9 percent below the business-as-usual (BAU) scenario. This includes a 48.9 percent reduction from power, 10.9 percent from transport, and 8.6 percent from industry.

24. Over the past few decades, Bangladesh has emerged as a global leader of the Vulnerable Twenty[22] in climate resilience, reducing natural hazard-related deaths by a hundredfold, and investing over USD10 billion in adaptation and mitigation efforts. Rice production has tripled, 22,000 kilometers (km) of coastal embankments and 5,000 irrigation canals have been built, and 3.7 million people have been rehabilitated. The country has also pioneered the use of climate-responsive financial management tools. However, further reforms are necessary to scale up climate actions in climate-critical sectors and address cross-cutting policy, institutional and climate finance constraints. Implementing the ambitious climate agenda also requires coordinated efforts and strong collaboration among development partners to catalyze climate finance.

25. To address climate challenges, the GoB has sought support from AIIB, ADB and other development partners. In response, the IMF has approved a RSF of USD1.3 billion[23] to support Bangladesh's climate change adaptation and mitigation efforts. Development partners have increased their support to help Bangladesh transition to a

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[20] NDCs 2021, Bangladesh (August 2021)
[21] It is a comprehensive 100-year strategic plan aimed at sustainable development through adaptive delta management process.
[22] The Vulnerable Twenty Group of Ministers of Finance of the Climate Vulnerable Forum is a dedicated cooperation initiative of economies systemically vulnerable to climate change.
[23] Bangladesh is the first Asian country to access the IMF's RSF program.

green and climate-resilient development path. In FY2023, the World Bank provided USD500 million from its Green and Climate Resilient Development Credit (tranche 1) and Second Recovery and Resilience Development Policy Credit. AIIB and ADB have provided a total of USD800 million loan for Subprogram 1 of the Climate Resilient Inclusive Development Program in FY2023-FY2024. In FY2025, the World Bank provided USD500 million for its Green and Climate Resilient Development Credit (tranche 2); and AIIB and ADB also plan to provide financing of USD400 million each for the proposed Program (Subprogram 2). Additional cofinancing expected for the Program includes EUR100 million from Agence Française de Développement (AFD).

26. **Subprogram 1 accomplishments.** The prior Subprogram has established a solid foundation for Bangladesh's continued climate-smart growth. Six key reforms were achieved and remain integral to the country's climate strategy: (i) the GoB established the National Committee for Environment and Climate Change (NCECC) as the highest-level interministerial body to oversee the country's climate strategy. Additionally, the Ministry of Planning aligned the national budget with climate goals; (ii) Bangladesh Bank enacted a policy on green bonds and sustainable finance, streamlining capital toward green and sustainable activities, including support for women entrepreneurs which laid the groundwork for Subprogram 2 to develop green finance regulations; and (iii) the GoB approved a comprehensive plan to protect against climate variability, promote climate-resilient agriculture and cities, develop nature-based solutions for biodiversity, and integrate adaptation into planning and government operations.

27. Further progress included**:** (iv) the GoB established the Delta Governance Council to implement the Delta Plan 2100 and NAP water-sector priority projects, ensuring informed decision-making, strategic direction, funding, and supporting institutional reforms; (v) Narayanganj and Rajshahi approved climate-resilient city action plans that incorporate measures to mitigate climate-related shocks, such as heatwaves, flooding, and cyclones, promoting climate-smart urbanization; and (vi) various ministries rolled out new standards and targets for electric vehicles, solar-powered irrigation, greenhouse gas emissions, and solar rooftop installations, including the ability for owners of solar panels to contribute to the grid. The proposed Program (Subprogram 2) builds on Subprogram 1 achievements by institutionalizing reforms adopted in Subprogram 1 and implementing and integrating policies, guidelines, and frameworks to enhance Bangladesh's resilience to climate change.

28. **Programmatic approach between Subprogram 1 and 2.** Building upon the NCECC established under Subprogram 1, Subprogram 2 will further strengthen the coordination mechanism between ministries by establishing the BCDP platform, with working groups focusing on mobilizing climate finance, facilitating project development, and supporting monitoring and evaluation. The DRIP enhances the integration of climate considerations into local-level project planning through data and risk assessments. Along with the support from the Delta Governance Council established under Subprogram 1, the Subprogram 2 will support the implementation of Haor Area Master plan strengthening water security and disaster risk management. A dedicated office, the Climate Resilient Local Infrastructure Center, has been established under the Subprogram 2 to enhance the implementation of climate resilient planning and design

criteria and tools which were mandated under Subprogram 1.[24] The roll-out of additional climate resilient city action plans under Subprogram 2 will scale up localized adaptation efforts while unlocking investments in sector-specific climate resilience. Moreover, the energy audit and energy efficiency ratings under Subprogram 2 will enhance the monitoring and evaluation of impacts from renewable energy and climate mitigation-related policy actions under Subprogram 1. Since Subprogram 1, continuous consultations and policy dialogues have been conducted with line ministries, government agencies and development partners to strengthen relevant stakeholders' ownership and commitment.

29. **Strategic fit for AIIB.** The Program is well-aligned with the Bank's Articles of Agreement and meets the eligibility criteria for CPBF, supports the Bank's Corporate Strategy, and contributes to the Bank's climate financing. 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, aligned with the Bank's mandate and priorities, including enabling private capital.

30. The Program will also help advance the implementation of the AIIB's Climate Action Plan (CAP)[25] covering both mitigation and adaptation, in addition to the achievement of the Bank's corporate strategy objectives, as well as climate finance and Paris Alignment (PA)[26] goals. The Program is responding to Bangladesh's request to support their climate mitigation and adaptation efforts. Joint MDBs PA methodology for PBF addresses key considerations for PBF adherence with PA goals,[27] Given this Program is a CPBF, all criteria for PA are met through explicit climate policy actions included in the Program.[28] Specifically, the AIIB-supported policy actions are precisely defined and are all targeting the mitigation of, and adaptation to, climate change. All actions in the mitigation component, i.e., *Reform Area 3,* are part of the list of universally aligned activities.[29] The Program's adaptation components aim at enhancing the screening and management of climate risk across key sectors of the economy. In addition, the proposed policy actions 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.

31. 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 the water, urban, transport and energy sectors. The Program will support core infrastructure sectors as aligned with AIIB's sectoral strategies promoting green and

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[24] Including the Climate Resilient Tool (CRT) for transport sector project planning and section.
[25] 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.
[26] 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.
[27] Methodology for assessing AIIB Investment Operations Alignment with the Paris Agreement
[28] MDB-PA-PBL-Principles_final_14.06.2023.pdf (aiib.org)
[29] Annex 1 of the AIIB PA methodology.

resilient infrastructure as well as energy efficiency and clean energy, and emission reductions across core infrastructure sectors.

(i) *Water 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. By promoting climate-resilient urban development, the Program will assist GoB in implementing urban development priorities in NAP while contributing to emission reduction though enhancing waste management practices.

(iii) *Transport Sector Strategy.* The Program will contribute to an enhanced assessment of road transport projects, taking climate dynamics into account. This would essentially lead to resilient and all-weather connectivity of road networks, decreasing the cost and duration of travel, enhancing safety, reducing long-term operation and maintenance expenses, and promoting environmental and social sustainability. Furthermore, the Program will encourage a modal shift to rail transport and also a shift to electric vehicles in both the private and public transportation landscapes. This is also aligned with AIIB's '*avoid, shift, and switch*' approaches, given that such integration will aid in the minimization of environmental impact through switching to a low-carbon transport energy source.

(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.

32. **Increasing Adaptation Investment.** Bangladesh's adaptation financing needs are substantial, with the NAP estimating USD230 billion through 2050, yet current climate-related public expenditure remains under 1 percent of GDP—far below the 3–4 percent needed annually. To address this gap, the GoB, supported by AIIB and other development partners, is undertaking key reforms to establish an enabling environment for scaling up climate adaptation finance. These reforms focus on integrating adaptation into national planning and budgeting processes and strengthening institutional capacity in climate-vulnerable sectors (see Annex 1. Policy and Results Matrix). The Program also includes measurable outcome indicators to track progress (see Table 1. Program Outcome Indicators). These efforts collectively aim to deliver tangible resilience outcomes while closing the adaptation financing gap.

33. **Enabling Private Capital.** As Bangladesh is moving towards a more open investment climate, with ongoing discussions on privatization and Public-Private Partnership (PPP) frameworks, the private sector will play an increasingly vital role in driving sustainable economic growth and infrastructure development. In the last decade, AIIB has played an active role in financing private-sector-led projects in energy and

transport sectors. Future opportunities lie in the mega transport projects (i.e., Dhaka-Chattogram Expressway), the privatization of state-owned enterprises, and the expansion of the renewable energy sector, particularly in battery storage and rooftop solar solutions. Additionally, private investments in port development and logistics infrastructure, including deep-sea ports and inland container depots, can significantly enhance Bangladesh's trade connectivity and supply chain efficiency.

34. Bangladesh has recently launched an open tender for 500 megawatt of solar projects, signaling a strong commitment to expanding renewable energy through private investment. This initiative aligns with the government's broader strategy to diversify its energy mix and attract private capital to meet clean energy targets. Similarly, reforms in the power transmission and distribution sector, including the modernization of substations and expansion of ultra-high voltage transmission lines, can attract private capital through structured financing models. Given Bangladesh's growing dependence on Liquefied Natural Gas (LNG) imports to meet industrial and power generation demands, investments in Floating Storage Regasification Units (FSRUs) and land-based LNG terminals can provide critical infrastructure support while reducing supply risks. However, for private sector investments to thrive, key policy reforms are needed, such as simplifying regulations, strengthening contract enforcement, and improving access to long-term project financing.

35. 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.[30] 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 also complements programs and policy actions supported by other multilateral and bilateral development institutions, including IMF's RSF for Bangladesh and the World Bank's Bangladesh Green and Climate Resilient Development (GCDR) Program in areas of macroeconomic, monetary, financial, and procurement policies; energy efficiency; and subsidy reform. The Program also mainstreams climate change in critical sectors not covered under the IMF and the World Bank programs including transport, agriculture, disaster management, and urbanization. The Program is also 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.

36. The Program aligns with the GoB's climate priorities and financing needs articulated in NDC-U and NAP ensuring country ownership and buy-in. The Program is proposed given the importance of the country's institutional frameworks and an enabling environment for scaling up climate financing for mitigation and adaptation. The Program also supports 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

[30] 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.

change in Bangladesh. Supported by technical assistance by ADB, BCDP will continue to be the main coordinating platform for further consultations with working groups led by relevant ministries designated for enhancing monitoring and evaluation and scaling up climate finance.

37. **Paris alignment and climate finance**. The Program is Paris Aligned under both mitigation and adaptation as it is designed to support the country's goals for low carbon and climate resilient development. In particular, all policy actions include fit-for purpose mitigation and resilience features responding to current or future relevant needs to drive whole-of-economy decarbonization. The proposed policy reforms will directly or indirectly enhance Bangladesh's resilience to various physical climate change risks. The Program is accounted as 100 percent climate finance. Details on the PA assessment and climate finance attribution are provided in Annex 4.

38. **Value addition by AIIB.** The Program will help fill the large financing gap for the GoB's development expenditures, thereby supporting Bangladesh in coping with the climate crisis. AIIB's participation 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. The AIIB Project Team has actively participated in Program preparation with ADB, reviewing policy actions and conducting joint missions. The AIIB's participation will also enhance the financial sustainability and development impact of its investment project financings, as a result of broad and sectoral policy dialogues that will create an enabling environment and macroeconomic and fiscal reforms undertaken with the support of the IMF and peer MDBs.

39. Since Subprogram 1, AIIB's multi-disciplinary team has played a key role in policy dialogue with the Government and development partners to sustain and develop policy actions and ensure program complementarity. Leveraging its expertise in infrastructure investing and climate change, AIIB has worked closely with the government to strengthen the link between the climate policy and institutional reform actions and the resulting infrastructure development, aligning the reforms with the goals of the PA and ensuring consistency with Bangladesh's NDC-U to accelerate the country's transition to a low-GHG, climate-resilient infrastructure system.

40. AIIB's collaborating with other multilateral and bilateral development partners will ensure consistency in AIIB's policy advice as well as orderly coordination, selection and sequencing of reforms, investment plans and financing. AIIB can provide valuable contributions to climate reform proposals as policy-broker, development partner and investor. AIIB will further support implementation of policy reforms through inclusion of institutional development components in its sectoral investment projects.[31] Building on

[31] 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

the CRIDP's progress, AIIB will continue to support the GoB in advancing the policy and institutional reforms, with a focus on climate adaptation in the urban and water sectors, while ensuring the sustainability of policy reforms.[32]

41. Using an integrated approach together with its close coordination efforts, AIIB has been actively supporting the GoB in the establishment and operationalization of the BCDP,[33] which 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 has actively contributed as a member of BCDP working groups[34] 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.

42. **Value addition to AIIB.** The Program will enable AIIB to meet the country's needs and work with international partners towards shared climate objectives, while supporting the implementation of its CAP and enhancing the achievement of its corporate objectives. The Program will contribute to strengthening policy and institutional frameworks towards the shared goal of scaling up investments into climate mitigation, resilience and adaptation and crowding in other funding. 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, leveraging AIIB's expertise and resources.

43. The AIIB's participation in the Program will 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. Furthermore, the expertise and experience gained from this Program will feed into a proposed standalone programmatic CPBF,[35] enabling AIIB to develop more targeted and effective financing instruments that support members in achieving their climate goals. This Program will also reinforce AIIB's commitment to climate-

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a comprehensive climate risk assessment for the proposed Hatikumrul-Bonpara-Jhenaidah Highway Improvement Project - Phase I.

32 The GoB requested AIIB financing of USD400 million for a standalone CPBF for Water Resilience and Climate-Smart Urban Service Delivery Program (Subprogram 1), which will build upon the progress made under the CRID program and deepen and broaden reforms in the urban and water sectors.

33 The government-led, multi-stakeholder platform was launched in 2024 to promote coordinated, low-carbon, and climate-resilient development. The BCDP is one of the first country climate platforms globally to scale up both mitigation and adaptation actions. It is structured around a Coordination Board (under the NCECC, chaired by Chief Advisor or Prime Minister, with the MoEFCC serving as the Secretariat) and four specialized following working groups: (i) *Climate Finance (Domestic) (WG-1)*, led by the Finance Division, Ministry of Finance; (ii) *Climate Finance (External) (WG-2)*, led by Economic Relations Division, Ministry of Finance; (iii) *Policy, Knowledge and Capacity Building (WG-3)*, led by MoEFCC; and (iv) *Project Development Support, Monitoring and Evaluation (WG-4)*, led by the Planning Division, Ministry of Planning.

34 The consultation meetings on February 7, 2024 and January 26, 2025 discussed the working groups, including the April 24, 2025 kick-off meeting to launch WG-3 activities and define the scope and coordination mechanisms. The AIIB team also actively participated in a series of coordination meetings with development partners.

35 The GoB, through ERD, has sought AIIB financing of USD400 million for the proposed *Water Resilience and Climate-Smart Urban Service Delivery Program (Subprogram 1)*. Building on progress made under the *Climate Resilient Inclusive Development Program,* this standalone CPBF program will further advance the policy and institutional reforms, focusing strongly on climate adaptation in urban and water sectors.

resilient infrastructure, aligning with its broader sustainable development goals and enhancing its role in promoting climate-resilient growth across its members.

44. **Lessons learned.** Key lessons learned from previous operations[36] in Bangladesh and other countries include: (i) strong government ownership and commitment are needed to reform institutional frameworks across different climate-critical sectors; (ii) the reform process should allow for flexibility in designing policy packages; (iii) prior actions should reinforce the government's commitment to a particular policy agenda, be tailored to the country's circumstances and be clearly linked to achieving the desired policy objective(s); (iv) using a programmatic approach is important to deepen the reform program, address structural reforms over the medium-term while allowing for adaptability in response to changing circumstances; (v) tackling climate change by taking a multisector approach with coordinated reforms across sectors is effective; (vi) targeting vulnerable groups, especially women who are disproportionally impacted by climate change, is important; (vii) fiscal and financial incentives are required for the private sector's green transition; and (viii) knowledge sharing, upstream engagement, and regular policy dialogue are vital.

C. Policy Actions, Results, and Sustainability

45. **Policy Actions.** The proposed Program will help the GoB further implement its climate priorities, particularly those in the NAP and the NDC-U, and incorporate well-coordinated and sequenced reforms mainstreaming gender equality, and social inclusion (GESI) issues. The Program includes 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 (see Annex 1. Policy and Results Matrix for details). Despite implementation challenges related to the political transition, all policy actions have been completed by appraisal stage.

