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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 180.9 MILLION
(US$250 MILLION EQUIVALENT)

TO THE

PEOPLE'S REPUBLIC OF BANGLADESH
FOR THE

First Programmatic Jobs Development Policy Credit

November 10, 2018

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

Public Disclosure Authorized

PEOPLE'S REPUBLIC OF BANGLADESH

GOVERNMENT FISCAL YEAR

July, 1 – June, 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2018)

Currency Unit = Bangladeshi Taka (BGT)

BGT 84.0092= US$1.0000

US$1.38231 = SDR 1.0000

ABBREVIATIONS AND ACRONYMS

ADR	Advance to Deposit Ratio	ILO	International Labour Organization
BB	Bangladesh Bank	MoC	Ministry of Commerce
BICF	Bangladesh Investment Climate Fund	MoEWOE	Ministry of Expatriates Welfare and Overseas Employment
BIDA	Bangladesh Investment and Development Authority	MoF	Ministry of Finance
CEA	Country Environmental Assessment	MoI	Ministry of Industries
CETP	Central Effluent Treatment Plan	MoLE	Ministry of Labor and Employment
CFF	Climate Fiscal Framework	MoPA	Ministry of Public Administration
CPF	Country Partnership Framework	MoWCA	Ministry of Women and Children Affairs
DIFE	Directorate for Inspections of Factories and Establishments	NPL	Non-Performing Loan
DoE	Department of Environment	NSDA	National Skills Development Authority
DPC	Development Policy Credit	NSSS	National Social Security Strategy
EFT	Electronic Funds Transfer	NSW	National Single Window
EII	Employment Injury Insurance	OSS	One Stop Shop
EU	European Union	PFM	Public Financial Management
FDI	Foreign Direct Investment	RJSC	Registrar of Joint Stock Companies and Firms
FY	Fiscal Year	RMG	Ready-Made Garments
GBV	Gender-Based Violence	SBW	Special Bonded Warehouse
GDP	Gross Domestic Product	SCD	Systematic Country Diagnostic
GCC	Gulf Cooperation Council	SOE	State Owned Enterprise
GoB	Government of Bangladesh	US	United States
GVC	Global Value Chain	VAT	Value Added Tax
IDA	International Development Association	WBG	World Bank Group
IMF	International Monetary Fund	WEWB	Wage Earners Welfare Board
ISC	Industry Skills Council	WEWF	Wage Earners Welfare Fund

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PEOPLE'S REPUBLIC OF BANGLADESH

BANGLADESH JOBS PROGRAMMATIC DPC

TABLE OF CONTENTS

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The team expresses its gratitude to the Government of Bangladesh for its collaboration and support in the preparation of this operation.

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P167190	Yes	1st in a series of 3

Proposed Development Objective(s)

The Bangladesh Jobs DPC supports the Government of Bangladesh's program of reforms to address the country's jobs challenges by: (i) modernizing the trade and investment environment; (ii) strengthening systems that protect workers and build resilience; and (iii) improving policies and programs that enhance access to jobs for vulnerable populations.

Organizations

Borrower: MINISTRY OF FINANCE

Implementing Agency: FINANCE DIVISION (MINISTRY OF FINANCE)

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**250.00**

DETAILS

International Development Association (IDA)	250.00
IDA Credit	250.00

INSTITUTIONAL DATA

Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
Time to and cost to set up a new business (disaggregated by gender)	Time: 19.5 days Cost: 22.3% of income/capita (2018) - men and women	25% reduction (2022)
Annual growth in new business registrations (disaggregated by gender)[1]	0.4% (2012-2017 average)	5% per annum (overall); 10% for women-owned businesses
Share of import shipments inspected by border agencies	100% (2018)	70% (2022)
Import clearance time (days)	Chittagong: 8-9 Benapole: 5-6 Dhaka: 6-7 Dhaka ICD: 7 (2018)	Chittagong: 6 Benapole: 3 Dhaka: 3 Dhaka ICD: 2 (2022)
Number of active bond license holders outside RMG sector	594 (Dhaka and Chattagram) (2018)	891 (2022)
Share of Ministry of Industry budget relevant for climate mitigation or adaption	3.74% (FY19)	7.5% (reached at some point byFY22)
# of civil service pensioners receiving electronic payments (disaggregated by gender)	0 (2018)	100,000, of which80,000 men / 20,000 women (2022)
Institutional readiness to oversee regulation of private pensions	No private pension schemes regulated by GoB	At least one GoB-regulated pensions pilot launched outside of the civil service
# of labor and safety complaints disposed of (addressed) by DIFE (quarterly average), of which # related to sexual harassment or GBV	500 (Q4 2017); [no baseline on sexual harassment or GBV]	1,000 (2022 quarterly average), with at least 50 related to sexual harassment or GBV
Savar tannery complex meeting relevant ECR effluent standards	No	Yes
Average cost of migration through formal channels (disaggregated by gender)	BDT 418,455 (male); BDT 253,078 (female) (2018)	25% real reduction in costs for each (2022)
Budget allocation for: (1) Legal assistance for expatriate workers; (2) Emergency repatriation of female workers	BDT 3.01m BDT 5.73m (FY17)	30% real increase in budget allocation of each (FY2022)
# of workers trained in partnership with private industries with support from the NSDA/ISC (by gender)	13,213, of which 31% female (2018)	19,345, of which 41% female (2022)
# of competency standards (by occupation and level) developed and introduced in at least one training center	294 (2018)	500 (2022)
# of daycare centers licensed under new regulatory framework	0 (2018)	200 (2022)

[1] RJSC does not currently capture gender of registrants; this will be added in the new system and growth tracked at least for last two years of program.

IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO THE PEOPLE'S REPUBLIC OF BANGLADESH

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed US$250 million Bangladesh First Programmatic Jobs Development Policy Credit is designed to help the Government of Bangladesh (GoB) strengthen the policy and institutional foundations for accelerated job creation and improved access to quality jobs for all Bangladeshis**. Despite remarkable progress on growth and poverty reduction, the creation of good jobs – and access to these jobs by vulnerable populations – remains a persistent challenge. Most working Bangladeshis are in highly insecure employment, dominated by subsistence-level agriculture, day labor, and low productivity self-employment. Job creation slowed markedly in recent years. Women, the labor force in lagging parts of the country, and, increasingly, youth, face substantial barriers to participation and access to paid employment.

2. **Bangladesh has enjoyed sustained, rapid economic growth in recent years accompanied by steady reduction in poverty.** GDP growth averaged close to 6 percent annually since 2000 and has accelerated to over 7 percent since 2016. As recently as 2000, half of the country's population lived in poverty based on the national poverty line; by 2016, this fell to 24.3 percent. The rate of extreme poverty, based on the international $1.90 per capita per day poverty line, fell from 44.2 percent in 1991 to a 13.8 percent in 2016. However, the pace of poverty reduction has declined in recent years, even with growth accelerating (Figure 1), particularly in urban areas and in the west of the country. Shared prosperity declined slightly between 2010 and 2016, with annual consumption growth of the bottom 40 percent trailing that of the overall population (1.35 versus 1.54 percent).

3. **Following strong labor market gains during the 2000s, jobs growth has slowed, and job quality remains poor.** Total employment grew by 3.1 percent annually between 2003 and 2010. Wage employment for women grew even faster, driven by the ready-made-garment (RMG) sector, which created more than 2.5 million jobs over this period. However, in recent years, job growth in the RMG sector has come to a halt and overall employment creation has trailed the growth of the working age population, leading to stagnating participation and increased unemployment. This has accelerated outmigration – already more than half a million Bangladeshis migrate abroad each year in search of employment; nearly one million did so in 2017. It has also slowed the transformation of the labor market, where informality and poor job quality remain the norm. Just one in five workers in Bangladesh are wage employed, and the majority of those do not have a contract. Moreover, the weak regulatory environment means that both formal and informal workers experience poor working conditions and vulnerability.

4. **Women and youth face challenges in accessing quality jobs.** Gender disparities remain acute, with just 36 percent of females in the labor force versus around 82 percent of males[2]; and one in three working women are engaged in unpaid work versus 5 percent of working men. Among the key barriers to women's access to quality jobs include time poverty due to women's disproportionate responsibility for caregiving and household work, restricted mobility rooted in cultural norms, lower technical skills, and gender-based discrimination in the labor market.[3] Women also face greater barriers to engaging in productive self-employment. Women and youth are bearing the brunt of the recent slowdown in job creation – progress on female labor force participation has reversed among urban women in recent years and youth unemployment has spiked.

[2] World Bank (forthcoming) *Voices to Choices: Bangladesh's Journey Towards Women's Economic Empowerment*, Draft.
[3] ibid

Figure 1: GDP and poverty trends

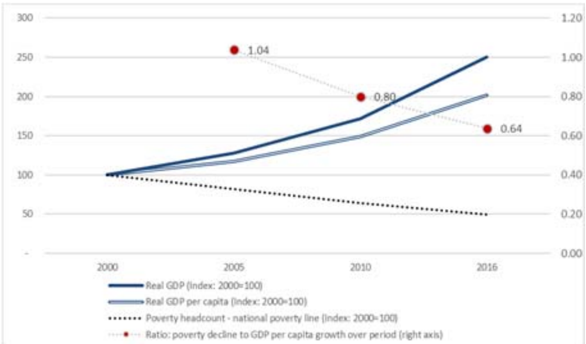
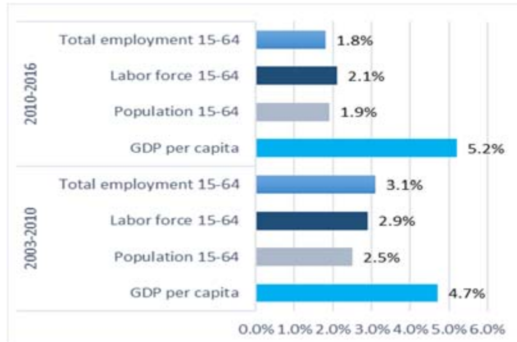


Figure 2: GDP, population, and labor market trends



5. **Bangladesh's climate vulnerability will increase the pressure to create sustainable, quality jobs.** Bangladesh is widely recognized as one of the countries most at-risk from climate change[4]. Rising temperatures leading to more intense and unpredictable rainfalls during the monsoon as well as greater likelihood of catastrophic cyclones is expected to result in increased tidal inundation, which is catastrophic in a country with an average elevation of just 4-5 meters above sea level. It is estimated that a one meter rise in sea levels would submerge 18 percent of arable land in coastal areas[5]. Such risks could severely disrupt rural economies, accelerating rapid urbanization and outmigration. Recent studies estimate that under a pessimistic ('high carbon') scenario, by 2050 income per capita in severe climate 'hotspots' will decline by 14.4 percent[6] and Bangladesh will have 13.3 million internal climate migrants[7]. Such massive rural-urban migration, in what is already among the most densely populated areas of the world, would have significant consequences for air and water pollution and unsustainable consumption of natural resources, and would put huge pressure on urban labor markets.

6. **In response to these challenges, the GoB is putting significant emphasis on labor intensive job creation in the urban sector, while laying the groundwork for a more resilient economy and stronger social protection.** The GoB's *Seventh Five Year Plan* (2016-2020) and its *Vision 2021* prioritize the creation of quality, inclusive jobs[8] to speed up the journey on middle-income path and attain the Sustainable Development Goals by 2030. Supported by other key strategies like the *Bangladesh Climate Change Strategy and Action Pla*n, the GoB has put specific emphasis on job creation in the industrial sector to absorb the rapidly growing workforce, to generate good jobs for women, and to adapt to declining agricultural potential resulting from climate change. It has been estimated that a 15 percent increase in the share of non-agricultural employment would significantly mitigate the negative impacts of climate change on living standards[9]. In addition, the *National Social Security Strategy* (2015) (NSSS) lays out the GoB's strategy to establish adequate social protection systems in the country. It envisages developing the National Social Insurance Scheme to provide access to social insurance and pensions, with special emphasis to integrate the poorest and most vulnerable members of society, notably women and children[10].

7. **The proposed operation will help strengthen GoB's capacity to support faster, more inclusive job**

[4] See, for example, the Climate Change Vulnerability Index and the Global Climate Risk Index.
[5] UNFCC (2007) *United Nations Framework Convention on Climate Change*
[6] World Bank (2018) "South Asia's Hotspots: The Impact of Temperature and Precipitation Changes on Living Standards", *South Asia Development Matters*, World Bank Group, Washington, DC.
[7] World Bank (2018) *Groundswell: Preparing for Internal Climate Migration*, Washington, DC: World Bank
[8] The Seventh Five-Year Plan targets creating 13.2 million jobs between 2016 and 2020.
[9] World Bank (2018) "South Asia's Hotspots"
[10] Government of Bangladesh. National Social Security Strategy of Bangladesh (2015)

creation in the short-to-medium term, while laying the foundations for a future economy that is sustainable and adaptable to a rapidly changing external environment. The proposed US$250m operation – the first in a planned programmatic series of three DPCs – is organized around three pillars. Pillar A seeks to improve the environment for sustainable private investment and trade to unlock large-scale job creation in diversified manufacturing sectors where Bangladesh has comparative advantage today, while also establishing an investment environment that is conducive the industries and services that will drive job creation in the future. Pillar B aims to strengthen national systems that reduce the vulnerability of workers and strengthen resilience, improving the quality of jobs today and ability of workers to adapt to future changing labor markets. Pillar C targets reforms to enhance access to job opportunities for vulnerable groups in today's and tomorrow's labor markets through support for women's labor market participation, overseas migrants, and skills development for youth. The program is motivated by the recent *Bangladesh Jobs Diagnostic*, and complements a broad set of investment operations and technical assistance programs across the WBG and development partners supporting trade, private sector development, education, social protection and agriculture / rural development.

8. **The proposed operation represents an opportunity for the WBG to re-engage with the GoB on development policy lending, while marking an inflection point for the GoB's approach to addressing the jobs challenge**. As the first development policy financing operation extended to Bangladesh in a decade, the proposed operation faces risks related to government coordination and implementation capacity. The GoB's delivery on the policy reform agenda has been mixed over the past decade, with implementation of reforms often proceeding considerably more slowly than initially planned. Moreover, the political context presents some challenges. Yet, the GoB's readiness to commit to a time-bound program of reforms, even in an election year, represents an important step to re-engaging in robust policy dialogue. It also signals a new GoB approach, with more coordinated and comprehensive initiative to address jobs challenges by supporting private sector leadership and strengthening government's capacity to deliver on its role as a regulator and enabler.

2. MACROECONOMIC POLICY FRAMEWORK

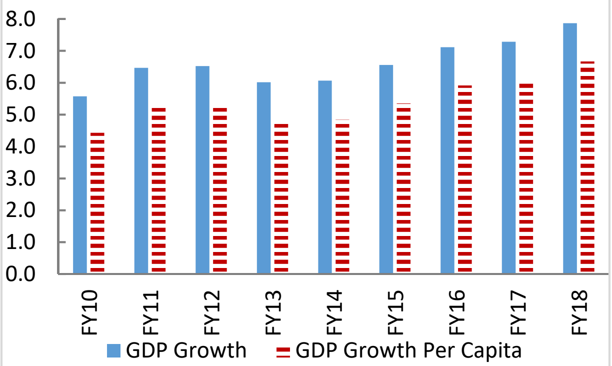
2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Economic growth remains strong**. The economy is officially estimated to have grown by 7.86 percent in FY18, the highest rate in Bangladesh's history and the third consecutive year of growth above 7 percent (Figure 3). Growth has been resilient to the lingering effects of repeated flooding in 2017 and the accommodation of nearly 700,000 additional Rohingya refugees. Growth has been broad-based, cutting across all major economic sectors and benefiting from robust domestic demand. Agriculture suffered above normal flooding in FY18, but output recovered well, demonstrating the resilience of the sector. The manufacturing sector grew at an impressive 13.4 percent in FY18, its strongest performance in over a decade. Garment exports, which account for over 80 percent of manufacturing exports, grew by 8.8 percent (in nominal dollar terms), despite enhanced competition from other low-cost producers who get freer access to US markets. Construction, fueled by strong manufacturing growth and large remittance inflows, grew by an estimated 9.9 percent, maintaining its 8-plus percent growth for nearly a decade. Remittances through formal channels rose back to US$15 billion in FY18, which is about 5.4 percent of GDP and 41.3 percent of merchandise exports.

10. **Inflation accelerated slightly.** After reaching a five-year low of 5.4 percent in FY17, headline inflation ticked upwards to 5.8 percent in FY18 (Figure 4), mainly due to food prices. In addition to production losses due to floods, weak management of public food stocks, and delays in the reduction of duties on imports widened the food deficit in FY17. Public food stock replenishment through imports and domestic procurement of rice,

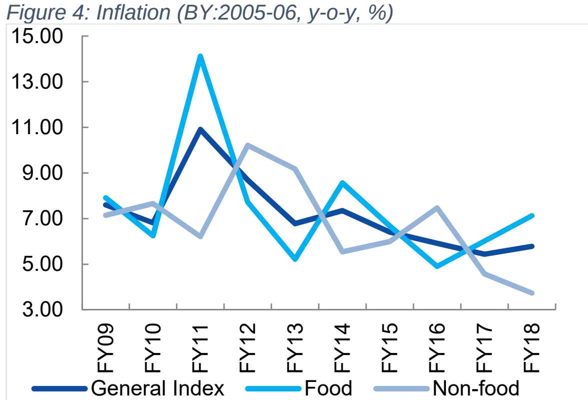
acceleration in private sector imports and a good harvest of boro in FY18 moderated rice price pressures. Food price inflation started declining from January 2018 and was down to 6 percent in August after peaking at 7.9 percent in October 2017. However, non-food inflation rose to 4.7 percent in August 2018 after reaching a recent low of 3.2 percent in January, reflecting the knock-on effects of food price increases, a pick-up in domestic credit growth, exchange rate depreciation and stronger commodity prices in international markets.

Figure 3: GDP and per capita income growth trend (annual %)



Source: Bangladesh Bureau of Statistics

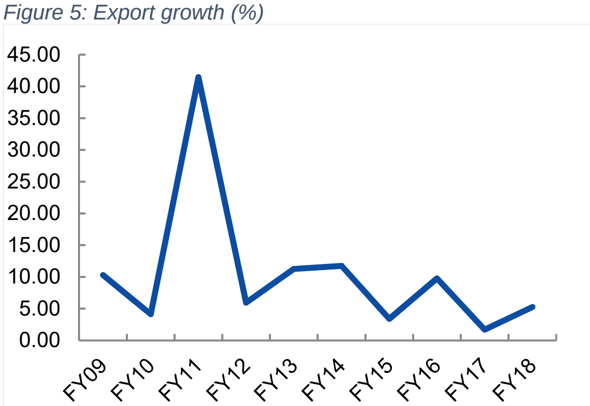
Figure 4: Inflation (BY:2005-06, y-o-y, %)



Source: Bangladesh Bureau of Statistics

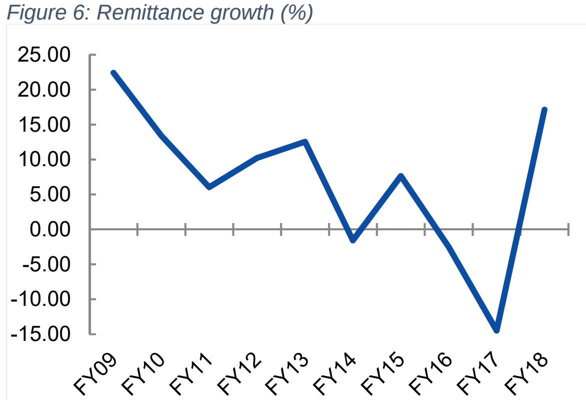
11. **Exports have rebounded**. Total export earnings increased by 5.3 percent in FY18, compared with 1.7 percent in FY17 (Figure 5), driven by 8.8 percent growth in RMG. Growth appears to have been primarily volume driven. Non-RMG export earnings declined by 9.5 percent. Exports to the EU market gained momentum, expanding by 10.3 percent. Improvements in the global economic outlook contributed positively. Exports to the US market rose, but by less than other competitors, and there is a need to boost price competitiveness and product diversification.[11]

Figure 5: Export growth (%)



Source: Export Promotion Bureau

Figure 6: Remittance growth (%)



Source: Bangladesh Bank

12. **Remittance flows rebounded sharply, growing by 17.1 percent in FY18, following declines in the two**

[11] Vietnam registered over 7 percent growth in the US apparel market, followed by Mexico at 5.33 percent, India at 1.19 percent and Pakistan at 1 percent in 2017. Vietnam is taking advantage of China's displacement much better than her close competitors such as Bangladesh. China, the largest exporter of apparel products, also had a decline in export earnings as well as market share in the US. In general, however, RMG imports by the US has been on the decline in recent years.

previous years (Figure 6). The recovery was spread over several countries in the GCC, as well as the United States, United Kingdom, and others. Rising oil prices, an increase in the number of Bangladeshis working abroad, a favorable change in policies in Saudi Arabia (rise in minimum wage, change in *akama* system), and the depreciation of the taka contributed to the recovery. However, remittance levels were still just 0.2 percent higher than in FY16. Remittance inflows remains concentrated by market, with 57 percent coming from GCC countries.[12]

13. **Foreign exchange reserves remain adequate despite a widening current account deficit.** The overall balance of payments swung into US$885 million deficit in FY18, compared with US$3.2 billion surplus in FY17. This was driven by a widening of the current account deficit to US$9.78 billion from US$1.33 billion the previous year (Figure 7). The current account deficit was driven mainly by higher imports of capital goods related to mega-projects, food grains due to crop loss, raw material and intermediate goods, and higher prices of oil. The nominal taka-US dollar exchange rate depreciated by 3.8 percent in FY18. Bangladesh Bank (BB) intervened to smoothen exchange rate adjustment by selling over US$2.3 billion in FY18. Gross foreign exchange reserves remained at over $32 billion (equivalent to 6.2 months of FY18 goods and non-factor services imports) at the end of August 2018, which is adequate. Bangladesh Bank has taken a gradual approach in relaxing capital account regulations, liberalizing restrictions on inflows in steps and taking a gradual approach for resident-owned investment outflows as the country further integrates into the global economy and develops domestic financial markets.

Figure 7: Recent Trends in Gross Foreign Exchange Reserves and Current Account Balance

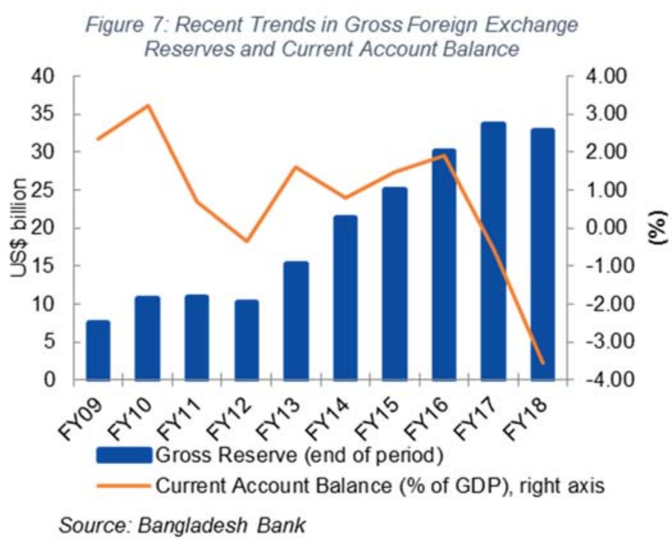


Table 1: External Financing Requirements and Sources (in US$m, unless otherwise indicated)

	Annual					Projections		
	2014	**2015**	**2016**	**2017**	**2018**	***2019***	***2020***	***2021***
Gross Financing Requirements	**-192**	**804**	**-115**	**2,559**	**8,910**	***9,092***	***9,374***	***8,340***
Current Account Balance	-1,402	-2,875	-4,262	1,331	9,780	*6,831*	*7,682*	*7,899*
Medium and Long-term Debt Amortization (Excl. IMF)	1,018	910	849	895	1,113	*1,256*	*1,326*	*1,381*
Net Capital Outflows (Net)	192	2,769	3,298	333	-1,983	*1,005*	*366*	*-940*

12 In keeping with the trends over the last two fiscal years, during the first seven months (July-January) of FY18, out-migration to GCC countries grew by 26.8 percent, accounting for 49 percent of total outflow in FY18 through January.

Gross Financing Sources	**-192**	**804**	**-115**	**2,559**	**8,910**	***9,091***	***9,374***	***8,341***
Foreign Direct Investment (Net)	1,432	1,830	1,285	1,653	1,583	*2,239*	*2,449*	*2,762*
Portfolio Investment (Net)	937	379	139	457	365	*320*	*350*	*395*
Capital Transfers	645	496	464	400	292	*500*	*500*	*500*
Medium and Long-term Debt Disbursements (excl. IMF)	2,277	2,472	3,033	3,218	5,785	*5,188*	*5,870*	*6,244*
Reserve Assets	-5,483	-4,373	-5,036	-3,169	885	*844*	*205*	*-1,560*
Memorandum Items:								
Gross Reserves (Months of Imports GNFS)	5.8	7.0	7.8	8.0	6.2	*6.4*	*6.4*	*5.1*

Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Ministry of Finance, The World Bank and IMF
(p): projection

14. **Below target monetary outcomes contributed to recent monetary easing.** The 9.6 percent monetary growth in FY18 fell short of the estimated 13.3 percent nominal GDP growth while reserve money growth fell to 4 percent. Broad money growth remained subdued despite 16.9 percent growth in credit to the private sector. Slowdown in the growth of net foreign assets and decline in public sector borrowing from the banking system accounts for the slower growth in reserve and broad money.[13] Large amount of borrowing through the high interest National Saving Certificates led to the reduction in government bank borrowing. BB has taken a passive approach to domestic liquidity management, reinjecting only part of the liquidity losses from the market due to its foreign exchange market intervention. Lending rates increased recently with tightening liquidity. BB eased its monetary policy stance in April by reducing the banks' cash reserve ratio from 6.5 percent to 5.5 percent and the repo rate from 6.75 percent to 6 percent. It extended again the deadline for banks to meet the reduced prudential limit on the Advance Deposit Ratio (ADR) to March 2019.[14] In addition, BB increased the share of state-owned agencies' deposits in private banks from 25 to 50 percent. The monetary easing was motivated by tightening liquidity conditions from BB's sale of dollars in the foreign exchange market, limited redistribution of liquidity within the banking system, and the increase in banks' deposit and lending rate. Excessive reliance on NSCs distorts the signals about the stance of monetary policy from trends in movements of broad money. It will therefore be important to ensure that the monetary policy does not become too accommodative.