46. *RA 1: Enabling environment created.* Bangladesh faces institutional and coordination challenges in implementing key climate interventions, due to the weak inter-ministerial coordination, limited budget allocations for low carbon and climate resilient activities, and limited access to climate finance. Fragmented governance, regulatory bottlenecks, and low capacity to mobilize private capital hinder progress in mainstreaming climate priorities across planning, budgeting, and M&E systems.

47. To embark on a whole-of-government approach to implement NAP and NDC-U priorities across ministries and agencies, completed policy actions have:

(i) strengthened institutional framework for coordinating, implementing and monitoring climate commitments and capacity development;
(ii) embedded climate actions in government planning, budgeting, and monitoring and evaluation; and

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[36] This includes the Climate Resilient Inclusive Development Program (Subprogram 1) and PBFs provided for Bangladesh under the COVID-19 Crisis Recovery Facility since 2020.

(iii) mobilized climate finance by expanding public and private financing for climate actions, promoting sustainable finance, and increasing women beneficiaries.

48. The newly established BCDP will coordinate efforts among ministries, the private sector, and development partners to mobilize climate finance from both domestic and international sources while enhancing project development to implement government's climate strategy. Embedding green and climate resilient growth in planning and budgeting will contribute to increase the share of climate expenditure to at least 10 percent. Updating policies such as introducing guidelines for climate-related financial disclosure will help create a transparent environment, enabling sustainable finance from financial institutions, which is expected to grow by 40 percent.

49. *RA 2: Adaptation priorities strengthened.* Given Bangladesh's high vulnerability to climate change, with significant economic damage and loss of life,[37] current policies frameworks and institutional capacity in climate-critical sectors require strengthening to effectively implement adaptation strategies. Adaptation is further hindered by poor implementation of water and urban strategies, limited local capacity, outdated infrastructure, and weak early warning systems. Gaps also include insufficient integration of gender equality and social inclusion (GESI), lack of climate-resilient agriculture, and inadequate financing for resilient transport and urban infrastructure.

50. To address these challenges, completed policy actions have outlined adaptation priorities, implementation strategies, financing needs, and a Monitoring and Evaluation (M&E) framework.

(i) mainstreamed GESI-focused adaptation related policies;
(ii) promoted climate-resilient agriculture, access of gender-focused farmer extension service and development of climate-proofed agricultural lands;
(iii) enhanced management of natural water resources and irrigation water security through updated masterplan, optimization of water resource use, and flood risk management;
(iv) heightened disaster preparedness through early warning systems and disaster risk financing strategy;
(v) strengthened climate-resilient transport infrastructure with updated policy framework, improved design standards; and
(vi) facilitated climate-resilient urban sector development through updated strategy to incorporate nature-based solutions in urban settings, including promotion of wetlands and biodiversity, adequate drainage and waste management, reduced urban congestion, emissions, and pollution, and increased local government capacity.

51. Institutional reforms and strengthened capacity to formulate and implement climate-responsive masterplans in the water sector will support the prioritization of at least USD400 million in climate adaption investments to enhance water security and reduce the impacts of flood and river erosion. National urban policies aligned with NAP

[37] Average annual losses from tropical cyclones alone are estimated to be approximately USD1 billion (0.7 percent of GDP) according to ADB's working paper: Disaster Risk Financing in Bangladesh. The coastal population, at 27 percent, is exposed to a 100-year coastal flood event, expected to increase to 35 percent with half a meter of sea level rise according to World Bank's CCDR.

priorities will be complemented by localized climate action plans that jointly enable downstream investments for climate-resilient urban infrastructure.

52. *RA 3: Climate change mitigation actions accelerated.* Creating an enabling institutional environment for mitigation can accelerate Bangladesh's efforts to decarbonize its economy, particularly in the power and urban sectors. Policy reforms with an enhanced monitoring framework are needed to implement energy efficiency strategies and encourage greener energy and transport sectors. Despite efforts to reduce GHG emissions, challenges include heavy reliance on fossil fuels, limited renewable energy integration, and insufficient EV infrastructure. Regulatory uncertainty, investment risks, and weak public-private partnership mechanisms hinder the scaling of low-carbon solutions and private capital mobilization.

53. To meet the NDC-U GHG emissions target for the energy and transport sectors, completed government priority actions include:

(i) promoted energy efficiency and renewable energy; and
(ii) encouraged the use of clean energy (electric and hybrid vehicles, solar irrigation), reducing road traffic congestion by upgrading roads, enhancing efficiency in rail transport, 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.

54. GHG emissions will be reduced by adopting renewable energy policies and updating energy efficiency standards, unlocking downstream investment for 40 low-emission locomotives. The rollout of the solar irrigation roadmap will attract investments for at least 4,500 solar irrigation systems.

55. **Expected results.** The Program is in line with Bangladesh's green growth objectives articulated in national climate plans, in particular, the 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 outcomes of Subprograms 1 and 2 combined are climate resiliency strengthened and emissions from climate-critical sectors reduced.

Table 1: Program Outcome Indicators

Indicators Name	Baseline	Target (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
Increase climate-resilient/stress tolerant winter rice variety (Boro) cultivation area	Baseline: 349,015 hectares in FY 2022-2023; (Source: MOA Agriculture Extension Plan)	to at least 10%
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 benefited 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 Railways lines following the new standard for energy use and emissions.	Baseline: zero in FY2022; (Source: Bangladesh Railways)	40
Energy sector GHG emissions reduced.	Baseline: 93.09 MtCO2e from energy sector in 2012, with NDC-U unconditional CO^2 reduction target of 26.31 $MtCO^2e$ by 2030 from energy sector; (Source: NDC-U [2021])	at least 10.0 MtCO2e unconditionally
Power generation capacity from renewable energy sources.	Baseline: 459 MW in FY2022; (Source: SREDA database)	1000MW of total power generation capacity from renewable energy

		sources including 500 MW by the private sector.
Solar irrigation systems installed.	Baseline: 2,718 in FY2022; (Source: National Solar Energy Database, SREDA)	At least 4,500
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

56. **Implementation Arrangements.** The Finance Division of the MoF is the executing agency for the Program. The Program will be implemented by the Ministry of Environment, Forest, and Climate Change; the Planning Commission; 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 and the Energy and Mineral Resources Division of the Ministry of Power, Energy, and Mineral Resources. 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 official[38] from the Finance Division will be the Program focal person.

57. **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 the GoB's Development Policy Letter and IMF's programs with which the Program policy actions are aligned. 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. Line ministries have demonstrated capacity to engage policy actions since Subprogram 1 to ensure policy actions are in place without reversal and will continue to carry out committed reforms. ADB's TA will provide further support to strengthen capacity of relevant ministries to implement policy actions.

58. The BCDP, as a long-term platform for coordinated planning, project preparation, implementation, monitoring, and climate finance mobilization, will further enhance sustainability. ADB's TA has been mobilized to support the continued operationalization of BCDP (see Annex 7 for the roll-out plan). 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)[39] will further provide strategic direction and implementation tools for ministries to enhance climate change interventions.

[38] Additional Secretary of Finance Division.

[39] 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.

59. The proposed subsequent CPBF program, i.e., *Water Resilience and Climate-Smart Urban Service Delivery Program,* will further support the GoB to roll out and sustain the policy reforms. 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

60. **Fiscal Policy.** Bangladesh's tax revenue-to-GDP ratio remains among the lowest globally at just 7.6 percent, which has constrained spending for critical areas like economic development and climate change adaptation. Under the IMF program, the government committed to improve tax revenue collection by modernizing tax administration, increasing taxpayer registration, digitizing revenue collection, and incentivizing filing of tax return. In January 2025, the government hiked VAT rates on many products to make up for the revenue shortfall in the first half of FY2025, likely driven by disruption in economic activity due to political unrest. According to the revised budget, total revenue is projected to increase by 27 percent in FY2025. However, this is deemed ambitious given the current growth trajectory. The National Board of Revenue has unveiled a roadmap to increase the tax revenue-to-GDP ratio to 10.5 percent of GDP by FY2035, which would still remain lower than peer economies.

61. The Planning Commission is focusing on improving medium-term investment planning, strengthening the linkages between the Five-Year Plan, Annual Development Program (ADP) and Medium-Term Budget Framework. Though the revised budget indicates a reduction in the ADP by 11.8 percent, this strategic cut aims to prioritize high-impact, high-return projects, which are expected to foster long-term economic growth. The government is also focusing on reducing 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.

62. **Monetary and Exchange Rate Policy.** Bangladesh has made progress in modernizing its 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. A Monetary Policy Committee comprising Bangladesh Bank officials and external members has been set up to formulate the monetary policy. The policy rate has been increased by 500 basis points between March 2022 and February 2025 to contain inflation. At the same time Bangladesh Bank has 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.

63. Greater exchange rate flexibility is needed to build external resilience. Bangladesh Bank is steadily moving towards a more flexible exchange rate regime. In May 2024, Bangladesh Bank introduced a crawling peg exchange rate regime as in

interim solution, which allowed of adjustments within a specified range around a fixed mid-rate. Over the last 10 months the mid-rate has been adjusted and the band marginally increased to ensure parity with market rates. However, there still exist gaps between formal and informal market rates. This misalignment is slowing down the pace of external adjustment and continuing the pressure on foreign exchange reserves. Foreign exchange reserves have stagnated around USD20 billion even as remittance inflows have surged, as the increased remittance inflows have been used to cover foreign- currency obligations of banks, public debt-servicing and meeting the import bill. The IMF has raised concerns that limited forex availability at misaligned rate will disrupt economic functioning and lead to renewed foreign reserve losses. The authorities agree on the need to move towards a more flexible exchange rate regime but prefer a more gradual approach to mitigate sharp currency volatility.

64. **Debt Sustainability.** According to the debt sustainability analysis conducted by IMF in mid-2024, Bangladesh remained at low debt distress. However, events since then, including the economic slowdown, limited mobilization of tax revenue, persistent inflation, projected rise in debt service, elevated non-performing loans and a widening current account deficit, are likely to amplify the distress. Overall, debt is expected to remain sustainable.

65. **Financial Sector Policy.** Bangladesh's financial sector is currently facing numerous challenges owing to lax regulations of banks allowing connected groups to secure loans, 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. NPLs rose to 20.2 percent of all loans in December 2024, with most of the distressed assets being held by the State-Owned Commercial Banks (SOCBs). This is likely to rise as the Bangladesh Bank undertakes an asset quality review of key banks and tightens loan classification rules from April 2025. The next steps will be to operationalize the new resolution framework and agree on a high-level strategy for restructuring and resolving distressed banks. In March 2025, Moody's Rating lowered Bangladesh's banking system outlook to negative from stable, citing rising asset risks due to worsening of the operating environment, political instability and worsening economic conditions.

66. Bangladesh has made some progress in addressing some of the 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 SOCBs 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).

67. **External Sector Policy.** Bangladesh's exports are overwhelmingly dominated by textiles and readymade garment, which account for more than 80 percent of exports. While the sector has significantly contributed to the country's growth, diversifying exports is essential for maintaining growth momentum. The authorities are focusing on sectors like leather products, agro-processing and light engineering as new drivers of export growth. 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. A market-determined exchange rate will help maintain the competitiveness of exports and prevent delays in repatriation of export proceeds. It will also incentivize remittances to be routed through the formal channels, bolstering reserves, alleviate FX pressures and rebuild external buffers. FDI flows remain low compared to peer countries. The authorities are making concerted efforts to attract FDI including through Export Processing Zones. Further liberalization of foreign exchange regulations, reducing the regulatory burden, and resolving infrastructure bottlenecks will help attract FDI.

68. **Discussions with IMF.** Bangladesh and IMF reached a staff level agreement on the policies needed to complete the combined third and fourth review of the IMF's ECF, EFF and RSF. The staff-level agreement is subject to approval by IMF's Executive Board, tentatively scheduled on June 23, 2025, and contingent on the completion of prior actions related to mobilization of tax revenue and full implementation of exchange rate program.[40] These IMF-supported reforms, when fully implemented, would enable more fiscal resources to support the most vulnerable and bolster the economy's resilience to external shocks including through direct investments towards sustainable, resilient infrastructure. (See Section H: Risks and Mitigation Measures).

69. **Macroeconomic Outlook and Risks.** Following the anticipated slowdown in FY2025, the IMF expects growth to rebound to 6.5 percent in FY2026 as economic activity normalizes, policies are relaxed, infrastructure projects drive public investment, and external demand picks up. Peer MDBs like World Bank and ADB also expect a recovery, albeit a more modest one. Inflation, though expected to remain elevated in FY2025, is expected to ease gradually to around 5 percent in FY2026 with tight policies and easing of supply disruption. There are downside risks to the outlook, emanating from geopolitical shocks and global monetary tightening, and a slowdown in the reform momentum, especially around the elections. Commitment to fiscal reforms including revenue-based fiscal consolidation, along with curbing non-essential subsidies will provide a strong foundation for sustained economic growth. Sustained progress on reforming domestic monetary and exchange rate policies would help alleviate external pressures. Ensuring financial sector stability and resolving high levels of NPLs will be key to sustaining growth and maintaining macroeconomic stability. A delay in implementing exchange rate reform could undermine stabilization efforts by exacerbating pressures on the external and financial sectors. Failure to resolve weak banks could deteriorate credit conditions and raise fiscal liabilities. Finally, low government revenue, in the face of rising debt service could raise government financing risks. The above assessments, combined with consultations with peer MDBs, thinktanks and IMF indicate while Bangladesh economy remains fundamentally sound with an adequate macroeconomic policy framework, sustaining the pace of policy and institutional reforms is crucial to overcome the current economic challenges.[41]

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[40] Press Release: IMF Reaches Staff-Level Agreement on the Combined Third and Fourth Reviews of Bangladesh's Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility Arrangements, May 14, 2025
[41] AIIB has been engaged with peer MDBs and IMF continuously while developing the Program. The most recent discussions took place in May 2025.

Table 2: Key Macroeconomic Projections from IMF, World Bank and ADB

	Growth (%)		Inflation (%)		Current Account Deficit (% of GDP)	
	FY2025	FY2026	FY2025	FY2026	FY2025	FY2026
IMF	3.8	6.5	8.4	4.8	0.9	0.9
World Bank	3.3	4.9	--	--	--	--
ADB	3.9	5.1	10.2	8.0	0.9	1.1

Source: Asian Development Outlook 2025, South Asian Economic Development and World Economic Outlook.

70. **Development Financing Needs and Budget Support.** The GoB's development financing needs are estimated from fiscal deficit (excluding grants) to be USD19.1 billion for FY2025, USD21.5 billion for FY2026, and USD25.9 billion for FY2027. The projected external borrowing is USD7.1 billion in FY2025, USD8.0 billion in FY2026, and USD8.1 billion in FY2027, with the balance being funded through domestic sources. Bangladesh sought budget support from AIIB and other development partners to fund its medium-term financing needs, which will require strong collaboration among its development partners.

Table 3: Bangladesh's Development Financing Needs for FY2025-27 (USD millions)

Item	FY 2025	FY2026	FY2027
Government revenue (excluding grants)	41,452.3	49,494.3	60,034.8
Total expenditure	60,510.8	71,013.6	85,932.1
Fiscal balance	(19,058.5)	(21,519.3)	(25,897.3)
as percentage of GDP (excluding grants)	(4.0)	(4.0)	(4.4)
Domestic financing	11,978.3	13,524.9	17,747.4
External financing	7,080.2	7,994.4	8,149.9
Prospective financing	**3,389.0**	2,614.0	…
IMF (ECF/EFF disbursement)*	874.0	874.0	…
Asian Infrastructure Investment Bank	400.0	400.0	…
World Bank**	500.0	500.0	…
Asian Development Bank***	1,500.0	600.0	…
Bilateral partner****	115.0	240.0	…

GDP = gross domestic product, ECF = Extended Credit Facility, EFF = Extended Fund Facility, FY = fiscal year
Sources: Ministry of Finance and ADB estimates.
* IMF Staff Level Agreement.
** This only includes budget support loans (development policy credit (DPC)). World Bank's DPC Board meeting is scheduled on June 20th, 2025.
*** The Board meeting for ADB's banking and climate policy-based lending is scheduled on June 19th, 2025.
**** includes Agence Francaise de Development.