15. **Fiscal discipline has been maintained.** The FY17 fiscal deficit was 3.5 percent of GDP, the fourth straight year in which the deficit-to-GDP ratio was well below the 5 percent ceiling. Slower than programmed implementation of the Annual Development Program, in common with previous budgets, more than compensated for the revenue underperformance. Current expenditure to GDP ratio on the other hand has increased from 7.9 percent of GDP in FY15 to 8.3 percent in FY17, driven by high growth in wages, interest, and subsidies. Tax revenues increased by 17 percent, but below the budget target. As a ratio of GDP, tax revenues increased to 9 percent in FY17, but still among the lowest collection rates among peers. Domestic financing of the deficit was kept at 2.8 percent of GDP. Fiscal performance followed a similar pattern in the first nine months of FY18 with revenue and expenditure outturns falling below budget targets.

16. **State-owned enterprises (SOEs) remain a fiscal burden.** Financial losses of SOEs, especially those in the energy and financial sectors, continue to draw upon the government budget. The losses of the power sector SOEs for FY17 are estimated at about Tk 51.4 billion (US$620 million), or 0.3 percent of GDP compared with Tk 38.6 billion (0.22 percent of GDP) in FY16. The increase in losses was mainly due to underpricing of energy products in

[13] Growth in net foreign assets dropped from 10.5 percent in FY17 to -0.8 percent in FY18.
[14] This deadline had been already moved earlier from June 2018 to December 2018.

domestic markets. Biman (the national airline) and Bangladesh Chemical Industries Corporation were the other main loss-makers. The losses of the SOEs have exacerbated weaknesses at the Nationalized Commercial Banks, which provide loans to these agencies. Data from the BB show a total of 10 banks, including the seven state-owned banks, faced a capital shortfall of Tk 233.6 billion at end-March 2018.[15] These raise some fiscal risks and make future divestment of these banks more expensive if the GoB chooses to divest. The GoB has recapitalized the state-owned banks by injecting over Tk 145 billion since 2009, yet the shortfalls have persisted due to lingering weaknesses in their corporate governance.

17. **The overall banking sector is stable, but addressing the large NPL problem remains a major challenge.** Macro-prudential measures have been used to restrain excessive lending. These include closer surveillance of compliance with Asset Liability Management and Forex Risk Management guidelines, strict surveillance of end use of bank loans and encouraging banks to limit long-term finance to corporate borrowers. Efforts to improve the recovery rate of NPLs are constrained by lengthy legal processes. Banking liquidity has shrunk, but has remained adequate so far. The ADR of the banking industry increased gradually with no abrupt volatility. Overall, banks have maintained adequate reserve requirements as of end-July 2018.

18. **In sum, Bangladesh's macroeconomic management has been broadly prudent, and the policy framework is adequate for this operation.** It has enabled strong economic growth while taming inflationary pressures. However, losses and outstanding liabilities in banking and SOEs, along with sluggishness of revenue mobilization contribute to a tight short-term fiscal situation. These have combined with the emergence of large, unplanned expenditures resulting from the Rohingya refugee crisis to limit the GoB's ability to finance its strategic developmental priorities such as health, education, social protection, and infrastructure. In this context, the GoB has requested the Bank to provide budget-support to its ambitious reform program focused on job creation.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

19. **Growth is projected to remain resilient.** Increased public spending on infrastructure, along with an improvement in exports and remittance inflows, will support growth, although the intensifying effects of climate change on weather patterns, a problematic banking sector, and poor business environment are likely to limit the growth prospects to around 7 percent in FY18-20 (Table 2). While this is lower than the officially reported actuals in FY16-18, projected growth is among the ten fastest in the world. However, with actual output exceeding the potential, sustaining 7 plus percent growth by maintaining strong domestic demand growth brings with it the risk of accelerating inflation. Apart from an improving exchange rate, exports are expected to be buoyed by the rising shipment of higher value-added items, better image of Bangladesh's RMG sector after remediation works, automation of production, and relative political calm combined with rebound in the economies of Bangladesh's major export destinations. Entrepreneurs investing to capture the shifted work orders from China. Export growth in the first quarter of FY19 increased to 14.75 percent, driven by strong growth in garments and rebound in non-garment exports. However, volatility in export growth has been high recently and therefore efforts to improve the competitiveness of exports must be strengthened. Remittances turnaround is expected to persist as GCC economies benefit from higher oil prices and incentives for remitting through informal channels remain weak.

20. **Risks to macroeconomic stability are low, and Bangladesh has a demonstrated ample capacity to**

15 They are Bangladesh Krishi Bank, Sonali, BASIC, Rupali, Janata, Agrani, Rajshahi Krishi Unnayan Bank, Bangladesh Commerce Bank, ICB Islamic Bank and Farmers Bank.

mitigate risks through policy adjustments when needed. Inflation is projected to increase as rising global commodity prices combine with possible supply as well as demand shocks in the run up to elections. Aggregate demand is likely to be stimulated by both an expansionary fiscal policy and rise in nonpublic spending in an election year. Together with the increase in incomes from growing exports and remittances, this will increase domestic demand and add to cost-push pressure from the already depreciating exchange rates and uptrend in global commodity prices. Continued strong growth in imports of industrial raw materials and capital machinery, along with the rise in oil prices could be expected to keep the current account in deficit over the medium-term. However, the level of the current account deficit is low, and GoB is expected to be able to manage the deficit through a flexible exchange rate policy and the availability of external financing for mega-project related imports. Over the short-term, a sizeable foreign reserve will allow the BB to moderate exchange rate volatility. Over the long-term, the taka is likely to weaken further due to higher inflation and an overvalued real effective exchange rate due to recent large depreciation of the currencies of large trading partners such as India. A large shortfall in revenue due to further delay in the implementation of the new VAT law and additional pressures on expenditures due to the Rohingya, rising subsidies[16] and the elections could lead to increased budget deficit; thus, a modest public debt is thus projected. However, the level of the deficit and debt remain very low and are not expected to present any significant risk. Bangladesh's record in sustaining macroeconomic stability in the past three decades despite several global crises, internal political instability and natural calamities provides adequate assurance of its capacity to handle any serious macroeconomic risk in the near and medium-term.

Table 2: Key Economic Indicators (2014-2021)

			Annual				*Projections*	
	2014	**2015**	**2016**	**2017**	**2018**	***2019***	***2020***	***2021***
Real Sector			***(annual percentage change, unless otherwise specified)***					
Real GDP	6.1	6.6	7.1	7.3	7.9	*7.0*	*6.8*	*7.0*
Real GDP per Capita	4.8	5.4	5.9	6.1	6.7	*6.3*	*5.7*	*5.9*
Agriculture (% of GDP)	15.4	14.8	14.0	13.4	13.1	*12.8*	*12.7*	*12.2*
Industry (% of GDP)	26.3	26.8	27.3	27.8	28.5	*30.5*	*32.5*	*33.0*
Service (% of GDP)	53.6	53.7	53.7	53.5	53.0	*51.2*	*49.2*	*49.1*
Import Duty (% of GDP)	4.7	4.7	4.9	5.4	5.4	*5.5*	*5.7*	*5.7*
Money and prices			***(annual percentage change, unless otherwise specified)***					
CPI Inflation (%, year on year)	7.3	6.4	5.9	5.4	5.8	*6.7*	*6.2*	*5.9*
Money (M2)	16.1	12.4	16.3	10.9	9.2	*15.2*	*14.4*	*13.6*
Investment and Saving			***(percent of GDP, unless otherwise specified)***					
Total Investment[17]	28.6	28.9	29.7	30.5	31.2	*31.5*	*30.6*	*31.5*
Gross National Savings	29.2	29.0	30.8	29.6	27.4	*28.1*	*28.8*	*29.3*
Government Finance			***(percent of GDP, unless otherwise specified)***					
Total revenues and grant	10.9	9.8	10.1	10.2	10.8	*11.5*	*11.8*	*12.3*
Total Revenue (excl. grants)	10.4	9.6	10.0	10.2	10.6	*11.2*	*11.7*	*12.2*
Tax revenue	8.6	8.5	8.8	9.0	9.2	*10.0*	*10.4*	*10.6*

[16] The government has expanded the list of exports eligible for cash incentives to include some more nontraditional goods. The apparel sector gets 5 percent cash incentive for exporting goods to traditional destinations like the US, Canada and the EU. The rate is 8 percent for new markets. The government provided Tk 45 billion in cash incentives to export oriented sectors in the FY18 budget.

[17] In the projections for FY19-21, the incremental capital-output ratio is assumed to remain at average of 4.5, in line with its level over the last 10 years.

Foreign Grant	0.5	0.2	0.1	0.0	0.2	*0.3*	*0.1*	*0.1*
Total expenditure	14.0	13.5	13.8	13.6	15.1	*15.8*	*16.4*	*16.9*
Current Transfer	2.0	2.0	2.4	2.8	3.1	*3.2*	*3.5*	*3.5*
Wages and compensation	2.0	1.9	2.3	2.5	2.5	*2.8*	*2.9*	*3.0*
Interest payment	2.1	2.0	1.9	1.6	1.7	*1.8*	*2.0*	*2.0*
Annual Development Program	4.1	4.0	4.6	4.3	5.3	*5.5*	*5.7*	*6.0*
Primary Balance (deficit)								
Excluding Grants	1.5	1.8	1.9	1.8	2.8	*2.8*	*2.7*	*2.7*
Including Grants	1.0	1.7	1.8	1.8	2.6	*2.4*	*2.6*	*2.6*
Overall balance (deficit)								
Excluding Grants	3.6	3.9	3.8	3.5	4.5	*4.6*	*4.7*	*4.7*
Including Grants	3.1	3.7	3.7	3.4	4.3	*4.3*	*4.6*	*4.6*
Net External Financing	0.2	0.3	0.7	0.6	1.6	*1.7*	*1.5*	*1.5*
Net Domestic Financing	2.8	3.4	2.9	2.8	2.6	*2.6*	*3.1*	*3.1*
External sector			***(percent of GDP, unless otherwise specified)***					
Current Account	0.8	1.5	1.9	-0.5	-3.5	*-3.4*	*-2.4*	*-2.2*
Net Exports	-3.9	-3.6	-2.9	-3.8	-6.6	*-6.6*	*-6.3*	*-4.8*
Export FOB	17.2	15.7	15.1	13.6	13.1	*13.7*	*13.9*	*15.8*
Import FOB	21.2	19.3	18.0	17.4	19.7	*20.3*	*20.2*	*20.6*
Net Income and transfers	7.1	6.7	6.1	4.6	4.7	*5.8*	*7.6*	*7.0*
Net Private Investments (FDI and Portfolio investment)	1.4	1.1	0.6	0.8	0.7	*0.9*	*1.0*	*1.0*
Gross Reserves (Months of Imports GNFS)	5.8	7.0	7.8	8.0	6.2	*6.4*	*6.4*	*5.1*
Total Debt			***(in billion US$, unless otherwise specified)***					
Total Debt Stock	54.8	62.0	69.7	76.5	85.9	*90.4*	*98.3*	*112.6*
Debt to GDP Ratio (%)	31.7	31.8	31.5	30.6	31.2	*32.6*	*34.2*	*35.7*
Memorandum Items								
Nominal GDP (billion LCU)	13436.7	15158.0	17328.6	19758.2	22504.8	*24743.4*	*27233.5*	*29956.9*
GDP (in billion US$)	172.9	195.2	221.4	249.7	275.8	*277.1*	*287.1*	*315.3*

Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Ministry of Finance, The World Bank and IMF

21. **Monetary policy vigilance is needed.** With growth projected to remain strong and inflation close to 6 percent, BB needs to remain vigilant against global price increases and a pick-up in inflation expectations. BB operates a quantity-based policy regime to keep broad money growth in line with its inflation objective. Steps are being taken over the medium term to strengthen the monetary policy transmission mechanism by moving towards interest rate targeting, emphasizing the importance of price stability as the primary objective; greater exchange rate flexibility, further development of financial markets; and strengthened forecasting of banking and government liquidity. High levels of non-performing loans and weak bank governance point to potential financial stability risks from rapid credit growth. To mitigate these risks, GoB will need to continue implementing macroprudential measures, including strictly enforcing the recently set new ADR limits, and avoiding relaxing existing caps on credit growth in the state-owned banks. After a long period of appreciation, the Taka real exchange rate has recently started to depreciate, but other key trading partner currencies have also depreciated relative to the US dollar. While intervention in the foreign exchange market is warranted to avoid excessive fluctuations, enhanced flexibility would help buffer the economy against external shocks, preserve the level of

reserves, and increase monetary policy autonomy.

22. **While the rise in current spending needs to be contained, overall fiscal prudence is expected to continue.** Fiscal policy is expected to keep the public debt ratio within sustainable thresholds over the medium term, while increasing tax revenues. As in previous years, the FY19 budget is based on ambitious projections for revenue growth and correspondingly ambitious capital spending targets. Together with the large deviation in last year's outturn from the initial plan, this indicates continued scope to improve the credibility of the budgeting process. Current spending is rising due to expanding energy and export subsidies, which is a concern. Given the economy's strong growth, there is no need yet for fiscal stimulus, and the FY19 fiscal deficit should remain at less than 5 percent of GDP. Revenue mobilization is expected to be strengthened by the planned implementation of the new VAT Law in July 2019 and subsequently by the implementation of the new Customs Law. At the same time, efforts are underway, in part supported by the WBG, to expand the tax base by reforming tax administration. It will take some time for significant revenue gains to accrue, and so in the meantime GoB is expected to continue restraining growth of current expenditures. In parallel, the GoB is implementing the 2016-21 public financial management reform strategy, along with further reforms to improve financial control of budget allocations, real-time monitoring of budget execution, and integration of recurrent and capital spending. While the budget is already a public document, available in a transparent manner, tracking Program activities through adequate budget management and reporting arrangements will ensure external scrutiny on utilization of budget.

23. **The risk of debt distress remains low.** The joint Bank-Fund Debt Sustainability Analysis completed in May 2018 reaffirmed the previous assessment that the risk of both external and overall debt distress continues to be low. While the threshold for the external debt service to revenue is breached temporarily under the most extreme stress test scenario, the risk of external debt distress is judged to be low given the small and temporary nature of the breach. The government remains committed to the 5 percent of GDP deficit target for FY19-21. As in previous years, the FY19 budget targets ambitious increases for both revenues and expenditures – 30.8 percent and 25.1 percent relative to the revised FY18 budget respectively. As is usually the case, spending will be adjusted in response to weaker revenues. Issuance of National Savings Certificates continues to exceed the budgeted amount by a large margin. The relatively high level of the total public debt service to revenue ratio underscores the need to boost revenues. The budget faces risks from spending pressures ahead of the parliamentary elections and additional costs associated with the Rohingya refugees. International support on concessional terms will continue to be essential in addressing the influx of Rohingya refugees over the next few years.

24. **Bangladesh's vulnerability to climate change represents a growing economic and fiscal risk**. Growth and stability in Bangladesh is subject to extreme forms of climate risks through both ex-post and ex-ante channels. Ex-post macro effects include the direct effects of climate impacts such as sea-level rise, changes in crop yields, and floods *after* they occur. Over the next decade, growth could be order of magnitude lower, depending on the frequency of flooding. Ex-post impacts include depression of labor demand, particularly for low-skilled workers. Ex-ante impacts, derive from households altering their behavior in anticipation of a climate risk, which affects productivity and growth. There is evidence that climate-related "push factors" could lead to sub-optimal employment choices that lower productivity, welfare and growth.[18] Adopting policies that encourage climate-resilient sectors and incentivize efficient, climate-friendly generation of power, as well as helping households cope with climate variability will help alleviate the impact of climate change on growth. Policymakers will need to ensure that the policy and fiscal framework is robust to climate risks by considering implications of climate-related

[18] The World Bank, Bangladesh: Towards Accelerated, Inclusive and Sustainable Growth – Opportunities and Challenges, Volume I, June 2012.

extreme weather events on the budget.

25. **The GoB's commitment to address the vulnerabilities arising from climate change are well articulated in its national plans and climate policy framework, but strengthened capacity to deliver on these will be required**. Adoption of *Bangladesh Climate Change Strategy and Action Plan* and creation of the Climate Change Trust Fund to finance projects for implementation represent the GoB's pledge and readiness to reduce climate vulnerabilities. In addition, adoption of a *Climate Fiscal Framework* (CFF) for Bangladesh in 2014 to provide a roadmap for climate finance in the country's public financial management systems was yet another significant step towards linking climate policies and strategies with the resource allocation process. In 2014, Bangladesh made a pioneering attempt to adopt its CFF to introduce a climate responsive public financial management system. The CFF prompted more specific interventions to make budgeting under the medium-term budget framework climate inclusive. Further development of such tools and strengthened capacity of policy makers and administrators to make use of these tools will be critical to building resilience.

26. **Structural reforms will strengthen macroeconomic risk management capacity.** The risks include a protracted slowdown in key export markets, contracting large amounts of short term debt, a rapid build-up of non-concessional debt and contingent liabilities, and disruptions in the run up to elections. Any slowdown in demand and/or increase in prices of RMG inputs in international markets due to escalating trade disputes constitute a significant risk, given the concentration of the export basket. The risk from contracting short term external debt is highlighted by the small and temporary breach of the debt servicing threshold in the short term. While the investments in large infrastructure projects are needed to boost potential growth, higher non-concessional externally financed infrastructure spending could push up the debt path if these projects are subject to the usual large time and cost overruns. Contingent liabilities from high non-performing loans in state owned commercial banks could result in higher domestic debt. However, the potential impact from these risks are manageable by rebalancing policy to expand fiscal space by reforming tax policy and broadening the tax base and containing the rise in current spending; improving the investment climate by reducing the cost and uncertainty of regulatory compliance; enhancing the coverage and quality of key infrastructures; orienting financial markets towards intermediating for long term investment; focusing governance reforms (rule of law, security, and coordination) to improve competitiveness and limit elite capture of the policy process and resources (credit, public investment); and maximizing financing for human development (education and health).

2.3. IMF RELATIONS

27. **The IMF completed its Article IV report on Bangladesh in May 2018.** The Article IV commended the GoB for its macroeconomic policies and fiscal management, projecting a continuation of strong and steady growth, with moderate inflation and manageable risks. The report highlights the following priorities: (i) raising government revenues, in particular to finance infrastructure investment and social safety nets; (ii) improving the quality of public investment; (iii) strengthening regulation in the banking sector; (iv) development of capital markets to mobilize long-term financing; and (v) supporting inclusive growth, in particular by diversifying exports, enhancing financial inclusion, and increasing female labor force participation.

3. GOVERNMENT PROGRAM

28. **Bangladesh's Vision 2021 sets out a development scenario to accelerate the country's journey on the middle-income path as it celebrates its 50th anniversary of establishment as a nation**. Along with increased

income levels, Vision 2021, originally set out in 2008, focuses on delivering citizens a higher standard of living, improved education, and greater political and social freedoms, along with improved resilience to climate change and natural disasters. Bangladesh's 7th Five-Year Plan operationalizes the vision, targeting inclusive, and sustainable growth and job creation primarily through accelerating the process of transformation from a primarily rural-based economy into a more modern, climate-resilient, urban-based economy.

29. **The 7th Five-Year Plan (2016-2020) target employment and rising real wages to secure sustainable reduction in poverty**. The 6th Five-Year Plan achieved considerable success in raising productivity and real incomes in agriculture, with output and employment shifting toward manufacturing and services. The 7th Plan continues to target structural transformation – with emphasis on labor-intensive manufacturing (building on the success of the RMG sector), formal services, and the export of labor services (especially to the Middle East) – as a means of accelerating the rate of growth and increasing resilience to climate change.

30. **The 7th Plan is complemented by the National Social Security Strategy (NSSS), which aims to ensure inclusive access to quality jobs**. The 7th Plan emphasizes access to decent and harassment-free employment for women, envisaging stronger regulation to ensure gender neutral outcomes, as per national labor laws and ILO Conventions. The NSSS also highlights the need to provision and finance child care services. Implementation of NSSS is expected be a major step forward to encourage female participation in the formal work force.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

31. **The objective of this proposed DPC series is to support the GoB's program of reforms to address the country's jobs challenges by: (i) modernizing the trade and investment environment; (ii) strengthening systems that protect workers and build resilience; and (iii) improving policies and programs that enhance access to jobs for vulnerable populations**. The program represents a comprehensive approach to address the binding constraints to delivering more, better, and inclusive jobs, with the selection of reforms designed to leverage Bangladesh's comparative advantage in manufacturing today, while laying the foundations to adapt to the future changing world of work. In doing so, the program reflects the GoB's reform priorities as articulated in the current Five-Year Plan as well as recent initiatives to support trade and investment, social inclusion, climate resilience, and improved governance through digital transformation. Design of the proposed series builds on a rich knowledge base from the WBG and development partners, including the *Systematic Country Diagnostic* (2015) the Asian Development Bank and ILO's *Employment Diagnostic* (2016) and the WBG's *Jobs Diagnostic* (2017). It also leverages reform initiatives as well as knowledge and learning from several ongoing operations and analytics, including trade and investment reforms under the DFID-funded Bangladesh Investment Climate Fund (BICF), and support in the education, labor, and social protection sectors from WBG, ADB, EU, SDC, and USAID, among others.

32. **Learnings from past DPCs and recent investment operations highlight several lessons for design and implementation of this DPC program, the first in Bangladesh in a decade**:

- *Taking a programmatic approach and being realistic about the pace of reforms*: Implementation of reforms in Bangladesh – particularly involving legislation – often takes considerably longer than initially envisaged, due in part to the demand for broad stakeholder consultation, relatively weak inter-governmental coordination, and a methodical bureaucracy. In this context, it is important to take a programmatic rather than a stand-alone approach, and to be realistic about how much can be achieved.

Small, meaningful reforms matter and can be the most practical approach.

- *Consider implementation rather than policy alone*: The biggest challenge in Bangladesh tends to be implementation, rather than laws and policies. Therefore, actions that build robust institutions and strengthen implementation capacity – are just as important as new legislation.
- *Maintaining flexibility and being opportunistic*: Triggers should be flexible, to be able to react to unforeseen internal dynamics and to cope with limited implementation capacity. The program should be opportunistic to adjust when the reform path changes.
- *Ensuring dialogue with a broad set of stakeholders*: To deepen ownership of reforms, it is important that DPC dialogue is not limited to a narrow set of stakeholders, or to specific groups within government.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

33. The reforms supported by this operation are organized under three pillars:

Pillar A: Modernizing the trade and investment environment

34. **Bangladesh's integration into global value chains (GVCs) in the RMG sector led to the creation of more than 3 million waged jobs since the early 2000s**. This was instrumental in driving the country's development success, and in supporting the expansion of opportunities for women, who captured 70 percent of all new jobs created between 2003 and 2016. Bangladesh must now leverage its comparative advantage to take advantage of opportunities outside RMG to ensure continued creation of large-scale waged employment accessible to women and to absorb the large number of workers migrating from rural to urban areas. The GoB has targeted diversification in manufacturing as a priority, with job growth in the RMG sector and women's employment slowing rapidly[19]. Achieving this will require diversification of both products and markets,[20] as envisioned in the 7th Five Year Plan, as well as measures to unlock growth in the SME sector. This, in turn, will require a significant increase in both FDI and domestic investment. Ensuring this growth is sustainable will also require greater attention to meeting global environmental standards, both to ensure competitiveness in global markets and to mitigate the risks of climate change and environmental degradation.

35. **Both FDI and domestic private investors continue to face high barriers to establishing and growing job-creating businesses, and to trading in domestic and international markets.** Analysis from *the Bangladesh Jobs Diagnostic* indicates that entry of new firms is low and that, even among non-microenterprises, few firms experience growth over their lifecycle, driven in part by investment climate constraints. Bangladesh was 177th out of 190 economies in the latest World Bank *Doing Business* ranking. Investors face barriers including availability and access to land, an anti-export bias in trade policy, weak trade facilitation, an inadequate quality and standard system, and a stifling business regulatory environment that combines arcane and bureaucratic regulatory procedures with poor implementation and unpredictable enforcement.

36. **Pillar A supports implementation of reforms to unlock private investment and stimulate short to medium-term job creation, while laying the foundations for the industrial sector to mitigate environmental and climate change impacts**. Specifically, the operation includes support for: (i) instituting a more streamlined

[19] According to the 2016-17 Quarterly Labor Force Survey, female employment in the industrial sector fell from 3.99 million in 2013 to 3.15 million in 2016-17.
[20] More than 80 percent of exports are in RMG, with almost all going to US and EU markets.

environment for investment facilitation and company regulation; (ii) modernizing Customs; (iii) increasing access and improving efficiency of the bonded warehouse regime; and, (iv) introducing fiscal and sectoral measures to strengthen the response to climate change and ensure a more environmentally-sustainable production system.

Investment facilitation and regulation of companies

37. **Exploiting the potential for diversified export-oriented sectors to replicate the success of RMG as job creators will require improved capability to attract and service new FDI and domestic investors.** Bangladesh attracted just US$13 of FDI per capita in 2017 compared with US$43 in lower middle-income countries on average and US$148 in Vietnam. Firms looking to establish a new business in Bangladesh must navigate a non-transparent and cumbersome regulatory space that includes 150 services delivered by 34 different line agencies. Such bureaucratic processes and complex documentary requirements imposes a high cost on investors and impedes entry. In addition, excessive bureaucracy in the process of starting a business, such as obtaining an official company seal, high registration and licensing costs[21], and restrictions on incorporation compel many small and medium-sized enterprises to remain outside the formal economy. Similarly, unwieldly exit procedures prevent the winding down of unproductive firms. For example, approval from the High Court is required for non-voluntary dissolution of a business, or to change the nature of an enterprise's activities. Obtaining court approvals entails a lengthy procedure of six to eight months and substantial costs. Such burdens restrict entry and exit, leading to lower investment, fewer jobs being created, and lower productivity due to a poor allocation of capital and labor across firms. These constraints impinge more on female-owned businesses, due to women's greater lack of agency and access to information; financial, time, and mobility constraints; purdah practices; and exposure to harassment and corruption through the existing procedures.[22] The 2013 Economic Census shows that female-headed businesses account for 7 percent of all establishments in Bangladesh, but just 2 percent of those that are formally registered. A survey among women-owned businesses showed that 37 percent experienced corruption in obtaining a trade license[23].

38. **GoB enacted the One Stop Shop (OSS) Act in February 2018 (Prior Action 1)**. The OSS Act, which was passed in Parliament on February 5, 2018, provides the legal basis for the establishment of a 'virtual' one-stop-service for investment establishment, and defines the roles and responsibilities of the relevant line agencies.