E. Public Financial Management, Disbursement, and Auditing Aspects

71. **Public Financial Management (PFM).** The Governance and Fiscal Assessment carried out by development partners noted that Bangladesh's PFM systems have improved in its oversight and accountability mechanisms through enhancements to its budgeting, treasury, and accounting systems. It also noted the government's plan to develop tax and public financial management reform strategies, as well as initiatives to strengthen treasury, accounting, and procurement operations. The Public Expenditure and Financial Accountability (PEFA) assessment (2023) also identified the key strengths are the completeness of budget documentation presented to Parliament, annual performance plans and reports prepared to monitor service delivery, e-procurement which now covers 70 percent of procurement. In addition, independent review boards have been established for complaint management and financial reporting is comparable to International Public Sector Accounting Standards (IPSAS). The independence of

Comptroller and Auditor General is constitutionally guaranteed, and the legislature makes recommendations after reviewing external audit reports on budget execution. It is concluded the public procurement and PFM systems and arrangements provide reasonable assurance that the proceeds of the CPBF will not be used for Excluded Expenditures. However, further improvement is needed to address the weaknesses of lack of credibility, transparency and preparation of the budget, monitoring of budget execution and external control. Development partners are supporting the GoB to carry out various capacity building activities to improve the systems, develop manuals and provide training to address those weaknesses.

72. **Disbursement.** The proceeds of the Program will be disbursed in a single tranche once the Loan Agreement is effective. 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 Government at the Bangladesh Bank (BB)—provided the Bank is satisfied with the program being carried out by the Government and with the appropriateness of the country's macroeconomic policy framework. The deposit will be part of the country's foreign exchange reserves. The Government will credit the local-currency equivalent in the budget management system using the prevailing exchange rate. If the proceeds of the loan are used for excluded expenditures as defined in the Loan Agreement, the Bank will require a direct refund of an amount equal to payment, promptly upon notice from the Bank. Amounts refunded to the Bank upon such a request will be canceled.

F. Environmental and Social

73. **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 by AIIB's Environmental and Social Policies (ESP), ADB's Safeguard Policy Statement (SPS) will apply to this Program. An environmental and social impact assessment matrix of the Program policy actions has been prepared, potential impacts and mitigation to address them are set out. The Program supports various policies, plans, strategies, guidelines, and the mobilization of finance related to future climate-resilient inclusive development including in the agriculture, urban, transport, and energy sectors. No infrastructure investment is directly supported, but some policy actions will result in downstream environmental impacts given that the location, nature and type of downstream infrastructure development is clearly set out by the government in some of the plans and guidelines supported. The Program focuses on policy and institutional reforms that do not entail involuntary resettlement or impact the lives of Indigenous Peoples, and it is classified as category C for involuntary resettlement and Indigenous Peoples and category B for the environment by ADB. However, it is recognized that some downstream investment activities resulting from specific policy actions under the Program may lead to indirect, short-term, and temporary adverse impacts. To address these potential concerns, implementing agencies will utilize their existing grievance mechanisms. Additionally, if deemed beneficial, technical assistance support may be employed to build capacity and ensure compliance with both the ADB's SPS and the country's safeguard system. As part of the post program partnership framework, ADB and AIIB will work with the

government to encourage the use of strategic environmental assessment to address the impacts of future policy reforms.[42] Some policies actions will also have a positive environmental impact e.g., encouraging sustainability reporting, energy efficiency etc.

74. **Climate Vulnerability Context**. Bangladesh is highly vulnerable to a range of natural hazards, including river, coastal, and urban flooding, cyclones, landslides, extreme heat, and wildfires. Coastal areas, in particular, are at risk of damaging waves that could flood the coastline at least once every decade. The country also faces the threat of water scarcity, earthquakes, and tsunamis. Climate change is expected to exacerbate Bangladesh's already significant exposure to these climate hazards, introducing new challenges. As the world's largest delta, Bangladesh's riverine topography and geographic location make it particularly susceptible to climate and weather-related impacts, as well as geophysical risks. Future projections suggest that climate change will lead to altered precipitation patterns with more extreme events, rising temperatures, and rising sea levels.

75. Bangladesh's infrastructure will also be increasingly vulnerable to climate risks.[43] 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 threatens roads, rail tracks, waste systems and other communal infrastructure in low-lying areas but also contributes to river floods and flash floods, eroding and causing direct damage to transportation and drainage networks. Frequent and intense cyclones, bringing high winds and storm surges, pose additional threats by scattering debris, blocking routes, waterlogging 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 infrastructure are set to increase, highlighting the need for resilient and adaptive infrastructure development.

76. **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.

77. 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.

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[42] Those policies are related to (i) laws and acts for spatial planning, land zoning, and land resource management, (ii) renewable energy policy and master planning, and (iii) national water resources master planning and recommendations from the IEPMP strategic environmental assessment.

[43] IUCN, Climate Change and Infrastructure in Bangladesh. 01 (iucn.org)

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 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.

78. **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.

79. **Grievance Redress and Bank's Project-Affected People's Mechanism.** The People' Republic of Bangladesh developed and formulated a Grievance Redress Mechanism Guidelines, 2015 (Revised 2018) as an integral part of the administrative responsibility of every Government Ministries; Department; Organizations and Field Administration Departments. The GRM guidelines also facilitate the introduction of online GRM and of the development of the Grievance Redress System software. The nature of grievance includes the following: (i) Public Grievance; i(i) Staff Grievance; and (iii) Official Grievance. 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: https://www.adb.org/who-we-are/accountability-mechanism/iamnet.

G. Monitoring, Evaluation, and Accountability

80. **Monitoring and Evaluation.** The Finance Division of the MoF, as the executing agency, will report to AIIB and ADB on the progress of the Policy and Results Matrix (Annex 1). ADB and AIIB will jointly conduct Program monitoring periodically to ensure that the policy actions continue to be put in place without reversal and further strengthen

their link to infrastructure development. At the Program's closure,[44] the joint ADB and AIIB team will verify the achievement of outcome indicators as a medium-term policy impact. 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.

81. **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.

H. Risks and Mitigation Measures

82. The Program's risks as described in Table 4 below are mitigated through AIIB and ADB's ongoing policy dialogue, engagements and support to the GoB in key governance, climate change, and climate-related infrastructure sectors. Under its post-program partnership framework, ADB is providing TA to help strengthen the institutional capacity of the executing and implementing agencies, support the continuous monitoring of progress toward the achievement of the Program's outcomes and outputs, and facilitate continuity of policy reforms within an evolving institutional and political context. ADB will keep AIIB informed and involved with Program implementation in accordance with the Memorandum of Understanding between AIIB and ADB.

Table 4: Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Political and Governance Risks Ongoing engagement with Bangladesh's interim government can present several risks, including political instability, economic uncertainty, regulatory changes, and security concerns. Frequent change of personnel and concomitant administrative delays in adopting key policy actions threatens policy continuity, deepens complexity and uncertainty and could potentially delay implementation of policy reforms.	High	Climate change challenges remain a critical development priority of the interim government. The climate change agenda along with government-led national action plans required to achieve the climate goals of the NDC-U and NAP will continue to be a central focus for relevant ministries to guide implementation. In its Development Policy Letter, the Government reaffirms its commitment to sustaining policy and institutional reforms required to implement the said plans. Building on the reform momentum generated with the support of the Program, AIIB will work closely with key partners (including the IMF) to provide coordinated support to the government and encourage consistency and coherence in the implementation of

[44] The closing date for the entire program (Subprogram 1 and 2) will be December 2026, one year after the implementation period of Subprogram 2.

		policy reforms in addressing the risks and vulnerabilities posed by climate change. The Program's objectives will be further supported by ongoing country engagement by AIIB and ADB, including the proposed subsequent CPBF programs and sector operations in Bangladesh.
Macroeconomic Risks The prolonged impact of external economic shocks and delay in domestic resource mobilization intensifies fiscal pressures and constrains the government's ability to scale-up financing for climate-related investments. Slower than anticipated progress in the IMF-supported program may limit the effectiveness of the Government's climate initiatives.	Medium	The macroeconomic risks are partially mitigated by the GoB's reform programs supported by development partners including the ADB, AIIB, IMF and World Bank. The macroeconomic and debt situations will be monitored in coordination with IMF and partners. The GoB is committed to: (i) implementing a national strategy for economic recovery and domestic resource mobilization to expand the fiscal space; (ii) addressing the emerging external financing gap and fully implementing exchange rate reforms to enhance exchange rate flexibility; and (iii) fostering a sound and competitive financial sector. Within its commitments to advancing macroeconomic and fiscal reforms, the GoB is also committed to mainstreaming climate change in planning, budgeting, and resource allocation. Sustaining both the pace of implementation of the IMF-supported program and the alignment between macroeconomic and climate policies will enhance coherence and impact of the Program.
Fiduciary Risk 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.	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.
Institutional Capacity for Implementation Varied levels of institutional capacities across implementing	High	TA will support institutional capacity building, strategic knowledge work, and strong agency level engagement. The

agencies hinder the holistic (whole-of-government) approach to climate action. Turnover in key government officials and limited capacities in key ministries may delay program implementation.		creation of BCDP will also provide implementation support to concerned ministries and help to address both the coordination and monitoring of policy actions and climate projects. The ADB TA is mobilized to support institutional capacity building, strategic knowledge work, and contribute to strengthen agency level engagement.
Environmental and Social	Low	RA1 under the Program does not trigger 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 consultations and capacity development initiatives will be undertaken to enhance understanding of safeguards risks and triggers to avoid any adverse impact.

Annex 1: Policy and Result Matrix

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Prior Actions: Subprogram 2 (December 2023–May 2025)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)
Reform Area 1: Enabling environment for the implementation of climate actions created			
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. 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. 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	2.1. The MOEFCC established and operationalized 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. 2.2. MOP (i) implemented Disaster and Climate Risk Information Platform (DRIP) at the district level which provides data on disaster and climate risks vulnerability assessments, potential climate change adaptation options, and disaster risk mitigation measures, and (ii) issued a circular for incorporating climate sensitive issues in the project appraisal of two sectors: (a) transport and	**By FY 2026** 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 2023–2024) b. Total volume of sustainable finance[e] provided by banks and financial institutions grew by at least 40%. (Baseline: $12.01 billion in FY2022; Source: Quarterly Review Report on Sustainable Finance of Banks and Financial Institutions) 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 and Financial Institutions)	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. b. Concerned ministries' capacity enhanced to regularly undertake stakeholder communication and engagement to implement NAP and NDC-U priorities. c. MOEFCC, through BCDP, develops the integrated Climate Change Information Database and Climate Change Knowledge Management Portal. d. ADB will support the MOP in the implementation of DRIP at the upazila (sub-district) level, starting with a pilot in 8 upazilas covering 8 divisions. e. Bangladesh Bank's and Banks' and Finance

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Prior Actions: Subprogram 2 (December 2023–May 2025)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)
expenditure under the national budgetary framework.	communication; (b) environmental, climate change and water resource.		Companies' capacities enhanced to implement climate finance instruments
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,[f] and (c) Sustainability Rating of Banks and Financial Institutions to provide financing for green and sustainable business activities, with a focus on women entrepreneurs.	2.3. Finance Division, MOF incorporated the technical assistance and policy reform activities mentioned in the Green and Climate Resilient Development Guideline issued by the Planning Commission in the upcoming budget for the FY 2025-2026, ensuring that adequate budget is included for addressing any environmental and social implications of policies, plans and programs are supported. 2.4. Bangladesh Bank implemented Guidelines on Sustainability and Climate Related Financial Disclosure for Banks and Financial Companies to introduce climate-related financial disclosure of the financial sector.		f. ADB to support Bangladesh Bank in the implementation of Climate Risk Management Guidelines for Banks and Finance Companies. g. ADB to provide MOF with technical and analytical support to prepare and operationalize the Enhanced Climate Fiscal Framework coordinating with concerned ministries and agencies. h. ADB to provide concerned line ministries with analytical support on the design and implementation of climate fiscal tools and approaches. i. ADB/AIIB will provide technical support to MOP for DRIP system enhancement and design and implementation of climate-responsive cost-benefit framework. j. ADB to provide support for green public financial management by assisting MOF to produce, annually, a supplementary financial statement on climate expenditure.

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Prior Actions: Subprogram 2 (December 2023–May 2025)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)
Reform Area 2: Climate change adaptation priorities strengthened			
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. 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	2.5. MOEFCC approved, with immediate effect, (i) Updated Locally Led Adaptation Framework (LLAF), which includes consideration of youth related adaptation issues, Climate Change Gender Action Plan and the Climate Adaptation Plan for Persons with Disabilities to mainstream gender equality and social inclusion in climate change-related policies, strategies and interventions; and (ii) formulated medium – and long-term soft measures as NAP investment roadmap components for interventions in ecosystem, biodiversity and socioeconomic areas in one climate stress area focusing on (a) reducing biodiversity loss, (b) wetland conservation, and (c) reducing air pollution. 2.6. At least 50% of MOA approved projects are aligned with NAP priority interventions 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.	**By FY2026** 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) e. Climate-resilient/stress tolerant winter rice variety (Boro) cultivation area increase by at least 10%[g] (Base Year 2022-2023, cultivated area: 349,015 hector) f. Reached at least $400 million investment initiated in the water resources sector to promote water security. (Baseline: $300 million in FY2022; Source: MOWR database) 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	k. MOA to provide awareness and outreach support to the farmers, with a focus on women farmers and households, for adopting climate smart agricultural practices. l. ADB to provide MOA with support for capacity development of agricultural extension service workers. m. ADB to provide technical support to improve its River Erosion Forecast and Early Warning System methodology. n. ADB/AIIB to provide concerned agencies of the government with technical and analytical support for the Disaster Risk Financing Strategy instruments development and piloting.

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Prior Actions: Subprogram 2 (December 2023–May 2025)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)
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. 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.[i] 1.8. MOLGRDC mandated LGED to use CRT[j] in transport sector project planning and selection to enhance climate-resilience of transport network.	2.7. The MOWR, in consultation with the Delta Governance Council (i) commenced monitoring of the implementation of Haor Area Masterplan, ensuring with the support of DOE that national laws and regulations are followed, to promote water security by (a) securing water for irrigation, (b) reducing coastal erosion, and (c) managing floods; and (ii) implemented River Erosion Forecast and Early Warning System to improve disaster risk management. 2.8. The government, through the Ministry of Disaster Management and Relief, MOWR, MOA, Bangladesh Bank and others concerned, developed and submitted to the Council of Advisers for approval 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. 2.9. The MOLGRDC through LGED established the Climate Resilient Local Infrastructure Center as	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) 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) 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) k. Each of the four city corporations with climate resilient action plans, including in Dhaka, commenced implementation	

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Prior Actions: Subprogram 2 (December 2023–May 2025)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)
1.9. Two city corporations[l] 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.	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 [k] in rural road construction adopting Climate-resilient Design Policy Guidelines. 2.10. The MOLGRDC (i) through city corporations, approved and initiated implementation of at least two climate action plans for Dhaka;[m] (ii) through 14 *pourashavas*, implemented the drainage system master plans to further enhance flood risk management; and (iii) through the Local Government Division approved 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. 2.11. The MOLGRDC approved the National Urban Policy, 2025, to develop climate resilient cities and regions through (i) integrated urban drainage management and eco-engineered waste	of at least one climate resilient investment project. (Baseline: 0 in FY2022; Source: ICLEI - Local Governments for Sustainability, Bangladesh)[h]	

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Prior Actions: Subprogram 2 (December 2023–May 2025)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)
	management, (ii) climate-resilient water, sanitation and hygiene facilities, (iii) conservation of urban wetlands and biodiversity, and (iv) implementing locally-led adaptation actions.		
Reform Area 3: Climate change mitigation actions accelerated			
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. 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	2.12. The MORTB developed and submitted for inter-governmental consultations for final approval of the Updating Revised Strategic Transport Masterplan for Dhaka, 2025-2034 that promotes (i) rail-based urban transport services including MRT, (ii) improved bus and other public transport services including BRT and e-buses, (iii) multimodal transport integration, use of non-motorized transport and pedestrian facilities, and (iv) efficient traffic demand management among others, ensuring with the support of DOE that national laws and regulations are followed. 2.13. The Ministry of Railways and the Bangladesh Railway (i) formed a committee at the Ministry level to prepare New Operational Strategy for Railways to promote operational efficiency through (a) enhancing service-wise operation target and monitoring with new key indicators, and (b)	**By FY2026** l. 40 locomotives with auxiliary power unit operated on Bangladesh Railways lines following the new standard for energy use and emissions. (Baseline: 0 in FY2022; Source: Bangladesh Railways) m. Energy sector GHG emissions reduced by at least 10.0 $MtCO_2e$ unconditionally. (Baseline: 93.09 MtCO2e from energy sector in 2012, with NDC-U unconditional carbon dioxide reduction target of 26.31 $MtCO_2e$ by 2030 from energy sector; Source: NDC-U [2021]) n. 1,000 MW of total power generation capacity from renewable energy sources including 500 MW by the private sector. (Baseline: 459 MW including 216 MW by the private sector in FY2022; Source: SREDA database)	o. 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. ADB/AIIB to provide MORTB and Ministry of Railways with capacity building support in designing and implementing a multimodal transport strategy. q. MORTB and MOPEMR to conduct awareness raising and stakeholder buy-in to green technology adoption. r. 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. s. ADB to support MOPEMR to operationalize the Renewable Energy Policy through development of

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Prior Actions: Subprogram 2 (December 2023–May 2025)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)
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.	accelerating transition to broad gauge, to make modal shift from road to railways viable, and (ii) monitored implementation of New Energy Use Standards for locomotives to reduce GHG emissions from the rail transport sector. 2.14. MOPEMR, following its approval, (i) monitored implementation of the IEPMP to achieve low carbon society by 2050 through, amongst others, measures to promote renewable energy, ensuring with the support of DOE that national laws and regulations are followed, and enhanced efficiency of existing power plants and improved technology use in power generation; (ii) monitored implementation of Solar Irrigation Roadmap as approved in subprogram 1, ensuring with the support of DOE that national laws and regulations are followed; and (iii) approved Renewable Energy Policy to deploy renewable energy solutions and further reduce GHG emissions in the energy sector. 2.15. MOPEMR (i) approved and enforced Energy Audit Regulations and (ii) implemented Building	o. At least 4,500 solar irrigation systems installed. (Baseline: 2,718 in FY2022; Source: National Solar Energy Database, SREDA) p. Energy intensity (national primary energy consumption as a proportion of GDP) reduced by 6% from 2020 level. (Baseline: 7.0 gigajoule/$1,000 [2015 prices] in FY2020; Source: International Energy Association database) q. 1 gigawatt of solar photovoltaic rooftop installed.[o] (Baseline: 157 megawatt;[p] in FY2023 Source: SREDA database)	necessary guidelines with an objective of enhancing private sector participation in renewable energy.

Prior Actions: Subprogram 1 Completed (September 2021–November 2023)	Prior Actions: Subprogram 2 (December 2023–May 2025)	Outcome Indicators	Post-Program Partnership Framework (July 2025–June 2028)
	Energy Efficiency and Environment Rating Guidelines applicable for existing and new buildings to promote energy efficiency.		

A = assumption, ADB = Asian Development Bank, ADP = Annual Development Program, BCDP = Bangladesh Climate and Development Partnership, CRT = Climate Resilient Tool, DRIP = Disaster and Climate Risk Information Platform, FY = fiscal year, GDP = gross domestic product, GESI = Gender equality and social inclusion, GHG = greenhouse gas, ICLEI = International Council for Local Environmental Initiatives, 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, MRT = mass rapid transit, $MtCO_2e$ = million tonnes of carbon dioxide equivalent, M&E = monitoring and evaluation, NAP = National Adaptation Plan, NDC-U = Nationally Determined Contributions-Update, NCECC = National Committee for Environment and Climate Change, 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)*. 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] 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.

[f] 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.

[g] A climate-resilient/stress-tolerant winter rice variety (Boro) is a type of rice cultivated in the dry winter season that is bred to withstand and maintain productivity despite challenging environmental conditions like temperature extremes, water scarcity or excess, and salinity.

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

[i] 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.

[j] 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.

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

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

[m] 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.

[n] 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.

[o] Integrated Energy Power Master Plan target for rooftop solar installation by 2030 is 1.6 gigawatt.

[p] Rooftop Solar Except Net Metering, National Database of Renewable Energy, SREDA; Net Metering Rooftop Solar, National Database of Renewable Energy, SREDA.

Annex 2: The Borrower's Development Policy Letter

ড. সালেহউদ্দিন আহমেদ
উপদেষ্টা
অর্থ মন্ত্রণালয়
গণপ্রজাতন্ত্রী বাংলাদেশ সরকার

Dr. Salehuddin Ahmed
Adviser
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No 07.00.0000.000.096.24.0003.

Date: 12 May, 2025

Subject: Climate-Resilient Inclusive Development Program (Subprogram 2)

Dear Mr. Liqun,

1. On behalf of the Interim Government of Bangladesh, I would like to extend my sincere gratitude to the Asian Infrastructure Investment Bank (AIIB) for its continued support toward our national climate change and development agenda. This Development Policy Letter (DPL) outlines our reform priorities and formally communicates our request for AIIB's Climate Policy-Based Financing (CPBF) of USD 400 million, in co-financing with the Asian Development Bank (ADB), to support the Climate-Resilient Inclusive Development Program (Subprogram 2).

2. The Program, structured as a budget support operation, will help address the development financing needs for Fiscal Year (FY) 2024-25. It will fund immediate reforms to advance the implementation of climate priorities outlined in our National Adaptation Plan (NAP) and the latest Nationally Determined Contributions update (NDC-U). These reforms include scaling up public and private investments in green infrastructure, strengthening climate governance, promoting adaptation and mitigation in critical sectors such as agriculture, water resources, urban development, transport, and energy, and mobilizing climate finance.

3. The Interim Government recognizes the urgency of climate action and has prioritized climate-resilient growth as a cornerstone of our development strategy. Upon reviewing the existing climate policy framework, we identified the need for more effective implementation, enhanced institutional capacity, and stronger governance which have been fully integrated into the design of Subprogram 2. In parallel, we are committed to mitigating macroeconomic and fiscal risks posed by climate change by strengthening institutional systems and ensuring more efficient use of public resources.

4. The Government has also embarked on a broad-based reform agenda, supported by our development partners, to stabilize the economy. These reforms include: (i) expanding fiscal space through revenue-enhancing measures to support public investment and social protection; (ii) modernizing the monetary policy framework to contain inflation; (iii) moving towards greater exchange rate flexibility to bolster external competitiveness and rebuild reserves; and (iv) addressing vulnerabilities in the financial sector alongside other structural reforms to support long-term inclusive growth. Over the medium term, the economy is projected to grow 6.5 percent by FY2027-28, accompanied by moderate inflation, a reduced fiscal deficit, and a restored balance of payments.

5. Although Bangladesh contributes minimally to global greenhouse gas emissions, we remain among the countries most vulnerable to the adverse impacts of climate change. Our geographic position in a low-lying delta and high population density makes us particularly susceptible to natural disasters, sea level rise, salinity intrusion, and extreme weather events. According to the Global Climate Risk Index 2021 (Germanwatch), Bangladesh ranks seventh among the countries most affected by climate change between 2000 and 2019.

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6. Bangladesh has been proactive in addressing climate risks since the mid-1990s through policy innovation and dedicated funds such as the Bangladesh Climate Change Trust Fund. The updated Climate Fiscal Framework provides a basis for climate-responsive infrastructure investment. However, achieving the goals set out in our NDC-U and NAP will require substantial financing. By 2030, we estimate a total need of USD 175 billion to implement NDC while Bangladesh will require around USD 230 billion for the implementation of NAP in 2023-2050. However, the Government allocates around only USD 3 billion annually to climate-related issues in the national budget, thus significant external support is essential to close the financing gap. Strategic partnerships with institutions like AIIB are therefore crucial.

7. Recognizing the cross-sectoral complexity of climate action, the Government is committed to international cooperation and multi-stakeholder partnerships to scale up climate solutions. The Program exemplifies a whole-of-government approach involving diverse actors and is supporting the establishment and operationalization of the Bangladesh Climate and Development Platform (BCDP), led by the Ministry of Environment, Forest, and Climate Change (MoEFCC). BCDP is envisioned as a long-term coordination platform for planning, project preparation, implementation, monitoring, and climate finance mobilization.

8. Subprogram 1 delivered immediate policy actions aligned with short-term climate priorities across sectors such as agriculture, water resources, urban development, transport, and energy. Subprogram 2 builds on these achievements by institutionalizing reforms and implementing policies, guidelines, and frameworks to enhance national climate resilience.

9. The Program supports a results-oriented, integrated implementation of Bangladesh's climate agenda through three reform areas: (i) enabling environment for climate action, (ii) strengthened adaptation capacity, and (iii) accelerated mitigation efforts.

Reform area 1: Enabling environment for the implementation of climate actions created. One of the major achievements under subprogram 2 is the establishment of Bangladesh Climate Development Partnership (BCDP). The objectives of BCDP are 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 the National Committee for Environment and Climate Change (NCECC), concerned ministries, the private sector and development partners to implement the government's climate strategy.

Additionally, the Ministry of Planning (MOP) implemented the Disaster and Climate Risk Information Platform (DRIP) at the district level which provides data on disaster and climate risks vulnerability assessments, potential climate change adaptation options, and disaster risk mitigation measures. MOP also issued a circular for incorporating climate sensitive issues in the project appraisal of two sectors: (i) transport and communication, and (ii) environmental, climate change and water resource.

The Ministry of Finance (MOF) incorporated activities mentioned in the Green and Climate Resilient Development (GCRD) Guidelines issued by the Planning Commission into the upcoming

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budget, ensuring that adequate budget is included for addressing any environmental and social implications of policies, plans and programs are supported. Furthermore, the Bangladesh Bank implemented guidelines on Sustainability and Climate-Related Financial Disclosure for Banks and Finance Companies to introduce climate-related financial disclosure of the financial sector.

Reform area 2: Climate change adaptation priorities strengthened. A key reform under subprogram 2 includes the approval of the Locally-Led Adaptation Framework (LLAF), which incorporates consideration of youth-focused adaptation issues, Climate Change Gender Action Plan, and the Climate Adaptation Plan for persons with disabilities.

The Ministry of Environment, Forestry, and Climate Change (MOEFCC) also formulated a NAP investment roadmap in one climate stress area focusing on (i) reducing biodiversity loss, (ii) wetland conservation, and (iii) reducing air pollution.

The Ministry of Agriculture (MOA) ensured that at least 50% of approved projects were aligned with NAP priority interventions 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.

The Ministry of Water Resources (MOWR), in consultation with the Delta Governance Council, commenced monitoring implementation of Haor Area Master Plan to promote water security by (i) securing water for irrigation, (ii) reducing coastal erosion, and (iii) managing floods. Further, MOWR implemented the River Erosion Forecast and Early Warning System to improve disaster risk management.

Another major policy reform includes development and submission to the Council of Advisers for approval of the National Disaster Risk Financing Strategy through appropriate risk retention and transfer instruments, such as crop insurance, disaster risk insurance and contingent disaster financing, to enhance disaster risk management and post-disaster recovery.

The Local Government Division (LGD) through Local Government Engineering Department (LGED) established the Climate Resilient Local Infrastructure Center (CReLIC) as a permanent office to (i) mainstream climate-resilient road infrastructure designs with the enhanced use of the Climate Resilient Tool (CRT) and (ii) start implementation of nature-based solutions and innovative and sustainable road construction materials in rural road construction by adopting Climate-resilient Design Policy Guidelines.

Additionally, LGD, through city corporations, initiated implementation of two climate-resilient city action plans for Dhaka and two city region strategic plans. Through 14 pourshavas, LGD executed the drainage system master plans to further enhance flood risk management. Also, the LGD approved the Climate Vulnerability Index (CVI) as a criterion for resource allocation for the city corporations to prioritize climate-resilient investments and scale up implementation of the urban priorities identified in the NAP.

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A major policy action under this reform area is the approval of the National Urban Policy 2025, which supports the development of climate-resilient cities and regions through (i) integrated urban drainage management and eco-engineered waste management; (ii) climate-resilient water, sanitation and hygiene facilities; (iii) conservation of urban wetlands and biodiversity; and (iv) implementing locally-led adaptation actions.

Reform area 3: Climate change mitigation actions accelerated. The Ministry of Road Transport and Bridges (MORTB) developed and submitted the updated and revised Strategic Transport Master Plan for Dhaka, 2025-2041 for inter-governmental consultations as part of final approval. The revised Master Plan promotes (i) rail-based urban transport services including Metro Railway Transit, (ii) improved bus and other public transport services including Bus Rapid Transit and e-buses, (iii) multimodal transport integration, including use of non-motorized transport and pedestrian facilities, and (iv) efficient traffic demand management, among others.

As part of the government's mitigation efforts, the Ministry of Railways (MOR) and Bangladesh Railway formed a committee at the Ministry level to prepare the New Operational Strategy for Railways to promote operational efficiency through (i) enhancing service-wise operation target and monitoring with new key indicators, and (ii) accelerating transition to broad gauge, to make modal shift from road to railways viable. Further, the MOR and Bangladesh Railway monitored implementation of the New Energy Use Standards for locomotives to reduce GHG emissions from the rail transport sector.

The Ministry of Power, Energy and Mineral Resources (MOPEMR) began implementing the renewable energy components of the Integrated Energy and Power Master Plan (IEPMP) to achieve a low-carbon society by 2050 through measures that promote renewable energy, enhanced efficiency of existing power plants, and improved technology use in power generation. MoPEMR also launched the implementation of the Solar Irrigation Roadmap, which was approved in subprogram 1.

During subprogram 2, MOPEMR also approved the Renewable Energy Policy to deploy renewable energy solutions and further reduce GHG emissions in the energy sector. Furthermore, MOPEMR (i) approved and enforced Energy Audit Regulations, and (ii) has started implementing the Building Energy Efficiency and Environment Rating Guidelines applicable for existing and new buildings to promote energy efficiency.

10. The proposed CPBF loan from AIIB will be instrumental in consolidating and scaling up these reforms and investments. It is the second in a two-part programmatic series co-financed with ADB and focuses on integrating institutional reforms with climate-resilient infrastructure development, gender equality, and social inclusion.

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11. The Government remains fully committed to delivering on the policy and institutional reforms under Subprogram 2. We value our partnership with AIIB and look forward to continued collaboration in driving forward our climate and development objectives. By prioritizing sustainability and resilience, we aim to ensure a prosperous, equitable, and climate-resilient future for all citizens of Bangladesh.

With regards,

Sincerely yours,

Dr. Salehuddin Ahmed

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Annex 3: International Monetary Fund Assessment Letter

The IMF confirmed that the Assessment Letter for the ADB (as attached below) can serve as the IMF Assessment Letter for AIIB.

Bangladesh—Assessment Letter for the Asian Development Bank
April 2, 2025

This letter provides the IMF staff's assessment of Bangladesh's recent economic developments, outlook, and economic policies based on available information as of March 31, 2025. The assessment was requested by the Asian Development Bank (ADB) in connection with two policy-based loans as part of ADB's Stabilizing and Reforming the Banking Sector Program, and Climate Resilient and Inclusive Development Program.

Recent Developments, Outlook, and Risks

1. The macroeconomic situation remains challenging.[1]

- Real GDP growth fell to 1.8 percent (y-o-y) in Q1FY25 (July-September 2024), down from 6 percent in Q1FY24. This decline was driven by economic disruptions caused by the popular uprising, a tighter policy mix, and heightened uncertainty that hindered investment. After reaching a decade-high of 11.7 percent in July 2024, headline inflation declined to 9.3 percent (y-o-y) in February 2025 but remains above BB's target range of 5-6 percent. Food inflation surged to 14.1 percent in July 2024 before slowing to 9.2 percent in February 2025. The still elevated inflation is indicative of supply-chain disruptions associated with the popular uprising and major floods in early FY25.

- The fiscal balance in H1FY25 remained within the program target primarily by cutting expenditures, despite lower tax revenue collections. Tax compliance was particularly impacted by the public uprising with the authorities' temporary measures to reduce import duties further curtailing revenues. Cash constraints, due to a significant drop in domestic borrowing, led to under-execution of spending, more than offsetting the revenue shortfall. As a result, the primary fiscal balance registered a surplus of 0.6 percent of GDP in H1FY25. Domestic payment arrears continued to decline, in line with the authorities' commitment to reducing them to 0.5 percent of GDP by end-June 2025.

- The current account (CA) was nearly balanced in H1FY25, maintaining the improvement observed in FY24[2], as exports displayed resilience despite the unrest observed over the summer, growing by 11 percent (y-o-y). Remittances also remained strong growing by 28 percent (y-o-y) in H1FY25. Import growth remained muted over the same period, growing by 3.5 percent on the back of sluggish foreign direct investment imports, and the lingering effects of the import control measures. The financial account (FA) also registered a small surplus of 0.6 percent of GDP in H1FY25 primarily due to lower trade credit outflows and donor disbursements, despite weaker FDI inflows. Errors and Omissions, however, reported a negative US$ 2 billion in H1FY25, likely

[1] Fiscal year in Bangladesh starts in July and ends in June.