> ***Prior Action 1**: The Recipient, through its Parliament, has enacted the One Stop Shop Act 2018 (Act No. 10 of 2018) and published it in the Official Gazette.*

39. **DPC 2 and 3 support operationalization of the OSS and implementation of a new Companies Act**. DPC 2 supports issuing of OSS Rules, including defining the standard operating procedures that ensure bound service delivery by agencies and facilitate cross-agency coordination. Streamlining has been completed for 15 processes in five agencies[24], with an additional 18 processes in eight agencies underway. For regulatory actions like

[21] Registering a business in Bangladesh costs the equivalent of 22.3 percent of annual per capita income; this compares with less than 15 percent in India and just 6.5 percent in Vietnam (source; Doing Business, 2018). The charges are far above the actual administrative costs incurred in providing registration and licensing services.
[22] IFC (2011) *Fostering Women's Economic Empowerment through Special Economic Zones*; World Bank (forthcoming) *Voices to Choices: Bangladesh's Journey Towards Women's Economic Empowerment*, Draft.
[23] Rabbani, G. and Chowdhury, M.S. (2013) "Policies and Institutional Supports for Women Entrepreneurship Development in Bangladesh: Achievements and Challenges". *International Journal of Research in Business and Social Science*, 2(1): 31-39.
[24] BIDA, Registrar of Joint Stock Companies and Firms [RSC], Rajdhani Unnayan Kortripokkho [RAJUK], National Board of Revenue [NBR], and the Office of the Chief Controller of Imports and Exports [CCIE]

environmental clearance, streamlining will focus on transparency, process efficiencies, and better implementation of a risk-based approach, but will not compromise existing environmental standards. DPC 2 will also support introduction of a new Companies Act – the focal regulatory framework for businesses from inception to dissolution – to replace the archaic current Act, which is plagued by lack of regulatory clarity in explaining business processes, limited provision for integrating modern financing instruments, and onerous business entry and exit procedures. DPC 3 will include full implementation of the OSS system and the RJSC business registration system, both of which will require effective interoperability and coordination across a wide range of regulatory agencies.

> ***Trigger 1A (DPC2)****: BIDA has issued OSS rules and streamlined processes in relevant line agencies to bring them into line with the OSS Act.*
>
> ***Trigger 1B (DPC2)****: The Government of Bangladesh has enacted the new Companies Act.*
>
> ***Trigger 1C (DPC3)****: BIDA has made the OSS fully operational, with an automated system including a feedback loop; RJSC has introduced an enhanced, automated business registration system with interoperability across relevant government agencies.*

40. **Expected results**: The above set of actions is expected to reduce the cost and time to set up and operationalize a business. This is expected to contribute to increased investment and jobs growth through a significant increase in new business registrations as well as firm expansions. Evidence from research using global *Doing Business* indicators shows reforms in business start-up regulations increase complementarity between FDI and domestic investment[25], and in developing economies, expanded business entry and investment promotion, along with a simpler tax regime, are associated with higher job creation[26]. Research[27] also shows that significant reforms to business registration results in higher firm start-ups and increased output in the affected industries, leading to increased employment rates. By simplifying the bureaucracy, lowering costs, and facilitating formalization of microenterprises, the actions are expected to have greater benefits for female-run businesses. Moreover, introduction of a transparent automated system is expected to benefit women-owned businesses disproportionately by helping overcome information access and mobility barriers, while enabling women to circumvent gender discrimination.

Trade facilitation: modernization of customs and bonded warehousing regime

41. **Introducing a modern customs regime, supported by automated procedures, is critical to support the growth of labor-intensive, export-oriented manufacturing in Bangladesh**. Rapid expansion in trade is fundamental to the GoB's plans to generate large-scale waged employment. The 7th Five-Year Plan calls for accelerated export growth to reach more than US$50 billion by 2020. Delivering on this will require an efficient trade facilitation regime, particularly in a GVC environment where firms rely on integrated import and export operations. Trade facilitation reforms offer an opportunity for Bangladesh firms to overcome the competitive disadvantage they face because of complex trade policy dynamics[28]. Bangladesh's customs regime, which fails to

25 Divanbeigi, R. And Ramalho, R. (2015) "Business Regulations and Growth: World Bank Group, *Policy Research Working Paper 7299*, World Bank Group, Washington, DC.

26 Rahman, A. (2014) "Investment climate reforms and job creation in developing countries: what do we know and what should we do?" *Policy Research working Paper 7025*, World Bank Group, Washington, DC.

27 Bruhn, M. (2008) "License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico", *Policy Research Working Paper No. 4538*, World Bank, Washington, DC.

28 Portugal-Perez and Wilson (2010) show that business environment and trade facilitation reforms can have impacts that are equivalent to substantial tariff cuts.

exploit the opportunities of automation and relies on outdated rules and procedures, is increasingly a binding constraint to the expansion of export-oriented industry. Bangladesh ranks 173rd of 190 economies in the 2018 *Doing Business* 'trading across borders' indicator, the worst-performing country in South Asia and far behind Bhutan (26th), Nepal (76th), and Sri Lanka (86th). Delays in clearing processes and non-procedural hassles raise greater barriers for female traders.[29] Female entrepreneurs in Bangladesh highlight the importance of simplification and harmonization of customs documentation and automation of trade procedures.[30]

42. **Prior Action 2 supports submission to Parliament of a new Customs Act, setting the stage for modernization initiatives.** Introduction of a new Customs Act (replacing the Customs Act 1969), will support more efficient trading and provide legislative coverage for critical initiatives such as the introduction of risk management and the National Single Window (NSW). Among the key elements in the draft Act are provisions requiring risk management as the basis of customs control, establishing the legal basis for electronic exchange of information, enabling better border agency coordination, and strengthening governance to ensure transparency and eliminate discretionary decision-making. The Act also ensures greater transparency and improved quality of rules by requiring prior publication and stakeholder consultation on new rules and procedures.

Prior Action 2: *The Ministry of Finance has submitted the Customs Act 2018 (Bill No. 58 of 2018) to the Recipient's Parliament for approval.*

43. **DPC 2 and 3 support implementation of the Customs Act by enabling the introduction of risk management and the NSW.** DPC 2 supports issuing implementing regulations to the Customs Act, along with ensuring the institutional arrangements are to implement the risk management approach, through the establishment of a risk management Directorate within the National Board of Revenue (NBR). DPC 3 provides the legal and institutional basis to enable implementation of two key trade facilitation reforms – introduction of risk management in customs and implementation of the NSW – that will help ensure the legal reforms of the Customs Act are translated into more efficient practices on the ground. Specifically, DPC 3 will support the introduction of a separate NSW policy (or law, as required) to institutionalize the relationship among the 35 agencies and 12 ministries which will be interconnected through the system[31].

Trigger 2A (DPC2): *The MoF has issued implementing regulations for the Customs Act 2018.*

Trigger 2B (DPC 2)*: The NBR has established a risk management Directorate*

Trigger 2C (DPC3): *The Cabinet has approved the National Single Window policy / law.*

44. **Expected results**: The above set of actions is expected to contribute to a lower share of shipments being inspected by border authorities and faster and more predictable processing times for importing and exporting. It is estimated that 319,000 exporters and importers will benefit. This will contribute to job creation by enhancing the competitiveness of exporters as well as firms using imported inputs to sell in the domestic market. Women-owned businesses are expected to benefit disproportionally, as formally-established female-headed businesses

[29] Asia Foundation (2018) *Expanding the Benefits of Trade to Women in the BBIN Region: A Program Design Primer*.
[30] Bangladesh Women Chamber of Commerce and Industry (2015, June 9). National Seminar on Promoting Women Entrepreneurship through Improving Regional Cooperation. Dhaka, Bangladesh.
[31] The Customs Act provides the necessary legal coverage for Customs to operate through the NSW, but cannot do the same for the other border agencies that are involved in clearance.

are more likely to export and import than male-headed businesses.[32] Moreover, automation processes help women-owned businesses, which are more likely to face time and mobility constraints as well as barriers to exporting resulting from the gender bias currently in practice.

45. **Bangladesh's special bonded warehouse (SBW) regime, widely recognized as a catalyst for development of RMG, has not been exploited to support other sectors.** The SBW regime has enabled RMG firms to integrate in GVCs by availing duty-free imports for export production. However, while there are no specific legal or policy provisions that restrict the use of the facility, in practice there remain major barriers to availing SBW outside of RMG (which accounts for 90 percent of all license holders), including: shorter audit cycles; inability to bond multiple premises on one license; and requirement to finance the costs of on-site Bond Commissionerate staff.

46. **Moreover, lack of transparency and inefficiencies in SBW procedures impose barriers on new firms and sectors while raising costs for all participants.** The SBW regime is governed by around 320 statutory rules and orders, meeting minutes, and instructions. While many of these are published online, others are not readily available[33]. The operation of the regime is completely paper-based, and authorities exercise 100 percent transaction-by-transaction control, rather than relying on risk management systems, making the process burdensome for both the licensee and Customs officials.

47. **Prior Action 3 supports information provision to help establish a level playing field and strengthen the basis for a more effective SBW regime, complementing the GoB-financed SBW automation project.** NBR has been allocated US$10m in budget to implement the program, which is expected to take around 24 months to complete. The first step will be to complete a business process review of bond license issuance, audit, management, reconciliation, and renewal procedures to map processes and define barriers. In parallel, NBR will publish on its website summarized steps and rules of SBW processes, along with the full set of rules that govern the program (Prior Action 3), to ensure transparency and assist new firms and sectors to access the program.

> ***Prior Action 3:*** *The NBR has made publicly available on its website a comprehensive set of rules and procedures for Bonded Warehouse business licensing and operation.*

48. **DPC 2 and 3 support further steps to improve the efficiency and accessibility of the SBW regime through implementation of a simplification and automation program.** DPC 2 supports implementation of the NBR-approved actions stemming from the business process review. This is likely to include new/rationalized rules and instructions governing licensing and management of bond regime as well as the introduction of methodologies and techniques to manage the program, including: risk rating systems, post clearance audit procedures to enhance licensee business systems, and licensee periodic operating statements. DPC 3 supports the introduction of an automated bond licensing and reconciliation system to improve efficiency and minimize leakage.

> ***Trigger 3A (DPC2):*** *NBR has implemented recommended actions from bonded warehouse business process review, including new / rationalized rules and instructions governing the SBW regime and introduction of methodologies and techniques to manage the program.*

> ***Trigger 3B (DPC3):*** *NBR has introduced an automated bond licensing and reconciliation system to improve*

[32] According to World Bank Enterprise Surveys (2013) 40 percent of female-headed businesses export at least 10 percent of their output versus just 17 percent of male-headed businesses; 73 percent of female-headed businesses make use of imported inputs versus 49 percent of male-headed businesses.

[33] A recent process review carried out by the WBG identified 249 items in the *Bonded Warehouse Management Book* (a repository of all bond related regulations) which are not publicly available.

efficiency and minimize leakage.

49. **Expected results**: The above actions are expected to increase transparency of the SBW program, and to improve the efficiency of the program – for example the process for issuing bond licenses is expected to be reduced from 15 steps to just 4, while the process for the passbook registry will be reduced from 16 steps to 6. This is expected to enable more firms, particularly from sectors outside RMG, to benefit from the SBW regime, supporting expansion in labor intensive, export-oriented manufacturing sectors.

50. **Bangladesh can use environmental and fiscal policy to bring its industries up to global standards, incentivize climate-friendly investment, and mitigate the environmental impacts of growth**. While global climate change raises serious risks for Bangladesh, its own rapid growth will contribute to rising GHG emissions and increased risk of environmental degradation. For example, while the manufacturing sector growth supported by Pillar A helps facilitate adaptation to climate change, it will also drive growth in demand for electricity and water. Per capita electricity consumption in Bangladesh at present is just one-tenth of the world average. However, demand is expected to grow to more than double the amount of today's installed capacity, most of which is expected to come through fossil-fuel based generation. Manufacturing sector growth will also put pressure on water resources, increase solid waste, and contribute to increased demand for transport. At the same time, there is a great opportunity for Bangladesh industry to begin adopting international standards and practices for energy efficiency and environmental management. Indeed, moving quickly to adopt international standards is increasingly a requirement for entry into the global value chains Bangladesh's exporters target.

51. **The GoB has been a pioneer in introducing a climate-responsive public financial management system**. In 2014, the GoB adopted a *Climate Fiscal Framework* (CFF), providing a roadmap to link national climate strategies with the resource allocation system. The CFF prompted more specific interventions to make the budgeting exercise under the medium-term budget framework climate inclusive. This was first initiated in a pilot of 6 ministries in the FY 2017-18 budget. In June 2018, the *Bangladesh Climate Financing for Sustainable Development: Budget Report 2018-19*, was rolled out covering all 20 line Ministries that have programs and projects of significant climate relevance. The assessment shows that 8.82 percent of the FY19 budget of the 20 Ministries (covering around half of the total national budget) was targeted to climate mitigation or adaptation. It also illustrates the evolution of the government financing response over time through the national budget and the growing importance of this response. Complementing this technical report, the GoB – with support from UNDP – published for the first time in August 2018 a *Citizen's Climate Budget*, which translates the technical report into a set of simplified infographics for the general public. Together, these reports enhance transparency and help stakeholders identify areas of opportunity to leverage public expenditure to strengthen climate resilience.

52. **Transformation of Bangladeshi industry will also benefit from the recently strengthened environmental policy regulating the environmental footprint of industries and development activities**. The National Environmental Policy 2018, approved by Cabinet in October 2018, substantially updates the existing environmental policy framework (the 1992 National Environmental Policy, partially updated in 2013). Among the key improvements made in the 2018 policy are expansion of coverage of industrial development, and a focus on clean, energy-efficient production. Implementation of the new policy is expected to improve environmental management of industries[34], including helping to mitigate the potential impacts of expansion in the manufacturing sector, and help push industry toward implementing higher-level environmental standards.

[34] World Bank (2018). *Enhancing Opportunities for Clean and Resilient Growth in Urban Bangladesh: Country Environmental Analysis.* Washington, DC: World Bank.