[2] Whereby the current account deficit shrank to 1.4 percent of GDP.

reflecting unrecorded financial outflows. As a result, gross international reserves (GIR) declined to US$21.4 at end- December 2024, (slightly over 3 months of import cover).

- *Stress* in the banking sector has intensified amid widespread balance sheet problems. The systemwide NPL ratio rose by approximately 60 percent in H1FY25, reaching 20 percent of loans, while the capital adequacy ratio fell to 6.9 percent as of Q1FY25, below the 10 percent regulatory minimum. Liquidity pressures persist at troubled banks, with reports of ongoing deposit rationing at banks representing nearly 10 percent of system assets.

2. The near-term prospects have significantly deteriorated, and risks are skewed to the downside.

- *Growth and inflation*. Real GDP growth is expected to slow to 3.8 percent in FY25, driven by disruptions from the popular uprising, subdued investment, and tighter policies. However, growth is projected to rebound to 6.9 percent in FY26 as capacity utilization improves following the unwinding of tighter policies. The annual average inflation is expected to remain elevated at around 10 percent in FY25. However, in H2FY25 there are signs of deceleration, and by June 2025, inflation is expected to decrease to around 8.5 percent (y-o-y) and further decline to about 5.5 percent in FY26, provided that supply-side pressures ease, and premature and excessive policy easing is avoided.

- *Fiscal.* The adoption of revenue measures in January 2025 is anticipated to generate 0.2 percent of GDP in H2FY25. However, the need for urgent repairs to critical infrastructure damaged by public unrest and floods, coupled with the increasing subsidy expenditures and the need to start clearing domestic arrears, is expected to raise spending execution in H2FY25. The primary fiscal balance is projected to remain at 2 percent of GDP in FY25 and relax slightly in FY26 to 2.2 percent of GDP as a result of unwinding spending controls. Public debt remains sustainable, although the projected rise in debt service could impact the risk of debt distress assessed as low in the latest DSA (published at the 2nd Review).

- *BOP*. The CA deficit is projected to narrow further to around 1 percent of GDP in FY25, while the FA surplus is expected to remain steady at around 1 percent of GDP. As a result, GIR is expected to continue to fall in terms of import cover in FY25 to reach 3.1 (relative to 3.3 months in FY24) but is projected to steadily rise to cover around 4 months of prospective imports in the medium term, supported by greater exchange rate flexibility. In FY26, the current account deficit is expected to narrow to 0.9 percent of GDP, supported by strong exports and remittances, while the FA surplus is projected to improve by 0.6 percent of GDP driven by IFI disbursements, along with reduction in trade credit outflows and clearance of arrears.

3. Risks to the outlook remain on the downside, with domestic risks escalating. On the domestic front, a delay in implementing exchange rate reform could severely undermine stabilization efforts. Limited FX availability at BB's declared misaligned rate will disrupt economic functioning and pressure BB to resume large-scale FX sales, leading to renewed foreign reserve losses. Declining reserves would raise the risk premium for holding assets in Taka, prompting BOP outflows and withdrawals of deposits from banks, further destabilizing the banking system and FX market. Unsterilized central bank liquidity support to weak banks could exacerbate inflation and FX market pressures. Failure to resolve weak banks could sharply deteriorate credit conditions and growth prospects while increasing contingent fiscal liabilities. Increasing domestic debt rollovers against low revenues could raise government financing risks. Risks of further social unrest, driven by declining real income, and uncertainty around the upcoming elections present further challenges. Global risks arising from geopolitical conflicts, geoeconomic fragmentation, trade wars, and supply disruptions, may create further strain on growth, inflation, fiscal operation, and FX reserves.

Policy Framework and Settings

Fiscal Policy

4. **Revenue-based fiscal consolidation is required to restore macroeconomic stability, while strengthening social spending and investment**. In the near term, revenue-based fiscal consolidation should support efforts in reducing inflation and BOP pressures, while protecting priority social spending and capital investment. Mobilization of domestic tax revenue will rely on tangible tax policy and administration reforms. The authorities' medium- and long-term revenue strategy is currently under preparation to anchor these reforms, with focusing on rationalization of tax exemptions, better compliance risk management, and automation of tax collection. On the expenditure side, a clear and publicly communicated electricity sector reform plan is needed to reduce subsidy and arrears in the electricity and fertilizer sectors. Improving public financial management and debt management will also support fiscal consolidation through enhancing efficiency and governance.

Monetary and Exchange Rate Policy

5. **The uncertainty around inflation, external imbalances, and FX market pressures call for caution when unwinding tighter policy and for greater exchange rate flexibility**. Inflation is expected to subside in H2FY25. However, it's still elevated level poses risks of de-anchoring inflation expectations. Therefore, BB must be cautious and base policy easing on solid evidence that current and projected inflation is declining. For effective policy transmission, it remains critical that retail interest rates are set by banks freely. The swift and comprehensive implementation of the crawling peg with a band exchange rate regime is a crucial step to flexibility and addressing external imbalances. Banks should be permitted to quote freely in the FX market. If exchange rate volatility increases once the new regime is implemented, BB should tighten to maintain the interest rate differential offsetting pressures on the exchange rate. Further progress to modernize the monetary policy framework is critical for transitioning to a forward-looking policy.

Financial Sector Policy

6. **With bank undercapitalization set to increase, a coherent plan for cleaning up the sector is needed**. With an asset quality review for distressed banks already underway, an essential next step will be to operationalize the new resolution framework and for BB and fiscal policymakers

to agree on a high-level strategy for restructuring and resolving distressed banks. BB should also require viable but undercapitalized banks to submit capital restoration plans, while further liquidity support to weak banks should be limited and subject to robust safeguards to protect BB's balance sheet. Efforts to improve prudential frameworks, corporate governance and domestical capital markets should continue. Further regulatory amendments are needed to align asset classification rules with Basel guidelines, while completing the planned transition to risk-based supervision. Absent reforms to stem the flow of NPLs, establishing a public asset management corporation (AMC) poses significant fiscal risks.

Climate Change Policy

7. **Building resilience to climate change will help mitigate macroeconomic and fiscal risks**. Bangladesh is highly vulnerable to climate change and natural disasters. Despite various policy tools, climate financing gap remains large, underlying the needs to leverage diverse funding sources. Successful implementation of the RSF reform measures plays an important role in this context. Reforms to enhance climate risk management and integrate climate-related risks into fiscal planning have been implemented. The government has adopted a comprehensive National Disaster Risk Financing Strategy that incorporates shock-responsive social assistance measures. Progress continues in strengthening financial sector resilience to climate shocks and mainstreaming climate in public investment management. While the Bangladesh Climate Development Platform has great potential to support the scaling up of climate finance, the country should also ramp up policies to support green growth, especially accelerating investment in renewable energy and reducing reliance on fossil fuels.

Macro-Structural Policy

8. **Enhancing the investment climate and strengthening governance are crucial for achieving the authorities' goal of attaining upper middle-income status**. A conducive environment will attract foreign direct investment and diversify exports beyond the garment sector. Strengthening fiscal and financial governance and improving transparency are key to boosting investment. Governance and anti-corruption efforts can be advanced by refining the AML/CFT framework. Additionally, improving data quality and accessibility is essential for effective policymaking. In this regard, BB's efforts to enhance central bank autonomy and independence, supported by IMF technical assistance, are commendable.

IMF Relations

9. **The IMF is supporting the authorities' economic program through arrangements under the Extended Credit Facility (ECF), the Extended Fund Facility (EFF), and the Resilience and Sustainability Facility (RSF)**. Bangladesh's arrangements under the ECF/EFF and RSF were approved by the Executive Board on January 30, 2023, totaling SDR2.5 billion (154.3 percent of quota or about US$3.3 billion) under the ECF/EFF and SDR1 billion (93.8 percent of quota or about US$1.4 billion) under the RSF. The Executive Board completed the first and second reviews of these arrangements on December 12, 2023, and June 24, 2024, respectively. To date, total disbursements under the

ECF/EFF have reached SDR1,409.4 million (about US$1,856 million), and SDR333.35 million (about US$439 million) under the RSF. At the time of the Second Review, program performance was assessed as broadly on track. The IMF staff and Bangladesh authorities reached a staff-level agreement on the policies required to complete the Third Review (see PR No. 24/483, December 18, 2024). However, the third review of the IMF-supported program has not been completed. The authorities have indicated that they need additional time to complete the critical exchange rate reforms and have proposed combining the third and fourth reviews.

10. Bangladesh is one of the largest recipients of IMF capacity development (CD) amongst lower-middle-income countries in Asia. A comprehensive CD program to Bangladesh aims to assist the authorities' efforts to address capacity gaps and to ensure timely delivery of reforms under the IMF-supported program. The current CD focuses on revenue mobilization, forward-looking monetary policy formulation, public financial management and public investment management, central bank reform, banking supervision, and macro statistics.

Table 1. Bangladesh: Selected Economic Indicators, FY23-30 1/

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
					Proj.			
Real GDP	5.8	4.2	3.8	6.9	6.1	6.2	7.5	6.6
Consumption								
Private	2.0	6.0	5.6	6.3	6.1	6.2	7.5	6.6
Public	8.5	9.8	4.1	8.8	6.9	11.8	10.7	6.7
Gross Capital Formation	2.2	3.3	0.7	6.2	6.7	7.5	8.2	6.2
Private	2.9	4.3	0.5	2.8	5.2	6.2	8.7	6.5
Public	0.0	-0.2	1.3	18.0	11.3	11.0	6.9	5.6
Trade								
Exports of goods and services	8.0	-17.1	5.1	23.3	14.3	8.8	8.8	6.0
Imports of goods and services	-9.8	-4.6	5.3	14.2	13.2	12.0	10.6	5.6
Prices								
GDP deflator	6.9	6.9	10.4	5.1	4.8	5.1	5.5	5.7
CPI inflation (annual average)	9.0	9.7	10.0	5.2	4.8	5.2	5.6	5.6
CPI inflation (end of period)	9.7	9.7	8.4	4.8	4.9	5.4	5.7	5.6
Central government operations								
Total revenue and grants	8.2	8.3	8.8	9.8	10.2	10.5	10.6	10.6
Of which: Tax revenue	7.3	7.4	7.9	9.0	9.4	9.6	9.6	9.7
Total expenditure	12.7	12.1	13.0	14.0	14.6	15.3	15.5	15.6
Of which: Annual Development Program (ADP)	4.3	3.8	4.3	4.5	5.3	5.5	5.6	5.5
Overall balance (including grants)	-4.5	-3.8	-4.1	-4.2	-4.4	-4.8	-4.9	-5.1
(excluding grants)	-4.6	-3.9	-4.2	-4.3	-4.4	-4.8	-4.9	-5.1
Primary balance (including grants)	-2.5	-1.5	-2.0	-2.2	-2.2	-2.6	-2.6	-2.6
Public sector total debt 2/	39.3	39.5	39.6	39.9	40.8	41.8	42.2	43.0
Of which: External debt	17.5	18.2	18.5	18.1	17.7	17.4	16.8	16.4
Balance of Payments								
Current account balance	-2.6	-1.4	-1.0	-0.9	-1.1	-1.6	-1.8	-1.8
Trade balance	-4.7	-5.9	-6.0	-5.2	-5.3	-5.8	-6.1	-6.1
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	1.5	1.0	1.1	1.6	1.8	2.5	2.6	2.5
Foreign direct investment, net	0.4	0.4	0.2	0.6	0.8	1.1	1.2	1.2
Gross international reserves (billions of U.S. dollars)	24.8	21.7	23.3	28.6	33.7	40.2	45.9	50.5
in months of next year's imports	4.1	3.3	3.1	3.3	3.5	3.7	3.8	4.1
Monetary and Credit								
Reserve money	8.5	8.2	8.2	8.9	9.1	9.2	9.2	9.2
Broad money (M2)	50.7	48.4	45.0	45.5	46.5	47.6	48.8	50.0
Credit to private sector	35.3	34.5	32.3	31.9	32.8	33.9	34.3	34.7
Credit to private sector (percent change)	9.1	8.8	7.0	11.0	14.4	15.4	14.8	14.0
Savings and Investment								
Gross national savings	29.9	28.3	29.0	28.6	28.4	28.0	27.8	27.8
Public	0.3	0.5	0.5	1.5	1.8	1.9	1.7	1.6
Private	29.7	27.9	28.5	27.1	26.5	26.1	26.1	26.2
Gross investment	31.0	30.7	30.0	29.5	29.5	29.6	29.6	29.6
Public	6.8	6.7	6.6	7.3	7.6	7.9	7.8	7.7
Private	24.2	24.0	23.3	22.2	21.9	21.7	21.8	21.9
Memorandum item:								
Nominal GDP (in billions of taka)	44,908	50,027	57,286	64,339	71,512	79,844	90,604	102,085

Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Fiscal year begins on July 1 and ends on June 30.
2/ Includes central government's gross debt, including debt owed to the IMF, plus domestic bank borrowing by nonfinancial public sector and public enterprises' external borrowing supported by government guarantees, including short-term oil-related suppliers' credits.

Annex 4: Paris Alignment and Climate Finance Assessment

The Paris Alignment assessment results indicate that the program aligns with the goals of the Paris Agreement (PA) for both mitigation and adaptation by adhering to the Joint MDBs PA methodology for policy-based financing.[45] This alignment is evidenced through the program's explicit climate policy actions that address both adaptation to and mitigation of climate change. Subprogram 2 will focus on the enabling environment to implement the NAP, NDC, and other climate policies, strengthen climate change adaptation priorities, and accelerate climate change mitigation actions.

Consistency of the PBL-supported Government reform program with the Country's Priorities on Climate Change

This CPBL program is consistent with a number of Bangladesh's national climate change priorities, as it directly advances the strategic goals outlined in the Bangladesh Delta Plan 2100, the updated Nationally Determined Contributions (NDCs), and the National Adaptation Plan (NAP) 2023–2050. The program promotes a whole-of-government approach to climate resilience and low-carbon development, enhancing institutional coordination, mobilizing climate finance, and mainstreaming climate considerations into public investment and planning processes. By focusing on key sectors such as transport, energy, agriculture, water resources, and urban infrastructure, the reforms align with national objectives to build adaptive capacity, ensure food and water security, and transition towards a low-emission economy. The program also reflects the government's emphasis on inclusive, gender-responsive, and locally led adaptation strategies, reinforcing its long-term vision for sustainable and climate-resilient growth.

Alignment with mitigation goals of the Paris Agreement

The CPBL reforms under the program consist of policy actions that support activities that actively contribute to decarbonization pathways in line with the mitigation goals of the Paris Agreement. Specifically, the Reform Area 3 "*Climate mitigation actions accelerated*" will directly contribute to emission reductions through easing of infrastructure constraints related to sustainable mobility, improving governance, and addressing institutional capacity with key components like MRT, BRT, Road Network Improvement to reduce congestion and promote non-motorized transport. The new Operational Strategy for Railways will focus on reducing transport costs, improving service quality, multi-modal integration, and enhancing operational efficiency in the railways systems. Reform area 3 will also introduce renewable energy targets, promote solar, wind and other renewable technologies, enhance energy efficiency and reduce energy consumption across various sectors through new energy audit regulations.

Alignment with adaptation goals of the Paris Agreement

Climate change is recognized as one of the greatest threats to financial stability and challenge to poverty alleviation and therefore, the policy actions are intentionally designed to strengthen the enabling environment for advancing climate actions for improved resilience of the whole of population of Bangladesh. Some of the key climate risks the

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

program aims to address are flooding, sea level rise, temperature increase, tropical cyclones. In particular, the projections for average precipitation are more uncertain, however, climate change will increase the intensity of extreme precipitation events in the South Asian Monsoon and thus, increase flood risk.

In particular, Reform Area 2 will address the key climate risks such as extreme weather events, high temperatures, and sea level rise and the reforms to address those risks are approved Locally Led Adaptation Framework, which will contribute to local actions and ensure that local actors have the resources and support needed to lead their own adaptation efforts. Disaster risk financing will support the social assistance and risk transfer mechanisms for addressing disaster risks, and delta master plan updates will promote water security by (a) securing water for irrigation, (b) reducing coastal erosion, and (c) managing floods; and (ii) implemented River Erosion Forecast and Early Warning System. A Center of Excellence and a hub of knowledge on climate resilience for local infrastructure in Bangladesh will be established. Lastly, urban resilience will be promoted through 2 Climate Action Plans for Dhaka, which will enhance the city's resilience to climate change, including making cities more resilient, and achieving net-zero emissions by 2050 as well as the use of renewable energy sources. The development of The National Urban Policy 2025 will ensure balanced urban development across the country promote sustainable and resilient urban planning.