Prior Action 4: *(i)The Ministry of Finance has rolled out Climate Budgeting across 20 ministries with climate relevant expenditures; and, (ii) The Cabinet has approved the National Environmental Policy 2018.*

53. **Triggers in DPC 2 and 3 focus on implementing actions to improve environmental compliance and energy efficiency in key manufacturing sectors.** Actions under DPC 2 support issuing guidelines for compliance with national, regional, and global standards for environmental and social management and practices. These guidelines, which target the export-oriented supply chain in manufacturing sectors – including the leather sector and at least one other priority sector – will be launched through the Ministry of Commerce (MoC), in consultation with other relevant authorities, including the Ministry of Industries (MoI), the Ministry of Environment, Forest and Climate Change, the Ministry of Labour and Employment (MoLE), and the Sustainable and Renewable Energy Development Authority. In addition to addressing environmental standards in production and waste management, they will include guidelines to improve efficiency in energy and water use. Actions under DPC 3 support MoI to ensure a sustainable solution environmental compliance in the leather sector, with a focus on the cluster operating at the Savar Leather Industrial Estate, where improved operations of the Central Effluent Treatment Plant (CETP), and of the waste management practices of firms operating in the cluster, are necessary to address risks of environmental degradation, including pollution of key water sources, potentially aggravating the impacts of climate change on access to water resources.

Trigger 4A (DPC2): *The GoB has issued guidelines for environmental and social compliance standards for the leather sector and at least one other manufacturing sector, including guidelines to improve energy efficiency.*

Trigger 4B (DPC3): *The GoB has implemented a program of technical and operational improvements of the Central Effluent Treatment Plant to ensure environmental compliance at the Savar Leather Industrial Estate.*

Pillar B: Strengthening systems that protect workers and build resilience

54. **Pillar B focuses on expanding protection of Bangladeshi workers and building resilience.** The actions to expand investment in Pillar A are expected to contribute to more and higher quality (waged) jobs. However, even among those in better quality jobs, most employees in Bangladesh work in conditions of significant vulnerability, with few having access to written contracts, social insurance, and appropriate occupational health and safety standards. Bangladeshis working outside the formal sector face even greater vulnerability, as do female workers in both formal and informal sectors. This pillar supports improved job quality through targeted reforms and enhanced implementation of existing laws and standards, including: (i) modernizing and expanding the national pensions system; and (ii) building on labor law reforms to strengthen enforcement capacity and introduce a national employment injury insurance scheme.

Pension modernization and expansion

55. **Establishing a sustainable and comprehensive pension system would represent a step-change in security and resilience for workers in Bangladesh.** Bangladesh currently offers a mandatory civil servants' pension (Pension for Retired Government Employees and their Families) and a poverty-targeted social pension program (Old Age Allowances). However, there still are no mandatory pension programs for private sector wage employees, voluntary schemes where the self-employed can participate, or where matching subsidies can be introduced for the poor. As a result, few workers outside the public sector have access to a fundamental safety net that supports labor mobility and provides adequate social protection. This is particularly the case for women

as they outlive men[35], are more likely than men to work in the informal sector and accumulate fewer assets over their lifetime. Lack of adequate pension leaves women at greater risk of poverty in older age. In fact, the poverty rate for women above 65 years of age is 25 percent higher than males. [36] The 2015 NSSS outlined a plan for a National Social Insurance Scheme, which would include development of a comprehensive pension system to close these gaps. While delivering a comprehensive and financially sustainable pension system in Bangladesh will take years to put in place, GoB recognizes the importance of laying down the institutional and technical foundations.

56. **An important first step to initiating pension reform is to modernize the existing regime for managing civil servant pensions to improve efficacy, efficiency, and transparency[37].** Currently the pension account lies in each ministry, with funds managed and disbursed centrally. Retiring employees need to navigate a process with 20 steps to get a Pension Payment Order, which must be issued by the ministry from which the civil servant is retiring. The documentation burden can take months (or even years), during which time the retiree is unable to draw a pension. Civil service pensioners are only able to draw their pension in person with limited options of payment service providers (i.e., state-owned Sonali Bank branches).

57. **To address this problem, the GoB has initiated a plan to create a central pension and funds accounts office for administrative efficiency (Prior Action).** In February 2018, the GoB launched a pilot Electronic Fund Transfer (EFT) system for new pensioners retiring from the Ministry of Finance to improve the performance of payment transactions. Since the end of July 2018, all new retirees have been enrolled in the EFT, with a plan to eventually enroll the current stock of more than 600,000 pensioners. At the same time, all new retirees from the civil service will be issued electronic Pension Payment Orders (e-PPOs), transferring their pension accounts from the ministry they are retiring from to a newly created central accounts office, which will be responsible for record keeping and payments (Prior Action). This can serve as a model as the GoB initiates the implementation of a broader national pensions system.

> ***Prior Action 5:*** *The Ministry of Finance has integrated the management of the Government Service Pension Fund and the General Provident Fund of civil servants through the establishment of the Central Accounts Office of Pension and Fund Management.*

58. **Actions in DPC 2 and DPC 3 will establish the strategic and institutional foundations for the implementation of a comprehensive pensions strategy**. The Finance Division has prepared a preliminary draft of Cabinet paper on pension reform strategy. This paper is undergoing substantial review and revision, and a universal pensions strategy is expected to go before Cabinet in 2019. Among the key institutional requirements to implement this strategy will be the establishment of a Pension Regulatory Authority, to provide regulatory oversight of private pension funds and ensure integrity, fairness, and financial sustainability.

> ***Trigger 5A (DPC2):*** *The Cabinet has approved a comprehensive pension strategy.*

> ***Trigger 5B (DPC3):*** *The GoB has established a pension regulatory authority.*

59. **Expected results**: The above set of actions is expected to reduce the time from opening a pension account to initiating payments, and from issuing a payment order to disbursement; it will also improve efficiency by timely, secure, and accurate payments of civil servants' pension. Shifting from a paper-based to an e-payments system is

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[35] Data from WDI (2016) indicates the average lifespan is 74.3 years for women and 70.9 years for men.

[36] Based on 2016 poverty data, using the lower bound for poverty. Source: World Bank staff calculations based on BBS data.

[37] World Bank (2017) *Bangladesh: Improving the Administration of Civil Service Pensions*. Governance Global Practice Policy Note. Washington, DC: World Bank.

expected to have significant benefits in terms of reducing fraud and harassment of widows and pensioners who previously had to travel to banks or make use of middlemen to cash physical checks. Timely and reliable pensions will also help close gender gaps in old age security. In addition, GoB will establish the foundations for comprehensive pension schemes – this will eventually (although not within the period of this program) increase the number of workers who have access to a contributory pension system.

Labor standards and enforcement

60. **Bangladesh's development success story has long been tarnished by its failure to adequately protect workers**. Bangladesh continues to lag in the legal protection of workers and in the enforcement of existing laws. The Rana Plaza tragedy, the largest but by no means only example, illustrated the major gaps in workplace safety regulations, and highlighted the lack of effective mechanisms to compensate workers for workplace accidents. Moreover, rights of workers to organize have been significantly restricted. Female workers in low-skill jobs tend to be most vulnerable and routinely face longer working hours, harassment, and lack of access to maternity and family leave. The 2016 Labour Force Survey shows that, even among women working in firms with 10 or more workers, less than 40 percent have access to maternity leave; and outside of the largest firms, less than 20 percent of women report having access to safety equipment in the workplace. Similarly, while women are legally protected from sexual harassment in the workplace, concern over harassment and gender-based violence (GBV) is among the most commonly cited barriers to labor force participation by low income women[38].

61. **Following on from commitments made to the ILO and partners in the Sustainability Compact, the GoB has enacted the Bangladesh Labor Act (Amendment) 2018 (Prior Action).** While the new Labor Act, drafted with technical support from the ILO, does not go as far as many would like in some areas, it brings Bangladesh in compliance with key ILO conventions. A number of important provisions are included in the new Act, including: (i) banning any form of labor for children under 14; (ii) reducing the minimum threshold required for forming a union to 20 percent of the total workers and reducing discretion of the Labor Minister over approving unions; (iii) initiating mandatory four-week paid maternity leave; (iv) doubling statutory compensation in the event of workplace injury or death; and, (v) upgrading the status of the Department of Inspections of Factories and Establishments (DIFE) to a directorate.

> ***Prior Action 6****: The Recipient, through its Parliament, has passed the Bangladesh Labor Act (Amendment) 2018 (Act No. 48 of 2018).*

62. **Actions in DPCs 2 and 3 will follow on from the Labor Act amendments to support: (i) strengthened enforcement of labor and safety standards; and, (ii) implementation of a statutory employment injury insurance (EII) scheme:**

- Labor inspections enforcement: With ongoing technical support from the ILO and other development partners, the labor inspectorate has strengthened; but it remains well below international benchmark levels, systems to ensure transparency and accountability are limited, and enforcement of the results of inspections is lacking. Actions under the DPC2 and 3 will support the national rollout of a Labor Inspections Management Application (LIMA), including a mechanism for workers to (anonymously) file grievances or reports to DIFE about workplace issues – including sexual harassment and incidents of GBV – and publication of regular inspection reports to increase transparency of the process. It will also support actions to translate the elevated status of DIFE with measures to improve enforcement

[38] World Bank (forthcoming) *Voices to Choices: Bangladesh's Journey Towards Women's Economic Empowerment*, Draft.

capacity on the ground.

- EII: The current injury compensation scheme requires workers and their families to seek payment directly from employers, raising the risk of non-compliance. A national EII scheme that spreads risks across all employers[39] will help minimize risks to workers while reducing uncertainties for employers. MoLE signed a letter of intent with the ILO and GIZ in 2015 to initiate the EII reform program, which includes a Tripartite working arrangement with employers and workers representatives.

Trigger 6A (DPC2): *MoLE has launched nationally and across sectors the Labor Inspection Management Application (LIMA), including mechanisms for feedback from workers and publication of inspection results.*

Trigger 6B (DPC3): *MoLE and MoF have approved a plan to ensure labor regulation enforcement and labor courts have capacity sufficient to deliver faster and more effective enforcement*.

Trigger 6C (DPC3): *MoLE has initiated a pilot of the EII scheme in at least one sector.*

63. **Expected results**: The actions above are expected to contribute to greater access of workers to the benefits of formality, including contracts, access to clearly-established compensation and benefits, and redress for grievances and for workplace injury. They will also help ensure that the *de facto* environment regulating worker protection is more closely aligned with existing laws and regulations.

Pillar C: Improving policies and programs to enhance access to jobs for vulnerable populations

64. **Pillar C focuses on increasing the employment opportunities for vulnerable populations by strengthening existing programs and institutions that support youth, women, and overseas migrants to access current job opportunities and build their capacities to take advantage of emerging opportunities**. Despite the historical disparities in opportunities faced by women and youth, and the evidence that they are bearing the brunt of weakening labor market conditions, there are few efforts aimed at supporting their access to jobs. Programs that are in place are fragmented and poorly coordinated. Similarly, access to migration opportunities are unevenly distributed, and those that are fortunate enough to secure overseas employment face high transaction costs, limited protection, and no support for reintegration. Efforts to expand workers' access to employment opportunities would help poor households diversify their sources of income, increase the number of earners who are engaged in livelihoods, and assist those impacted by the effects of climate change to find alternative livelihoods. Actions under Pillar C aim to strengthen existing institutions and programs, including: (i) expanding services to overseas migrants; (ii) strengthening relevance and coordination of skills development programs; and, (iii) establishing the institutional foundations to increase access to childcare for working women.

Expanding services to overseas migrants

65. **Overseas migration is a key channel for vulnerable Bangladeshis, increasingly including women, to access job opportunities; but it remains a costly and risky undertaking**. Around 600,000 temporary migrant workers have left Bangladesh annually over the past decade, with close to one million leaving in 2017. Remittances from overseas have been equivalent to 5.4 percent of GDP and have been documented as being important for supporting consumption growth, and subsequently poverty reduction. Overseas employment opportunities are an increasingly important avenue for women. While women have less access to migration opportunities than men,

[39] Most EII schemes internationally cost no more than 3 percent of the total wage bill.

female migrants have been increasing in number, accounting for more than 12 percent of outbound migrants in 2017. It is expected to become even more important in the future as state-supported female labor migration is pivoting from mostly domestic helpers to higher-skilled caregiver positions.[40]

66. **International migration is also an important mechanism for adaptation to climate change and resilience to climate shocks**. Bangladesh's extreme vulnerability to climate change is expected to have significant impact on poverty[41]. International migration offers an alternative livelihood for rural populations threatened by displacement resulting from climate-induced natural disasters and declining economic sustainability of land. Remittance-receiving households tend to be more resilient to climate shocks due to more diverse income sources, as well as higher incomes. An increasing number of rural households are displaced due to river erosion and workers lose lands for agricultural activities, and they tend to migrate to urban areas or overseas. For instance, five of the districts currently most vulnerable to extreme climate alone account for 10 percent of temporary migrant workers sent overseas in 2007-17.[42]

67. **However, migrants are exposed to various risks, and limited support is available to help manage these risks and to leverage opportunities for reintegration to the Bangladesh labor market.** Bangladeshi migrants face wage-related issues (inconsistency with contract, delays), police harassment, fraud, and physical and mental abuse, with the latter especially severe for female migrants[43]. Migrant workers face some of the highest costs of migration in the world, inflated by fees to various agents and intermediaries. For example, for the Bangladesh-Kuwait corridor, migrations costs have been estimated to be as high as nine months of wages at the destination, with agents and intermediaries accounting for 70 percent of the costs.[44] These high costs exacerbate the vulnerability of migrants at destination, since they are often highly indebted and must remain in employment at the host country, where they may be legally prohibited from changing employers. In the context of these risks, only limited services are available to support migrants, and these are not tailored to the specific needs of male and female migrants, and to the differing dynamics of the sectors in which they concentrate.

68. **The current migration management system has some coverage of these issues, but there are shortcomings in terms of scope of the legal framework and operationalization of the laws**. Since 1990, the Wage Earners' Welfare Fund (WEWF) was mandated to ensure the welfare of migrant workers by financing and offering various support services. However, its support has been limited to financing repatriation of remains and disbursing death benefits. A systems review conducted by the Ministry of Expatriate Welfare and Overseas Employment (MoEWOE), with technical assistance from the ILO, found that there could be substantially higher expenditures on benefits, as well as expansion of benefits to help workers in distress to return and reintegrate into the Bangladeshi labor market. The Overseas Migration Act 2013 has coverage of issues related to management of the migration system, including the regulation of recruitment agencies. However, the rules and regulations pertaining

[40] BMET has already had small-batch placements of female care givers in Hong Kong and Japan,and is scaling up these recruitments. Five of its Technical Training Centers (TTCs) are now offering Cantonese and Japanese language training.

[41] Ahmed, Syud A., Noah S. Diffenbaugh, and Thomas W. Hertel. "Climate volatility deepens poverty vulnerability in developing countries." *Environmental research letters* 4.3 (2009): 034004; Thurlow, James, Paul Dorosh, and Winston Yu. "A stochastic simulation approach to estimating the economic impacts of climate change in Bangladesh." *Review of Development Economics* 16.3 (2012): 412-428; World Bank. 2012. *Bangladesh - Towards accelerated, inclusive and sustainable growth: opportunities and challenges (Vol. 2) : Main report (English)*. Washington, DC: World Bank.

[42] Sylhet, Lakshmipur, Habiganj,Maulvibazar, and Sunamgang as identified in Adhikary et al. (2015), with migration data from the BMET Database

[43] ILO 2015. The homecoming: Profiling the returning migrant workers of Bangladesh. Geneva: International Labour Organization.

[44] Estimates based on KNOMAD-ILO Cost of Migration Survey data.

to recruitment agency conduct (including fee ceilings), have yet to be published, and this law has no provisions for regulating the sub-agents that the agencies work through for recruitment.

69. **To facilitate the necessary scope of the WEWF and respond to workers' needs, the Wage Earners' Welfare Board (WEWB) was established as a statutory body with critical changes in structure and activities.** The WEWB Act (Prior Action) ensures the WEWB is institutionalized as per international law. The Act makes the Board more representative and gives it a broader mandate to develop and provide services for migrant workers in distress (including legal and medical assistance), and programs for entrepreneurship and career development for returning migrants. Such targeted services will be important for female migrants, who are predominantly domestic workers in the GCC, and who have higher rates of return before contract-end, particularly due to abuse. Future year triggers support actions to reduce the costs of migration**.** Triggers under DPC 2 supports gazetting of rules related to recruitment agency conduct and pricing. Triggers under DPC 3 would be the critical amendments to the Overseas Migration Act (2013) that would address the current legal gaps in the migration management system, the most important of which is the activity and pricing of sub-agents and other intermediaries.

> ***Prior Action 7:*** *The Recipient, through its Parliament, has enacted the Wage Earners Welfare Board Act 2018 (Act No. 30 of 2018) and published it in the Official Gazette.*
>
> ***Trigger 7A (DPC2):*** *The MoEWOE has issued the rules and regulations of the Overseas Migration Act 2013 pertaining to recruitment agency conduct and migrant welfare management.*
>
> ***Trigger 7B (DPC3):*** *The MoEWOE has submitted amended overseas migration legislation to Parliament addressing legal gaps in regulation of intermediaries.*

70. **Expected results:** The actions above are expected to lower the costs and risks of temporary overseas migration, leading to greater access and economic returns to migration for a wider range of Bangladeshis. By introducing services targeted to specific sectoral needs (e.g. construction for men versus domestic work for women), these actions are expected to disproportionately benefit female migrants, who face greater constraints accessing migration opportunities and are more likely to terminate contracts early due to lack of protection and abuse in overseas employment. By lowering the costs of migration, the action will increase access to the overseas migration channel for the most vulnerable households, such as those impacted by climate change.

Strengthening relevance and coordination of skills development

71. **Unemployment and underemployment of youth and women is partly driven by significant skills mismatches in the private sector**. While educational outcomes are improving rapidly in Bangladesh, transitions of youth into quality employment is getting more challenging, as reflected in declining youth labor force participation (especially among young, urban women) and higher youth unemployment (particularly among females).[45] One of the reasons for this is the increasing gap between the skills of school-leavers and the needs of employers. Women particularly are less likely than men to have technical skills that open the door to high quality, high paying jobs. Moreover, the skills development sector in Bangladesh is characterized by gender inequalities and stereotyping in many sectors, leading to gender divisions in many roles[46] The ability of the tertiary education and skills-development systems to address these mismatches is made difficult by the youth bulge, which is putting

[45] The unemployment rate among female youth (ages 15-24) is over 12 percent (World Bank, *Voices to Choices: Bangladesh's Journey Towards Women's Economic Empowerment*, Draft.)
[46] World Bank (forthcoming), *Voices to Choices: Bangladesh's Journey Towards Women's Economic Empowerment*, Draft.

substantial pressure on the systems. It is further exacerbated by structural shifts in the global economy, which may induce rapid skill-biased technical changes in Bangladeshi industry and require the new skills-development systems to become more efficient as well as more flexible to deliver the skills needed for jobs of the future. Currently 23 different ministries administer skills training programs; these lack coordination with each other, as well as with industry necessary to ensure that training is relevant to employer needs.

72. **Enactment of the NSDA Act will improve coordination and relevance of the fragmented network of programs targeting skills development for youth.** The GoB approved a National Skills Development Policy in 2011. In 2016, the Cabinet approved the creation of a National Skills Development Authority (NSDA) as a legal entity under the Prime Minister's Office, to centrally coordinate the fragmented training programs and facilitate implementation of the new policy. Enactment of the NSDA Act (Prior Action) will be crucial to put in place a sustainable institutional mechanism to improve coordination and relevance of the fragmented network of programs targeting skills development for youth. It will also provide a focal point to implement targeted efforts to reach more women through skills development initiatives, in order to reduce the gender gap in skills.

> ***Prior Action 8****: The Recipient, through its Parliament, has enacted the National Skills Development Authority Act 2018 (Act No. 45 of 2018) and published it in the Official Gazette.*

73. **DPC 2 and 3 support effective implementation of the NSDA Act, with an emphasis on reducing fragmentation, increasing private sector participation, and ensuring financial sustainability.** Actions under DPC 2 support issuing regulations and guidelines for the NSDA's operation. This includes ensuring full staffing and establishing a unified financing mechanism to sustain skills development in the medium to long term[47]. DPC 3 supports full operationalization of the 12 Industry Skills Councils, through the establishment of sustainable funding mechanisms, co-financed with industry, and with clear tripartite governance structures.

> ***Trigger 8A (DPC2)****: The Prime Minister's Office has (i) issued NSDA related rules, regulations, and guidelines for operation; and (ii) completed NSDA's staffing and established a long-term funding model; all aiming at ensuring NSDA's institutional sustainability.*

> ***Trigger 8B (DPC3)****: The NSDA has implemented sustainable funding models, with substantial private sector financing, across Industry Skills Councils.*

74. **Expected results**: The above actions are expected to result in better targeted training programs that are more relevant to the needs of employers. The actions will increase the availability of quality skills training for the low-skilled unemployed, benefitting youth women, and migrants seeking alternative livelihoods because of climate change impacts. This should contribute to improve access to good jobs by youth, women, and migrants, and raise productivity.

Increasing access to childcare for working women

75. **Access to quality and affordable child care services represents a significant barrier to women's labor force participation in Bangladesh**. Women's labor force participation in urban areas drops dramatically upon marriage and still further with the presence of young children –77 percent of inactive women (versus 13 percent of inactive men) report housework and care of family responsibilities as the primary reason for inactivity[48]. Even among working women, the average hours in work are significantly lower for married women with children

[47] The proposed National Human Resources Development Fund could serve this function
[48] Source: Jobs Diagnostic (2017) based on data from 2016 Labour Force Survey

compared to single women. One of the major constraints to female labor supply among mothers with young children is lack of systematic provision of public or private daycare services. Just over 20 percent of women working in firms with 250 or more workers indicate they have access to childcare services[49]; this falls to well below 10 percent for women working in smaller firms[50]. While there are financial and cultural barriers to availing daycare services, there also exist legal and institutional restrictions, including absence of policies for licensing and regulating childcare service standards, and of effective enforcement or incentives to promote their establishment and use[51]. These limitations particularly impinge on women in urban areas, including those displaced due to climate related risks, as they likely lack social networks and kinship that often provide support with child care.

76. **The Ministry of Women and Children Affairs (MoWCA) has prepared a draft Child Daycare Act (2018) which provides the basis for licensing and regulating public and private childcare services.** At present daycare centers outside those that are GoB-run are licensed under any regulatory regime other than standard trade licensing, leading to no clear standards or ability to monitor adherence to standards. The draft Act provides the essential framework to address this through establishing common standards for licensing and regulation of public (including government-run and government-subsidized) and private daycare centers, setting out standard operating procedures in daycare centers and key physical requirements to ensure the environment of childcare centers is conducive for children's physical, emotional, and cognitive development. DPC 2 and 3 actions ensure enactment of the law and establishment of the necessary institutions to license and regulate public, private, and NGO-run child daycare centers.

Prior Action 9: *The Ministry of Women and Children Affairs has submitted the draft Child Daycare Act to the Scrutiny Committee of the Recipient's Cabinet of Ministers.*

Trigger 9A (DPC2): *The Government of Bangladesh has enacted the Child Daycare Act.*

Trigger 9B (DPC3): *The Ministry of Women and Children Affairs has established an institutional structure to oversee regulation of daycare facilities.*

77. **Expected results**: The above actions are expected to establish the institutional capacity for regulating the child daycare sector in Bangladesh. Within the timeframe of the program, it can be expected that the institutional framework will be established, and licensing and regulation of daycare centers will be initiated, beginning with publicly-financed centers (currently, 94 are operational, with another 60 being planned) and moving on to pilot with existing NGO-supported centers before rolling out to privately-operated facilities. The actions should result in an increased number of daycare centers meeting quality requirements. International evidence indicates that improved access to quality childcare has a significant impact enabling mothers with young children to participate in the labor force and increase the hours of work[52]. In addition, given that the majority of caregivers and teachers in daycare centers are females, development of the sector will create significant job opportunities for women.

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[49] Source: Voices to Choices (forthcoming) based on data from 2016 Labour Force Survey

[50] Large manufacturing firms are expected to provide daycare services on site; the Ministry of Women and Children Affairs runs a small network of low-cost daycare services, and a number of NGOs offer childcare support.

[51] Christie, T. (2018) Gender Sensitive Fiscal Policy: A Framework for Public Investment in Childcare in Low Income Countries, Draft (April, 2018), Washington, DC, World Bank.

[52] Evidence from randomized control trials in low income countries shows increased access to childcare increases the likelihood of mothers engaging in work by up to 17 percent in Kenya, 18 percent in Mexico, 22 percent in Ecuador, and 26 percent in Mozambique (Christie, 2018).