Climate finance. The Program is considered 100 percent climate finance, with 63.25 percent for adaptation and 36.75 percent for mitigation, which is accounted using the joint MDB methodology for tracking mitigation and adaptation finance[46]. Details provided below:

Program Financing		Climate Finance	
Source	**Amount ($ million)**	**Adaptation ($ million)**	**Mitigation ($ million)**
AIIB			
Climate Policy-Based Financing	400.00	253.00	147.00

[46] Joint methodology for tracking climate change adaptation finance

Annex 5: Matrix of Potential Environmental and Social Impacts and Measures[47]

Country's Overarching Development Objectives
Sustainable and climate-focused development pathway strengthened (Eighth Five-Year Plan 2021–2025)[a]
Resilience strengthened and risk and vulnerability to adverse climate change impact reduced (National Adaptation Plan of Bangladesh 2023-2050)[b]
Greenhouse gas emissions and transition to a low-carbon economy mitigated (Bangladesh Nationally Determined Contributions (NDCs) 2021) [Updated])[c]

Outcome
Climate resiliency strengthened and emissions reduced from climate-critical sectors.

Risks and Critical Assumptions
R: Prolonged impact of external economic shocks tightens the government's budget allocation for climate actions.
A: Key actions required to deliver NAP and NDC-U goals are implemented without delays.

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
Reform Area 1: Enabling environment for the implementation of climate actions created		
Prior Action 2.1: The MOEFCC established and operationalized the Bangladesh Climate Development Partnership among government ministries, private sector, civil society, and development partners 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.	***On Environment***: No direct or indirect adverse impacts are anticipated. The policy action relates to organizational change with the introduction of the BCDP with a Board and four working groups – the BCDP Board includes a representative of Ministry of Environment, Forests and Climate Change (MOEFCC). Its scope includes determining necessary projects to address climate change and taking measures to address policy gaps. ***On Involuntary Resettlement***: Ensuring share of climate expenditure and sustainable finance or inclusion of women will not trigger Involuntary Resettlement impacts. ***On Indigenous People***: Reform area 1-including establishment of Disaster and Climate Risk Information Platform (DRIP), increase of climate expenditure, increased volume of sustainable finance or inclusion of women entrepreneurs will not have any positive or negative, direct or	No mitigation measures are required. In determining necessary projects to address climate change (and deliver on the indicator to increase climate expenditure) and taking measures to address policy gaps the BCDP Board and the working group on project development support, monitoring and evaluation must ensure the environmental implications of the projects and policy measures it decides to promote are adequately considered upfront.

[47] This matrix should be used in conjunction with Annex 1.

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
	indirect impacts on Indigenous Peoples lives, their customary rights, assets, culture, dignity or human rights.	
Prior Action 2.2: MOP (i) implemented Disaster and Climate Risk Information Platform (DRIP) at the district level which provides data on disaster and climate risks vulnerability assessments, potential climate change adaptation options, and disaster risk mitigation measures, and (ii) issued a circular for incorporating climate sensitive issues in the project appraisal of two sectors: (a) transport and communication; (b) environmental, climate change and water resource.	***On Environment***: No direct or indirect adverse impacts are anticipated. The policy actions relate to institutional arrangements with (i) the establishment of an information platform, and (ii) the requirement for all ministries (including those related to transport and environment, forest, and climate change) to reflect climate change in their Development Project Proposals and complete ex-ante climate tagging of development projects. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	No mitigation measures are required. In approving Development Project Proposals incorporating climate change (delivering on the indicator to increase climate expenditure) government must continue to ensure the environmental implications of projects it supports are adequately considered through their compliance with national laws and regulations.
Prior Action 2.3: Finance Division, MOF incorporated the technical assistance and policy reform activities mentioned in the Green and Climate Resilient Development Guideline issued by the Planning Commission in the upcoming budget for the FY 2025-2026, ensuring that adequate budget is included for addressing any environmental and social implications of policies, plans and programs are supported.	***On Environment***: No direct adverse impacts are anticipated. The GCRD Guideline includes a list of priority investment, technical assistance and policy reform activities compiled for different sectors such as finance, industry and power for incorporation into annual development plans with FD ensuring these are budgeted for. It is mandated for sectors to incorporate GCRD in their projects and reflect on it in their Development Project Proposals. The policy action does not relate to priority investments that have the potential for significant adverse irreversible, diverse or unprecedented impacts downstream. The technical assistance and policy reforms that are budgeted for include those that may have positive impact such as sustainable procurement and the availability of renewable energy for industrial areas. However, they also include a number of activities that may have indirect adverse impacts on the environment. For example, the (i) updating of laws and acts for spatial planning, land zoning,	Mitigation measures are required in respect of environmental impact downstream from technical assistance and policy reform activities budgeted. It will be necessary for the respective ministries with the support of MOF budget and Department of Environment to ensure that future policy reforms strengthen rather than weaken the existing levels of environmental protection. During the post program partnership framework, ADB will work with government to encourage the use of strategic environmental assessment and ensure the impacts of future policy reforms, particularly those related to (i) laws and acts for spatial planning, land zoning, and land resource management, (ii) renewable energy policy

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
	and land resource management, (ii) renewable energy policy and master plan preparation, and (iii) national water resources master plan preparation. Updating of laws and actions may have positive impact downstream by better controlling development, but adverse impacts may also occur if existing levels of environmental protection are weakened or unsustainable development encouraged by policy reforms. Policy and master plan development, and subsequent implementation, may result in downstream adverse impacts although at this stage the exact type, nature or location of development are not set out and there is opportunity to ensure impacts at the strategic level are adequately addressed in their development. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	and master planning, and (iii) national water resources master planning are adequately considered at the policy level. The use of SEA will help ensure the cumulative and induced impacts of individual project development that may occur at a regional or sectoral level, such as habitat and species loss or depletion of water resources, and that are often not captured by undertaking individual project-level assessments can be addressed. It can also ensure that good international practice is reflected in policies and plans in addition to national environment safeguard requirements. On program completion, government to conduct retrospective review of the activities of the GCRD guidelines with respect to environment safeguards to confirm no unanticipated impacts from those predicted, and mitigation measures under the PPPF are implemented as planned.
Prior Action 2.4 Bangladesh Bank implemented Guidelines on Sustainability and Climate Related Financial Disclosure for Banks and Financial Companies to introduce climate-related financial disclosure of the financial sector.	***On Environment***: No direct or indirect adverse impacts are anticipated. The policy action relates to the introduction of sustainability reporting in line with good international practice (IFRS) for banks and financial institutions. The disclosure of their environment, social and governance (ESG) activities including GHG emissions may have a positive impact by encouraging the adoption of better ESG practices with respect to reputational risk. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	No mitigation measures are required.
Reform Area 2: Climate change adaptation priorities strengthened		
Prior Action 2.5: MOEFCC approved, with immediate effect, (i) Updated Locally Led Adaptation Framework	***On Environment***: Policy action (i) introduces the updated LLAF – this introduces the requirements for climate resilience action planning ensuring it is locally led, participatory, gender,	In relation to part (i) of the policy action it will be necessary to ensure that any downstream plans and actions including pilots proposed

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
(LLAF), which includes consideration of youth related adaptation issues, Climate Change Gender Action Plan and the Climate Adaptation Plan for Persons with Disabilities to mainstream gender equality and social inclusion in climate change-related policies, strategies and interventions; and (ii) formulated medium – and long-term soft measures as NAP investment roadmap components for interventions in ecosystem, biodiversity and socioeconomic areas in one climate stress area focusing on (a) reducing biodiversity loss, (b) wetland conservation, and (c) reducing air pollution.	disability, youth and socially inclusive but does not set out any actions or the type, nature or location of development. Since these are not set out there is opportunity to ensure impacts at the strategic level are adequately addressed in subsequent locally led plans and proposed actions including pilots. Thus, no direct or indirect impacts are anticipated at this stage in the planning process. Policy action (ii) is the investment roadmap for the NAP (and prefeasibility study) in the climate stress area of the South Western Coastal Area and Sundarbans. This area is globally recognized for its wetlands of international importance and is environmentally sensitive supporting Irrawaddy dolphin and migratory birds. The overall roadmap includes hard and soft interventions in a number of sectors including water resources, agriculture, ecology and biodiversity, urban and socioeconomic development. However, policy action does not relate to the hard interventions (e.g. dredging and river embankments) that have the potential for significant adverse irreversible, diverse or unprecedented impacts downstream depending on their nature and location. The soft interventions related to ecosystem and biodiversity and socioeconomic areas (e.g., biodiversity spatial planning framework, ecosystem services trade-off management framework, training for livelihood adjustments) should have positive impacts but their negative impacts also need to be addressed. The roadmap itself does not refer to environmental considerations, such as EIA of future projects, other than discussing the environmental stresses faced although the prefeasibility notes that any works will be restricted to agricultural lands and natural khals such that EMP but no EIA will likely be needed. But since only soft measures are supported by the policy action, no direct or indirect impacts are anticipated at this stage in the planning process. ***On Involuntary Resettlement***: None	following the LLAF follow existing national laws and regulations; strategic environmental assessment can be considered as a useful tool in locally led plan development. In respect of the environmental impact of part (ii) of the policy action it will be necessary to ensure that any downstream interventions (soft measures) implemented following the NAP investment roadmap in ecosystem and biodiversity and socioeconomic areas are following existing national laws and regulations with particular attention paid to the environmental sustainability of the Sundarbans. On program completion, government to conduct retrospective review of the activities of the masterplan supported with respect to environment safeguards to confirm no unanticipated impacts from those predicted.

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
	On Indigenous People: None	
Prior Action 2.6: At least 50% of MOA approved projects are aligned with NAP priority interventions 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.	***On Environment***: No direct adverse impacts are anticipated. The policy action relates to priority being given to NAP interventions with the requirement for all ministries to reflect climate change in their Development Project Proposals and complete ex-ante climate tagging of development projects. Investments by MOA may have indirect adverse impacts, particularly if they involve the expansion of cultivated land for climate resilient/stress tolerant rice variety growth to new land allocations (due to the clearance of natural vegetation, increased pressures on water resources for irrigation, and the use of fertilizers and pesticides on these new lands) instead of education for farmers (including women) and improved management of existing land allocations, to achieve the targeted increase in the cultivated area of at least 10%. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	MOA must ensure approved projects are compliant with existing national laws and regulations at approval and during implementation. On program completion government to conduct retrospective review of the 50% of projects approved with respect to environment safeguards to confirm no unanticipated impacts from those predicted.
Prior Action 2.7: The MOWR, in consultation with the Delta Governance Council (i) commenced monitoring of the implementation of Haor Area Masterplan, ensuring with the support of DOE that national laws and regulations are followed, to promote water security by (a) securing water for irrigation, (b) reducing coastal erosion, and (c) managing floods; and (ii) implemented River Erosion Forecast and Early Warning System to improve disaster risk management.	***On Environment***: No direct or indirect adverse impacts are anticipated. No direct or indirect adverse impacts are anticipated. The policy action (i) relates to the Haor Area Masterplan, this area is globally recognized for its wetlands of international importance and is environmentally sensitive. Since the policy action only supports monitoring of its implementation, direct and indirect impacts are not anticipated but consideration is given to the downstream impacts of the plan itself since these too must be monitored. The plan seeks to ensure that relevant consideration is given to the environment, and that all projects stemming from it follow national laws and regulations with the development of feasibility studies supported by EIA and EMP. However, as it includes proposed projects across 17 sectors including flood protection and drainage, river dredging, expansion of irrigated land, aquaculture, the development of pearl culture, rural roads, tourism in mega eco parks, and, mini hydropower implementation of the plan may result in significant adverse	For mitigation measures the plan and policy action already reflects the requirement for policy action (i) compliance with national laws and regulations. As reflected in the plan, MOWR with support of DOE must ensure national laws and regulations are followed, any proposed projects that could compromise the environmental sensitivity of the area must be reconfigured before being supported by government. Further, it must ensure that the enhancement activities as well as socioeconomic activities are supported to ensure environmentally sustainable development. No strategic environmental assessment was conducted on the master plan during its preparation, retrospective assessment can help to ensure adequate mitigation for downstream activities at the strategic level ensuring that good international practice is reflected in

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
	irreversible, diverse or unprecedented impacts downstream such as the introduction of loss of habitat, increased levels of pollution from agricultural input, introduction of alien species for pearl culture etc. In balance, the plan also includes enhancement activities such as restoration of the wetlands of global significance, reviewing policies for biodiversity management, and habitation protection programs for plants, wildlife, fish and migratory birds. Policy action (ii) relates to forecast and early warning systems and will not have indirect adverse impact. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	policies and plans in addition to national environment safeguard requirements. On program completion government to conduct retrospective review of the activities of the Haor Area Masterplan implementation with respect to environment safeguards to confirm no unanticipated impacts from those predicted.
Prior Action 2.8 The government, through the Ministry of Disaster Management and Relief, MOWR, MOA, Bangladesh Bank and others concerned, developed and submitted to the Council of Advisers for approval 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.	***On Environment***: No direct or indirect adverse impacts are anticipated. The policy action supports a strategy for financing disaster risk management, including fiscal buffers, social assistance and insurance options etc. It recognizes that ecosystem protection has a role to play in minimizing disaster risk. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	No mitigation measures are required.
Prior Action 2.9: The MOLGRDC through LGED established the Climate Resilient Local Infrastructure Center 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 k in rural road construction	***On Environment***: No direct or indirect adverse impacts are anticipated. The policy action relates to organizational change with the CReLIC established to ensure climate risk assessment and management measures are adopted. The adaptation measures listed in the climate resilient tool and climate impact assessment guideline that have been mandated for all development (not just road sector) include costal protection and flood control structures etc. It will be necessary to ensure the impacts of any such adaptation measures are adequately considered down the line.	No mitigation measures are required. In mainstreaming climate-resilient road infrastructure designs the office must ensure attention is given to environmental sustainability of climate adaptation measures advocated since the guidelines are focused on hard infrastructure solutions as well as nature-based solutions.

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
adopting Climate-resilient Design Policy Guidelines.	***On Involuntary Resettlement***: None ***On Indigenous People***: None	
Prior Action 2.10: The MOLGRDC (i) through city corporations, approved and initiated implementation of at least two climate action plans for Dhaka;m (ii) through 14 pourashavas, implemented the drainage system master plans to further enhance flood risk management; and (iii) through the Local Government Division approved 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.	***On Environment***: No direct adverse impacts are anticipated. In relation to policy action (i) the two action plans for Dhaka south and north includes a list of investment areas including drainage systems, solid waste management, water supply, wastewater and transport. These activities may result in downstream adverse impacts although at this stage the exact details and location of development are not set out and there is opportunity to ensure impacts at the strategic level are adequately addressed in their development. In relation to policy action (ii) the drainage system masterplans for 1) Tarabo, 2) Kaliakoir, 3) Jhikorgachha, 4) Jashore, 5) Dhamrai, 6) Chalna, 7) Sonargaon, 8) Singair 9) Savar, 10) Nowapara, 11) Narsingdi, 12) Mongla Port, 13) Manikganj, and 14) Kanchan may result in downstream adverse impacts. These masterplans set out the exact details and location of drainage works to be undertaken e.g., construction of new drains, re-excavation of khals and re-construction or improvements to existing drains that may involve dredging etc. These works are in pourashavas so ecological sensitivity is not anticipated to be high. Other aspects such as the requirement for new wastewater treatment plants are specified by the exacts details and location are not specified so there remains an opportunity to ensure impacts at the strategic level are adequately addressed in their development. They reflect that for the drainage works proposed IEE will likely be needed. In relation to policy action (iii) this relates to the use of an index for prioritizing projects and will have no direct or indirect impact. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	Mitigation measures are required in respect of policy actions (i) and (ii) as the two city corporations and 14 pourashavas must ensure any downstream projects implementing the plans are compliant with existing national laws and regulations. For policy action (ii) the recommendations in the master plans must be followed e.g., retaining existing urban waterbodies unaltered. The use of SEA before confirming priority investments and implementing pilots under policy action (i) will help ensure the cumulative and induced impacts of individual project development that may occur at a regional or sectoral level, such as air, noise or water pollution, and that are often not captured by undertaking individual project-level assessments can be addressed. It can also ensure that good international practice is reflected in policies and plans in addition to national environment safeguard requirements. On program completion, government to conduct retrospective review of the activities of policy action (i) and (ii) plans with respect to environment safeguards to confirm no unanticipated impacts from those predicted.

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
Prior Action 2.11: The MOLGRDC approved 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 water, sanitation and hygiene facilities, (iii) conservation of urban wetlands and biodiversity, and (iv) implementing locally-led adaptation actions.	***On Environment***: Policy action relates to the national urban policy seeking to decentralize cities and towns. It includes the development of water supply, sanitation, wastewater treatment, and transport management. It reflects on the need for a national integrated spatial plan, and district wise regional plans with masterplans and land use planning and zoning plans. It is reflected that environmentally sensitive or at risk resources must be preserved, focuses on NBS, the need to conserve cultural heritage and monitor air quality. At this stage the exact details and location of development are not set out. There is opportunity to ensure impacts at the strategic level are adequately addressed in the development of plans and programs implementing it. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	Mitigation measures are required as government must ensure any downstream projects implementing the plans are compliant with existing national laws and regulations. The use of SEA for subsequent plans and programs will help ensure the cumulative and induced impacts of individual project development that may occur at a regional or sectoral level, such as air, noise or water pollution, and that are often not captured by undertaking individual project-level assessments can be addressed. It can also ensure that good international practice is reflected in policies and plans in addition to national environment safeguard requirements. On program completion, government to conduct retrospective review of the activities of policy implementation with respect to environment safeguards to confirm no unanticipated impacts from those predicted.
Reform Area 3: Climate change mitigation actions accelerated		
Prior Action 2.12: The MORTB developed and submitted for inter-governmental consultations for final approval of the Updating Revised Strategic Transport Masterplan for Dhaka, 2025-2034 that promotes (i) rail-based urban transport services including MRT, (ii) improved bus and other public transport services including BRT and e-buses, (iii) multimodal transport integration, use of non-motorized transport and pedestrian facilities, and (iv) efficient	***On Environment***: Policy action (i) relates to developing the Updating Revised Strategic Transport Masterplan for Dhaka the vision of which is an efficient, safe, inclusive and environmentally friendly transport system – the latter includes minimizing operational negative impacts of the transport system, especially air pollution, noise and vibration. DUTA is also proposed. Direct impacts are not anticipated but as the masterplan encourages expressways, ring roads, east-west linkages, MRT, commuter rail and BRT developments indirect impacts may occur during masterplan implementation, if following inter-governmental consultations final approval is granted. Thus, further consideration is given to the downstream impacts of the components of the masterplan. It	Before final approval the requirement for projects proposed to comply with national laws and regulations needs to be reflected in the masterplan. It also needs to reflect that although routes are shown in the masterplan any proposed projects that could compromise biodiversity, physical cultural resources or community health and safety by virtue of location and design must be reconfigured before being supported by government at the project level. It must finally reflect that the DUTA set up will include a well-staffed environmental and social unit to

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
traffic demand management among others, ensuring with the support of DOE that national laws and regulations are followed.	focuses on the provision of the middle ring road, primary and secondary arterial roads, MRT and BRT provision. List of planned new and widened roads and public transport proposals are provided. Routes are given and implementation would result in 681 kilometers of new road, 6 new MRT lines etc. These components of the masterplan may result in significant adverse irreversible, diverse or unprecedented impacts downstream such as dust, noise and water pollution and community health and safety risks given the location in the densely populated and expanding urban area of Dhaka. Depending on the degree to which routes are fixed there remains the opportunity to control these impacts at project level where they can be readily mitigated through appropriate location and design. However, the plan does not refer to environmental considerations, other than to reflect the need to introduce e-vehicles and pedestrian friendly urban places with transport activities resulting in air, noise and GHG emissions. There is no requirement that environmental safeguards are addressed in relation to the projects it proposes and no SEA has been undertaken. The lack of SEA means it is not known what environmental sensitivities exist along the routes but many residential areas will be encroached. The masterplan does recognize the need for urban and transport planning to run in parallel to avoid occurrence of urban sprawl etc. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	support masterplan implementation and future plan development whilst not taking regulatory control with respect to environmental assessment away from DOE, so as not to weaken existing regulation. If approved, MORTB and related agencies with the support of DOE must then ensure compliance of masterplan implementation with national laws and regulations. MORTB must also ensure the recommendations of the masterplan to update land use and transport plans simultaneously and identify the urban area with an urban transport map developed are fully implemented. No strategic environmental assessment was conducted on the masterplan during its preparation, retrospective assessment, or assessment of the land use and transport plans to be updated, can help to ensure adequate mitigation for downstream activities at the strategic level ensuring that good international practice is reflected in policies and plans in addition to national environment safeguard requirements. It will help MORTB identify environmental sensitivities and if routes need to be reconfigured to avoid or minimize impacts as the first step in the mitigation hierarchy which is best considered at the strategic level. It is recommended that as an addition to the post program partnership framework, ADB will work with government to ensure retrospective strategic environmental assessment is conducted during the inter-governmental consultations and prior to final approval. On program completion, government to conduct retrospective review of the activities of the masterplan with

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
		respect to environment safeguards to confirm no unanticipated impacts from those predicted, and recommended mitigation measures are implemented as planned.
Prior Action 2.13: The Ministry of Railways and the Bangladesh Railway (i) formed a committee at the Ministry level to prepare New Operational Strategy for Railways to promote operational efficiency through (a) enhancing service-wise operation target and monitoring with new key indicators, and (b) accelerating transition to broad gauge, to make modal shift from road to railways viable, and (ii) monitored implementation of New Energy Use Standards for locomotives to reduce GHG emissions from the rail transport sector.	***On Environment***: Policy action (i) relates to the formation of a committee to prepare a new operational strategy for railways – this is likely to include the development of major railway lines based on the existing strategy still to be completed but as the policy action only supports committee formation, direct and indirect impacts are not anticipated. Policy action (ii) relates to a study on the use of emission standards for locomotives which will have a positive impact on the environment. BR is currently procuring locomotives that meet tier 2 of the US EPA standards and there is potential for further improvement. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	No mitigation measures are required for policy action (i) but MOR and BR must ensure national laws and regulations are followed, any proposed projects that could compromise biodiversity or physical cultural resources by virtue of location and design must be reconfigured at strategic level (e.g., rerouting around sensitive habitat or ensuring inclusion of wildlife over or underpasses) before being supported by government. Strategic environmental assessment is to be conducted on the strategy in parallel with its preparation, such assessment can help to ensure adequate mitigation for downstream activities at the strategic level ensuring that good international practice is reflected in policies and plans in addition to national environment safeguard requirements. In relation to program action (ii) government to ensure the procurement of tier 3 and tier 4 locomotives as recommended by the study on emission standards. On program completion, government to conduct retrospective review of strategy and emission standards implementation with respect to environment safeguards to confirm no unanticipated impacts from those predicted.
Prior Action 2.14: MOPEMR, following its approval, (i) monitored implementation of the IEPMP to achieve low carbon society by 2050 through, amongst others, measures to promote renewable energy, ensuring	***On Environment***: Policy action (i) relates to the IEPMP – this includes components for nuclear power, fossil fuel power plants and RE. In respect of the policy action supporting monitoring of the RE component's implementation, direct and indirect impacts are not anticipated. Further consideration is given to	Though the IEPMP and solar irrigation pump roadmap do not reflect on environmental legislative compliance the policy action already reflects the requirement for policy action (i) and (ii) compliance with national laws and regulations. For policy action (iii)

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
with the support of DOE that national laws and regulations are followed, and enhanced efficiency of existing power plants and improved technology use in power generation; (ii) monitored implementation of Solar Irrigation Roadmap as approved in subprogram 1, ensuring with the support of DOE that national laws and regulations are followed; and (iii) approved Renewable Energy Policy to deploy renewable energy solutions and further reduce GHG emissions in the energy sector.	the downstream impacts of the RE components of the plan itself since these too must be monitored. The plan includes a basic SEA but mitigation recommendations are limited and relate to project not strategic level. The IEMEP RE component implementation may result in significant adverse irreversible, diverse or unprecedented impacts downstream such as the loss of habitat, particularly coastal areas which coincide with areas of importance for migratory birds that are particularly susceptible to collision with wind turbines and power lines. The IEMEP was subject to a basic strategic environmental assessment conducted by JICA consultants – the plan was category B under JICA guidelines; the environmental impacts on ecosystems, fisheries, protected areas and particularly wind on flyways has been flagged as well as the risk of natural hazards impacting on RE. The need for zoning and EIA provisions for wind power has been identified. In respect of the policy action supporting enhancement of the efficiency of existing power plants and improved technology use in power generation, it is identified that existing plants are fossil fuel based – coal, oil and natural gas. It is noted coal use will not peak until 2040 with technologies for GHG emission reduction still nascent – notably the use of hydrogen and ammonia cofiring system, and CCS. It is proposed for 6 gas units with hydrogen and 4 coal units (600 MW) with ammonia cofiring to be introduced by 2041. It recognizes the need for a pilot plant, a masterplan for importing hydrogen and ammonia likely from the Middle East, site identification for CCS etc. These may result in significant adverse irreversible, diverse or unprecedented impacts downstream including emissions to air (most likely in already degraded airsheds) and community health and safety risks whilst also prolonging the life of and introducing new fossil fuel-power generation assets and their associated GHG emissions. The IEPMP was subject to a basic strategic environmental assessment conducted by JICA consultants – the plan was category B under JICA guidelines; the environmental impacts of fossil fuel related generation on air quality, water quality and ecosystems was flagged, plus air	government must also ensure any downstream projects implementing the RE policy are compliant with existing national laws and regulations, it must be ensured that in adding RE types to the DOE categorization the potential for significant adverse environmental impacts from RE especially if poorly sited (especially wind energy and flyways) is not overlooked. Further, although there is a desire for "easiness" ensuring a robust assessment and management planning process is essential to managing environmental impacts and risks and existing systems must be strengthened rather than weakened. It is recommended that as an addition to the post program partnership framework, ADB will work with government to conduct strategic environmental assessment of RE polices, plans, and programs, supporting DOE to ensure RE impacts and risks are adequately considered in the environmental clearance process with no weakening of existing systems in respect of permitting RE, and, given the lack of existing national guidance for RE and new fossil fuel technology development, developing guidelines on addressing their environmental impacts through project design and location, with particular attention given to (i) managing impacts on biodiversity (birdlife) to ensure downstream impacts are adequately mitigated through design and location, (ii) on the management of defunct batteries from BESS in terms of ensuring adequate storage and disposal facilities that are environmentally safe and sound, and (iii) managing the impacts (including emissions

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
	quality issues with nitrogen oxide emissions from ammonia production. The flammability and explosiveness of hydrogen and ammonia presenting community health and safety risks was also identified. Policy action (ii) relates to the solar irrigation roadmap (roadmap to scale up solar irrigation pumps) but as the policy action only supports monitoring its implementation, direct and indirect impacts are not anticipated. Further consideration is given to the downstream impacts of the solar irrigation pumps roadmap itself since these too must be monitored. Since the scale is 4 kW to 25 kW and they replace diesel systems plus the roadmap recommends rollout only in upazilas with perennial surface water availability implementation is unlikely to result in significant adverse irreversible, diverse or unprecedented impacts downstream such as the pressure on water resources etc. That said, negative impacts may still occur and need to be adequately considered. Policy action (iii) relates to the RE policy – it includes wind, solar, biomass, waste-to-energy, and hydropower as well as other potential sources such as green hydrogen yet to be explored. It also promotes BESS. At this stage the exact details and location of development are not set out. But the quantum of development in terms of MW (17,470 MW by 2041) is presented which may result in adverse impacts downstream if inappropriately design and located. There is opportunity to ensure impacts at the strategic level are adequately addressed in the development of plans and programs implementing it, although the IEPMP as the main document is already being implemented as above. Some recognition is already made within the RE policy of environment e.g., the need to ensure all RE categories are in the DOE categorization list, including BESS disposal in e-waste regulations, and provide guidance on floating solar in terms of its biodiversity impact. But it is also noted that the "easiness" of the environmental clearance process is to be looked at. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	to air and the health and safety risks) of GHG emission reduction technologies. MOPEMR with support of DOE must ensure national laws and regulations are followed, any proposed projects contributing to the 1,000 MW and 4,5000 systems that could compromise biodiversity or physical cultural resources by virtue of location and design must be reconfigured before being supported by government. The recommendations of the IEMEP in relation to RE, including zoning and EIA provisions for wind power, improving the existing environmental legislative framework in the areas of transparency of public disclosure, consideration on vulnerable groups, occupational health and safety conditions and compliance with the national environmental quality standards, strategic environmental and social management plan implementation, establishment at MOPMR of an Environmental Unit to oversee, monitor and coordinate all the environmental and social aspects of the IEPMP implementation, development of environmental and health and safety guidelines on (i) offshore and (ii) onshore wind farms, (iii) solar park, (iv) CCS, (v) hydrogen mono firing power generation, and (vi) electric power transmission and distribution, grievance redress mechanism guideline development and execution, and for the solar irrigation roadmap in relation to groundwater availability and soil and water contamination risks must be followed in the subsequent implementation. The IEPMP was subject to a basic strategic environmental assessment conducted by JICA consultants. No strategic

Prior Actions: Subprogram 2 (December 2023–June 2025)	Anticipated impacts	Mitigation Measure
		environmental assessment was conducted on the solar irrigation pump road map during their preparation. Retrospective assessment (including a more robust assessment of the IEMEP or assessment of other plans and programs ensuing from the energy policy implementation) can help to ensure adequate mitigation for downstream activities at the strategic level ensuring that good international practice is reflected in policies and plans in addition to national environment safeguard requirements. On program completion, government to conduct retrospective review of the activities of IEPMP, road map and policy implementation with respect to environment safeguards to confirm no unanticipated impacts from those predicted, and recommended mitigation measures are implemented as planned.
Prior Action 2.15: MOPEMR (i) approved and enforced Energy Audit Regulations and (ii) implemented Building Energy Efficiency and Environment Rating Guidelines applicable for existing and new buildings to promote energy efficiency.	***On Environment***: No direct or indirect impacts are anticipated. Policy action (i) relates to energy audit being conducted whilst (ii) relates to guidelines for energy efficient and environment ratings of buildings. ***On Involuntary Resettlement***: None ***On Indigenous People***: None	No mitigation measures are required.

A = assumption; ADB = Asian Development Bank; ADP = Annual Development Program; BCDP = Bangladesh Climate and Development Partnership; BESS = Battery Energy Storage Systems; BR = Bangladesh Railway; BRT = bus rapid transit; CReLIC = Climate Resilient Local Infrastructure Center; CRT = Climate Resilient Tool; CCS = Carbon Capture and Storage (Sequestration); DRIP = Disaster and Climate Risk Information Platform; DOE = Department of Environment; DUTA = Dhaka Urban Transport Authority; EIA = environmental impact assessment; EMP = environmental management plan; ESG = environment, social and governance; FY = fiscal year; GDP = gross domestic product; GCRD = Green and Climate Resilient Development Guideline; GESI = Gender equality and social inclusion; GHG = greenhouse gas; ICLEI = International Council for Local Environmental Initiatives; IEPMP = Integrated Energy and Power Masterplan; JICA = Japan International Cooperation Agency; kW = kilowatts; LGED = Local Government Engineering Department; LLAF = Locally-led Adaptation Framework; M&E = monitoring and evaluation; 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; MtCO2e = million tonnes of carbon dioxide equivalent; MW = megawatts; NAP = National Adaptation Plan; NDC-U = Nationally Determined Contributions-Update; NCECC = National Committee for Environment and Climate Change; R = risk; RE = renewable energy; SEA = strategic environmental assessment.

Annex 6: Policy Actions and Analytical Underpinnings

Policy Actions	Analytical Underpinnings
Reform Area 1 – Enabling environment for the implementation of climate actions created	
Policy Actions: The Cabinet established the National Committee for Environment and Climate Change (NCECC). 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. 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. MOP will (i) implement Disaster and Climate Risk Information Platform (DRIP) at the district level which provides data on disaster and climate risks vulnerability assessments, potential climate change adaptation options, and disaster risk mitigation measures, and (ii) issue a circular for incorporating climate sensitive issues in the project appraisal of two sectors: (a) transport and communication; (b) Environmental, climate change and water resource.	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. 2023 National Adaptation Plan, GoB. *Key findings:* 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. 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 greater 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. 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. The National Adaptation Plan requires that a mandatory climate impact and risk assessment framework be integrated into the Development Project Proforma (DPP) process for project appraisal. The CCDR estimates that by 2050, an additional 7 percent of roads will be exposed to additional flooding in comparison with 2013. To address resilience and

	redundancy, it suggests shifting transport sector development away from vulnerable areas and upgrade the network to higher climate-resilient standards. These will have to be enforced through the project approval process. To comply with Reform Measure 6 of the IMF's RSF, GoB is also to issue a circular on an update to the Green Book to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors.
Reform Area 2: Climate change adaptation priorities strengthened	
Policy Actions: 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. 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. MOEFCC will approve, with immediate effect, (i) Updated Locally Led Adaptation Framework (LLAF),	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 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 though 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 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

which includes consideration of youth related adaptation issues, Climate Change Gender Action Plan and the Climate Adaptation Plan for Persons with Disabilities to mainstream GESI in climate change-related policies, strategies and interventions; and (ii) formulate NAP investment roadmap in one climate stress area focusing on (a) reducing biodiversity loss , (b) wetland conservation, and (c) reducing air pollution. 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.	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. The UN note that poor and vulnerable communities, including women, girls and persons with disabilities, are disproportionately affected by climate impacts due to existing structural inequalities and discriminatory practices. Under the Community Resilience Partnership Program (CRPP), a multi-donor initiative, MoEFCC is therefore identifying opportunities for scaling up gender responsive investments in local adaptation. The Program aims to respond to the COP26 goal of scaling up adaptation to protect communities and natural habitats, while mobilizing finance for climate adaptation measures that meet the needs of poor and vulnerable communities. The CRPP aims to strengthen the enabling environment for local adaptation measures through a multi-donor trust fund. 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 Members; 2023 Integrated Energy and Power Master Plan, GoB. Perspective Plan 2021-2041, GoB. *Key findings:* The CCDR recommended prioritizing investments in energy-efficient and climate-resilient urban infrastructure, including for water storage and incentives for conservation. CCDR highlighted a shift of paradigm in urban mobility is needed to enhance urban livability and productivity. 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 Members 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

The MORTB will approve and commence implementation of Updating 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. MOPEMR (i) will approve and commence implementation of the IEPMP to achieve low carbon society 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.	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 areas 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 (MtCO2e) 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 MtCO2e per annum by 2040) compared to a BAU scenario. According to the CCDR, the transport sector is the largest consumer of petroleum products, with a 63 percent share of the total. Dhaka being the country's economic hub, the severe traffic congestion in the capital causes much of this fuel to be consumed, and the concomitant greenhouse gases to be emitted, unproductively, causing an estimated economic loss of 7% of GDP.[1] Nationally, the modal share of public transport has been decreasing, with Dhaka alone having added 140,000 private vehicles in 2017, 20,000 of which being private cars. This highlights the urgent need for policies and investments which enhance public transport capacity, efficiency and comfort while increasing the feasibility and safety of non-motorized forms of mobility. The Perspective Plan 2021-2041 therefore emphasizes the need for (i) strengthening long-term planning and priority setting; (ii) improving inter-modal transport balance; (iii) strengthening implementation capacity; (iv) introducing electrical urban mass transit / metro rail; and (v) strengthening the management capabilities and efficiency of public transport authorities, among others. These objectives are due to be addressed by the Update to the Revised Strategic Transport Plan for Dhaka 2025-2041. According to the 2023 IEPMP, the share of clean energy in Bangladesh's power mix currently stands at 4%. The GoB

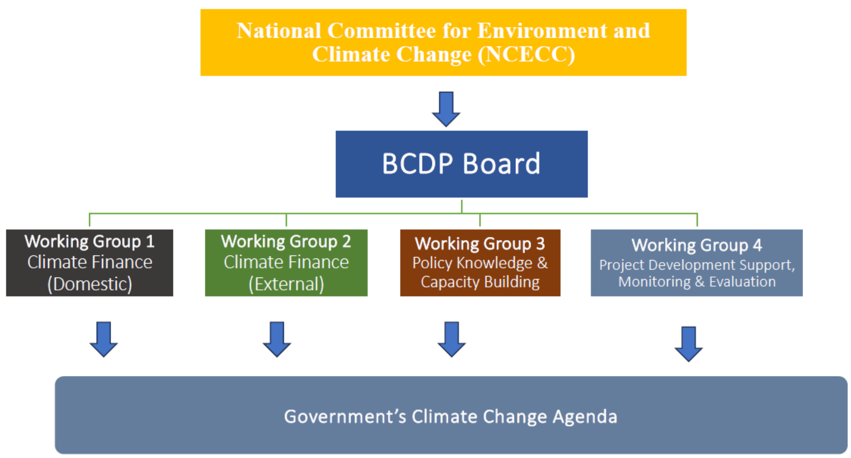
1 S. Chakraborty. 2016. Traffic Congestion in Dhaka City and Its Economic Impact. Journal of Business Studies Special International Edition 2016. University of Dhaka. pp. 45–68.

	has set a target of 40% by 2041 and 55% by 2050. Apart from a significant expansion in renewables, the power development plan also includes introducing 20% ammonia co-firing in coal-fired power plants from 2035, 20% hydrogen co-firing in gas-fired power plants from 2037 onwards, hydrogen-fired power plants from 2040 onwards and carbon capture and storage (CCS) in gas-fired power plants from 2040 onwards. In addition, the 2,400MW Rooppur Nuclear Power Plant, Bangladesh's first, is scheduled for commissioning at the end of 2025. Due to Bangladesh's comparatively low supply of solar radiation, stable wind flow and geothermal heat, in addition to the difficulty of acquiring land for solar and wind due to the country's high population density, these technologies are envisioned to play a major role in Bangladesh's low-carbonization trajectory.

Annex 7: Roll-out plan for Bangladesh Climate Development Partnership

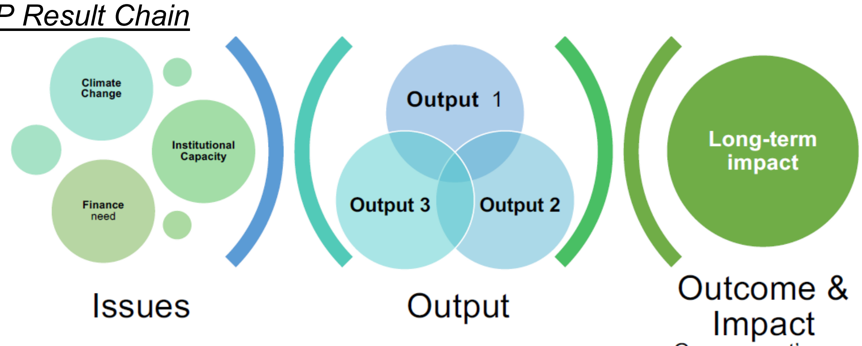
1. *Objectives of BCDP.* To enhance collaboration for low emission and resilient pathways by: (i) facilitating development of priority policies and investment roadmaps; (ii) mobilizing financing support at speed and scale; (iii) implementing priority policies and the investment roadmap; (iv) building a catalytic climate related project pipeline under the roadmap; (v) developing knowledge and strengthen capacity to enhance the country's resilience and sustainability in the medium and long term.

2. *BCDP Governance and Working Groups*



- MoEFCC works as the Secretariat.
- Inter-ministerial mechanism to address the institutional challenges by adopting *"Whole of Government Approach"*

3. *BCDP Result Chain*



Issues
- Climate change challenges: Recent events, intensity and frequency
- Large climate finance need: NAP, NDC, Private Sector
- Limited institutional capacity: Whole of government approach

Output
- BCDP Coordination Board established
- BCDP working groups operationalized
- Knowledge sharing and solution development enhanced

Outcome & Impact
- Government's capacity for developing innovative climate projects and mobilizing climate finance to reach the national climate commitment.
- Long-term impact on low-carbon development and climate resilience in Bangladesh

4. *Key milestone activities with timeline (indicative)*

Sln.	Outputs	Performance Indicators	Timeline																							
			2025												2026											
			Q1			Q2			Q3			Q4			Q1			Q2			Q3			Q4		
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
1	BCDP Coordination Board established	By 2025, workshops (at least 3) carried out to formulate the Board's TOR, roadmap, and action plan																								
		By 2025, a secretariat of BCDP set up at MOEFCC to provide day-to-day coordination and administrative support																								
		By 2026, regular Board meetings (at least 3) carried out to provide guidance to the working groups																								
		By 2026, a web-based platform for BCDP upgraded and/or enhanced with the existing mechanisms to monitor achievement of country's climate agenda																								
		By 2026, at least 2 transformational climate actions identified and demonstrated aligning with major government programs																								
2	BCDP working groups operationalized	By 2025, 4 working groups became operational, each with approved TORs and work plans																								
		By 2026, at least 5 national workshops with 150 participants carried out to explore coordination and synergy between all working groups in elaborating integrated solutions																								
		By 2026, climate project pipeline identified and at least one project prepared that focuses on climate resilience in line with NAP roadmap																								
		By 2026, 5 capacity building programs (training) carried out for the officials of key government agencies to sensitize them about climate financing																								
3	Knowledge sharing and solution development enhanced	By 2026, 5 national workshops, each with 90 participants (30% women), carried out on strategic knowledge to inform key climate change policies																								
		By 2026, lessons and good practices derived from catalytic climate projects documented and shared with national and international communities																								
		By 2026, 3 national campaign activities undertaken to increase public awareness of need to minimize environmental pollution																								
		By 2026, a business intervention model recommended for the government and private sector focusing on climate adaptation and mitigation measures .																								
		By 2026, at least 2 knowledge products published and shared at national and international forums																								
		By 2026, at least 5 knowledge materials published and shared on MOEFCC's social media																								

Annex 8: Country Credit Fact Sheet

A. Recent Economic Development

1. Bangladesh is a lower-middle income country with GDP per capita at USD 2624 and a population of 173 million in 2024.[1] Bangladesh grew at a healthy rate of 7.1 percent between FY2016 and FY2019.[2] However, recently Bangladesh has been buffeted by various global and domestic shocks. Growth slowed down to 5.8 percent in FY2023 due to high commodity prices, supply disruptions and slowing external demand. Growth further slowed down to 4.2 percent in FY2024, reflecting reduced export demand, energy shortages curbing industrial activity and agriculture output affected by inclement weather. Political unrest, supply disruptions, energy shortages and floods in the northeastern parts in the first quarter of FY2025 affected economic activity significantly, with growth moderating to 3.3 percent in the first half of FY2025. Industry slowed down markedly, while services and agriculture also weakened.

2. Fiscal deficit has been contained below 4.0 percent of GDP in recent years, primarily by constraining capital expenditure to offset shortfall in tax collection. Rising inflation and foreign exchange constraints since FY2023 have further curtailed development expenditure. Expenditure under the flagship Annual Development Programme was around 75 percent of the original target in FY2024. In the first six months of FY2025, ADP expenditure reached less than 15 percent percent of the target. Bangladesh was assessed as facing low risk of debt distress in June 2024 by IMF, which could be impacted by the projected rise in debt service. Bangladesh's debt remains sustainable 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 further rose to average 9.7 percent in FY2024, driven by higher prices of vegetables, utilities and transportation. Supply disruption due to political unrest and weakening of the domestic currency resulted in inflation rising to 10.7 percent in the first quarter of FY2025. However, subsequently inflation has moderated to 9.5 percent by the third quarter mainly due to moderation in food inflation. To contain inflationary pressures, the central bank raised the key policy rate by 500 basis points between May 2022 and October 2024 to 10 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 2.6 and 1.4 percent of GDP in FY2023 and FY2024 because of the sharp import compression measures introduced by the government and resilient remittances. However, a sharp reversal in the financial account resulted in reserves declining by USD 1.6 billion during FY2024 to USD 21.6 billion.[3] Remittances remained buoyant, growing by 27.6 percent in the first three quarters of FY2025, driven by measures to reduce the gap between the market and official rates, government cash incentives and increased ease of transfer through mobile financial

[1] The income group classification for fiscal year is based on World Bank criteria. The data sourced from World Economic Outlook October 2024 Database.
[2] Fiscal year FY2023 begins on 1 June 2022 and ends on 30 June 2023.
[3] As per BPM6

services. The merchandise trade deficit narrowed by 18 percent, compared to the previous year as exports remained resilient to global and domestic shocks.

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 resulted in Bangladesh signing up for a 42-month SDR 2.5 billion (USD 3.3 billion) under IMF's Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements. Concurrently, Bangladesh has also signed for a SDR 1.0 billion (USD 1.4 billion) under the newly created Resilience Sustainability Facility (RSF). Despite challenging circumstances, the IMF, in its second review in June 2024, assessed the program to be broadly on track with few exceptions. The IMF and Bangladesh authorities are yet to reach an agreement on the third and fourth review with discussions continuing on the pace and extent of exchange rate flexibility and revenue-mobilization.

6. In May 2024, Fitch downgraded Bangladesh's rating to B+ from BB- due to weakening of external buffers, despite recent policy reforms. Earlier, in May 2023, Moody's had downgraded Bangladesh's rating to B1 from Ba3 due to deteriorating external position and government liquidity risks. In July 2024, S&P lowered long-term sovereign rating to B+ from BB- with a stable outlook due to sustained external pressures reflected in the continued decline in foreign exchange reserves. In March 2025, Moody's downgraded Bangladesh's banking system outlook from "stable" to "negative", citing rising asset risks and worsening economic conditions.

B. Economic Indicators

Selected Macroeconomic Indicators - Bangladesh (FY2021-FY2026)

Economic Indicators	FY2021	FY2022	FY2023	FY2024	FY2025*	FY2026*
Real GDP growth	6.9	7.1	5.8	4.2	3.8	6.5
Inflation (average, % change)	5.6	6.1	9.0	9.7	10.0	5.2
Current account balance (% of GDP)	-1.1	-3.9	-2.6	-1.4	-0.9	-0.9
Government overall balance (% of GDP)	-3.6	-4.1	-4.5	-3.8	-4.1	-4.3
Government gross debt (% of GDP)	35.6	37.9	39.3	40.1	40.3	40.7
External public debt (% of GDP)**	15.1	15.4	17.5	18.9	18.6	17.8
Gross international reserves (USD bil.)**	46.4	41.8	24.2	21.8	20.4	-
Exchange rate (BDT/USD, EOP)**	84.8	33.4	104.5	117.0	122.0	-

Note: FY2023 ran from July 2022 to June 2023.
*denotes projected figures.
** FY2025 reserves, and exchange rate are from Bangladesh Bank and are as of March 2025. Since FY2023 the reserves are as per BPM6 definition. The external debt data is based on IMF Report 24/186.
Source: IMF Report 24/186, IMF World Economic Outlook Database April 2025, and Bangladesh Bank

C. Economic Outlook and Risks

7. According to IMF's estimates, released in April 2025, the economy is expected to slow down to 3.8 percent in FY2025, primarily due to the slowdown in the first quarter (July-September 2024) of FY2025. Growth is expected to improve in the following quarters, driven by manufacturing. Economic activity is likely to rebound in the subsequent year with the economy growing at 6.5 percent in FY2026. Domestic consumption is expected to pick up as inflation comes down from record high levels and remittances remain strong. Investment is also expected to pick up as the central bank lifts restrictions on letters of credit. An improvement in the power supply

and ease of access to imports would augment the recovery in the industrial sector. While exports are likely to remain robust, imports may go up as some of the import compression measures are eased.

8. Fiscal deficit is expected to remain around 4.0 percent of GDP in FY2025 as the economic slowdown will hamper tax collection. The interim government is considering measures to bolster tax revenue and has indicated rationalization of non-priority capital expenditure. Tax revenue is expected to improve marginally as the government raised the value-added-tax and supplementary duty in January 2025. Public expenditure is also expected to rise due to larger subsidy payments to SOEs in the energy sector to help clear external arrears. Fiscal deficit may widen a bit in FY2026 as the government accelerates capital expenditure. Bangladesh's debt profile is expected to remain favorable but the ratio of public debt to GDP is expected to increase.

9. Despite moderating during the year, inflation is expected to average around 10 percent in FY2025. However, inflation is expected to decline in FY2026 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. The government has embarked on financial sector reforms, but these need to be expedited.

10. The current account deficit is expected to narrow to 0.9 percent of GDP in FY2025, aided by import compression measures and strong remittances. In FY2026, an improvement in exports and remittances are expected to be offset by a rise in imports as some of the import compression measures are eased resulting in a similar current account deficit as FY2025. Greater exchange rate flexibility will allow orderly balance in the external sector, strengthen monetary policy transmission and increase remittance inflows, thereby help building foreign exchange reserve cover.