Table 3: DPC Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
	Background for all pillars
[All pillars]	• *WBG- Bangladesh Systematic Country Diagnostic* (2015) • *WBG- Bangladesh Jobs Diagnostic* (2017) • *GoB- Seventh Five-Year Plan (2015)* • *Bangladesh Gender and Social Inclusion Report (forthcoming)*
	Pillar A: Modernizing the trade and investment environment
1: Investment Facilitation and Company Regulation	• IFC *Regulatory Delivery Diagnostic* (2017) identified current challenges in government to business services, including lack of coordination among the government agencies, complex approval processes, inadequate transparency pertinent to the approval process and the requirements. Supported findings of *Doing Business Reform Memorandum* (2017) • *Improving Investment Competitiveness of Bangladesh* (IICB|602066), WBG Advisory project, providing technical support to BIDA in developing an OSS and working with BIDA and relevant agencies to simplify service delivery.
2: Customs Modernization	A series of diagnostics studies and gap analyses underscored the need for a modern customs administration through a new Customs Act supporting all the modernization initiatives. The same studies have also highlighted the need for inter-agency collaboration. These reports included: • *Diagnostic Trade Integration Study* (2015)- WBG, conducted under the leadership of MoC. • *Gap Analysis* - reform proposal prepared by WBG
3: Bonded Warehouses	A series of diagnostics studies assessed the current bonded warehouse regime and proposed solutions to make it work for the export diversification vision of the Government of Bangladesh. The studies include: • *Diagnostic Trade Integration Study* (2015)- WBG, conducted under MoC. • *WBG Flagship Report on Competitiveness for South Asia* (2017) • *WBG report on the Impacts of current Bonded Warehouse Facility on Exports* (draft 2017)
4: Support for Climate Mitigation	• *Climate Budget Report (2018)* • *Country Environmental Assessment (2018)* • *Leather Sector Environmental and Social Compliance Guidelines (July 2018)*
	Pillar B: Strengthening systems that protect workers and build resilience
5: Pensions	WBG ASA outlined key steps required to reform and expand national social insurance system in Bangladesh and improve efficiency of civil service pension delivery. • *WBG Social Protection and Labor Review* (2016) • *World Bank (2017) Bangladesh: Improving the Administration of Civil Service Pensions. Governance Global Practice Policy Note. Washington, DC: World Bank*
6: Labor Act Amendments	Analytical reports and policy papers by a range of development partners and WBG highlight gaps in labor regulation (including contracts, and provisions for health & safety, employee representation, and support for female workers (childcare, etc) • *WBG Social Protection and Labor Review* (2016) • ADB and ILO (Asian Development Bank and International Labour Organization). 2016. *Bangladesh Employment Diagnostic Study: Looking beyond Garments.* Dhaka. • *ILO Introducing a National Employment Injury Protection and Rehabilitation Scheme for Bangladesh (2016)* – provides the rationale, following Rana Plaza experiences, for introducing a national scheme for EII. • *ILO- Technical Note - Comparison between employment injury provisions in the Labor Act and*

	standard provisions of an employment injury insurance scheme (2016) – provides an assessment of the Employer Liability scheme currently in Bangladesh and recommends a phased approach for adopting EII.
Pillar C: Improving policies and programs that enhance access to jobs for vulnerable populations	
7: Overseas Migration	Large number of WBG and development partner reports highlighting need to address high recruitment costs, limited protection and services to migrant workers, and lack of strategies to integrate returning migrants. • *WBG Social Protection and Labor Review* (2016) • *WBG Institutional Assessment of Migration Systems in Bangladesh (2018)* • *ILO (2015). The homecoming: Profiling the returning migrant workers of Bangladesh. Geneva: International Labour Organization.* • *GoB (2015) Management of short-term labour migration: A Review of the Wage Earners' Welfare Fund of Bangladesh. Policy Primer.* • *GoB (2015) Management of short-term labour migration: A Comprehensive System Review of the Bureau of Manpower Employment and Training of Bangladesh. Policy Primer.*
8: Skills Development	• *WBG Bangladesh Skills Strategy for Tomorrow's Jobs (2018)*
9: Childcare	• *National Social Security Strategy* (2015) outlines key priorities for addressing female labor force participation, with access to quality, affordable childcare as a high priority.

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

78. **The proposed DPC series directly supports the World Bank CPF FY 16-20 objective of delivering 'more and better' jobs, with relevance across all three focus areas.** The CPF argues "*The fundamental challenge facing Bangladesh today as a nascent MIC is to create more and better jobs that contribute significantly to growth and poverty reduction.*" The CPF aligns with the GoB 7th Plan in emphasizing the need to continue to deliver large-scale job creation to absorb the growing youth population and climate induced rural-urban migration, create opportunities for women to benefit from economic growth, and generate earnings opportunities to lift more Bangladeshis out of poverty. Under CPF Focus Area 1 – Growth and Competitiveness – DPC Actions in Pillar A support the focus on "Enhanced Business Environment and Trade Facilitation", while pension reforms under Pillar B support some elements of the focus on "Financial Intermediation." Under CPF Focus Area 2 – Social Inclusion – DPC Actions in Pillars B and C support the focus on "Improved Social Protection Coverage for the Poor" and the "quality and relevance" agenda around post-secondary education under "Improved Equity and Access to Quality Education." While DPC actions do not specifically target "Enhanced Rural Income Opportunities for the Poor", actions to support an improved investment and business environment as well as supporting the expansion of childcare, are likely to have significant impact in rural areas. Finally, on CPF Focus Area 3 – Climate and Environmental Management – actions to support manufacturing sector job creation and overseas migration are at the heart of the GoB's adaptation strategy, by providing alternative livelihoods opportunities for rural Bangladeshis that face the greatest threats from climate change and natural disasters. Moreover, Prior Action 7 and subsequent triggers target climate and environmental management directly.

79. **The DPC contributes to the South Asia Regional Strategy and key regional priorities.** The DPC is relevant across all three pillars of the regional strategy, including: (i) support to private sector development; (ii) greater social and financial inclusion; and, (iii) strengthening governance (particularly through the emphasis throughout the DPC program on leveraging digital solutions to support transparency). The DPC also supports the regional

Gender Action Plan (FY16-21) and the Bangladesh Country Gender Action Brief (FY18-21), with its strong focus on improving female labor force participation and facilitating women's access to quality jobs.

80. **The DPC complements and is support by a number of ongoing WBG investment and advisory activities.** The DPC is part of a comprehensive WBG approach to addressing jobs challenges in Bangladesh, organized under the 'Jobs Platform' program. Within this program, the Jobs DPC acts as the policy channel, aligned closely with technical assistance and investment activities. Actions under Pillar A derive directly from ongoing WBG technical assistance to the GoB financed through the Bangladesh Investment Climate Fund (BICF). They also provide critical legislative and institutional coverage to support the implementation of projects supporting investment, exports, and regional integration, including Private Sector Development Support (P120843), Export Competitiveness for Jobs (P156113), Sustainable Enterprise Project(P163250), and the Bangladesh Regional Connectivity Project (P154580). Actions under Pillar B to strengthen the country's social protection system complement ongoing operations focusing on systems strengthening. These include the Safety Nets Systems for the Poorest (P132634) and Cash Transfer Modernization (P160819). Actions under Pillar C complement a number of investment projects to support education and skills development, including the Skills Training and Enhancement Project (STEP – P155389), as well the IFC global 'Tackling Childcare' project.

81. **Actions in the DPC program will contribute to reducing poverty and increased shared prosperity through support for inclusive, quality job creation.** Results from the program are expected to contribute to increased investment in labor-intensive activities, improving the quality of employment and strengthening resilience to shocks, and helping ensure job opportunities are particularly accessible to women, youth, and migrants. Given that increased labor income, particularly through wage employment for women and youth, has been central to Bangladesh's poverty reduction story over the past two decades, the program has a clear link to supporting poverty reduction and improving shared prosperity.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

CONSULTATIONS

82. **Many of the reforms supported by the proposed DPC derive from the GoB's 7th Five-Year Plan and related sectoral strategies, which go through an extensive nationwide consultation process.** GoB has a well-established approach to stakeholder consultation for the Five-Year Plans as well as for any major sectoral strategies. These involve a series of public meetings with stakeholders, including from private sector, civil society, and development partners. For most strategies, consultations are held at the district level across the country.

83. **Individual actions supported through the DPC are all subject to extensive, typically formal, processes of consultation with stakeholders.** Table 4 provides a brief overview of the nature and scope of consultations carried out by the GoB with respect of each Prior Action. Note that all new acts of Parliament as well as amendments to existing acts are required to go through a formal stakeholder consultation and to document how stakeholder consultations have been reflected in the proposed legislation prior to submission for Cabinet approval.

Table 4: Overview of Consultations for Prior Actions

Prior Action	Brief description of consultations
1- OSS Act	• Series of at least six stakeholder consultation sessions in the year following October 2016 and prior to final Cabinet approval.

2- Customs Act	• Consultations with business community ongoing since 2014; wider consultations held as required prior to submission for Cabinet approval.
3- Bonded Warehouse reforms	• Ongoing consultations through BUILD public-private dialogue platform • Policy Research Institute organized a number of public seminars on bonded warehouse reforms and on export diversification approaches including through simplification of the bonded regime.
4- Support for Climate Mitigation	• Launch of Citizens Climate Budget • Series of stakeholder workshops on National Environmental Policy
5- Pensions	• No formal consultations on PAs; formal consultations will be launched as part of development of Pensions Strategy in DPC 2.
6- Labor Act Amendments	• Amendments prepared with ongoing consultation with Tripartite (Government-Business-Labor) Council formed for RMG sector. • ILO led stakeholder consultations on EII reforms as part of technical assistance
7- Wage Earners Welfare Board Act	• Broad consultations, as per requirements for Cabinet approval, over the two years prior to the Act being approved.
8- NSDA Act	• Extensive consultation process dating from 2013, including numerous workshops with skills relevant ministries, training providers, private sector, ISCs, civil society, among others. Draft Act was published online for public opinion for six-month period.
9- Childcare	• Consultations ongoing as per requirements for Cabinet approval.

COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

84. **The program was prepared in close cooperation with development partners.** Prior Actions in Pillar A are supported through the DFID-financed Bangladesh Investment Climate Fund. This includes: ‘*Improving Investment Competitiveness for Bangladesh’* project, which provides technical assistance to BIDA on OSS and Doing Business reforms linked to the Companies Act; ‘*Trade and Competitiveness for Export Diversification’* project, which provides technical assistance for drafting the Customs Act and the NSW Law, introduction of risk management in Customs, and advisory to NBR on the bonded warehouse regime; and ‘*Sector Competitiveness Advisory for Bangladesh’*, which provides technical assistance to the MoC that includes support to the ministry to develop environmental guidelines for high-priority export sectors. Prior Action 6 has been designed in close collaboration with the ILO, who have been instrumental in providing assistance to MoLE in drafting the Labor Act (Amendment) (Prior Action 6). Triggers supporting the strengthening of labor regulation enforcement capacity and EII were designed explicitly to complement on-the-ground activities led by ILO, on former to strengthen the capacity of DIFE and on the latter (with GIZ) to introduce an EII scheme. WBG also collaborated with ILO and the International Organization for Migration on actions targeting migration –ILO provided technical support in the drafting of the Wage Earners Welfare Board Act (PA 7). Several development partners, including the EU, Switzerland, and the ADB (along with the WBG) are actively supporting PA8 actions on NSDA and Industry Skills Councils. UNICEF and BRAC, among others, have provided advisory input to MoWCA on the Child Daycare Act and have been consulted through the task team and as part of the IFC’s global ‘Tackling Childcare’ working group. Finally, the task team held a consultation session on the DPC for development partners in Dhaka on July 11, 2018.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

85. **Actions undertaken in Pillar A can be expected to have overall positive benefits to the poor through the employment and wage channel, as well as through (trade-induced) lowering of prices**. The wage effects of reducing the costs of importing inputs (Prior Actions 2 and 3) was assessed. As the price of imports declines the marginal product of workers should increase, putting upward pressure on wages. However, the value of imported inputs is currently small so the impact on wages in existing sectors will also be very small. Displacement of domestic inputs will need to be monitored as the reforms are implemented.

86. **Actions undertaken in Pillar B (Prior Action 6) are expected to bring positive direct impacts on employees**. The actions, particularly in Prior Action 6 and later triggers, will reduce the risk of injury and increase the benefits to workers in the event of injury or childbirth. However, these actions will also have indirect effects on the costs and perceived benefits of wage employment. The net impact of the actions on employment rates and wage levels for unskilled workers was assessed using a macro labor model that builds on the Diamond-Mortensen-Pissarides models of labor markets, calibrated for the Bangladesh labor market using data from the *Labor Force Survey 2016*, the *Household Income and Expenditure Survey 2016/17*, and the *Economic Census 2013*.

87. **The assessment indicates that the overall indirect impact of Prior Action 6 on labor market outcomes is insignificant and outweighed by the direct benefits of these actions.** Stronger enforcement of labor regulations and EII encourage: (i) employers to hire less and (ii) workers, particularly poorer and low-skilled, to engage in more job search as wage employment becomes more attractive relative to self-employment. Less hiring and more job search puts downward pressure on wages, which counteracts the increased cost of labor that the regulations imply. The net impact is little change in the cost of hiring or employment. For labor market regulations with a cost similar to the proposed EII, the cost of hiring increases by 0.02-0.1 percent of the wage bill and unemployment does not change for low-skilled workers (Table 5). The main impact is on wages, but this is expected to be small and offset by the direct benefits of the action, even when they are only valued by workers at half their cost. Wage impacts are larger for employment regulations that are costlier to firms, but even increasing the cost by 5 times results in a wage reduction of only 1 percent.

Table 5: Summary of direct and indirect effects of stronger labor market regulations

Cost of stronger labor regulations	0.3% of wage bill		1.5% of wage bill	
Workers perceived value of regulations (relative to cost)	Full	Half	Full	Half
Wages (percent change)				
Low skilled	-0.28%	-0.20%	-1.07%	-0.90%
High skilled	-0.24%	-0.21%	-0.81%	-0.76%
Unemployment (percentage point change)				
Low skilled	0.00 p.p.	0.00 p.p.	0.00 p.p.	0.01 p.p.
High skilled	0.01 p.p.	0.01 p.p.	0.04 p.p.	0.04 p.p.

88. **Actions in Pillar C will reduce the cost of job search and improve female labor force outcomes with beneficial effects on poverty and empowerment**. If the actions increase the skills of workers (Prior Action 8) in dimensions that are rewarded by the market, there are direct positive welfare effects for those trained. If actions

increase matching efficiency in the labor market (e.g. through better certification of skills) then firms will post more vacancies generating more employment, higher output and higher profits. Equilibrium wages increase if higher profits are passed on to workers, and unemployment declines; higher matching efficiency also lowers unemployment. By regulating standards in the childcare sector, Prior Action 9 may raise costs for daycare services, with potential negative impacts on poorer workers. This can be compensated through financial assistance to households unable to afford childcare and/or to childcare providers serving the lower end of the market.

5.2. ENVIRONMENTAL ASPECTS

89. **The policy reforms supported by this DPC will help Bangladesh industry adopt enhanced pollution reduction practices to comply with Bangladeshi environmental standards and reduce pollution and its adverse impacts on the health of industrial workers, the general public, and critical ecosystems.** Expansion of the industrial sector bring increased environmental risks. As indicated in the recent *Country Environmental Analysis* (CEA) [53], untreated urban and industrial wastewater discharges, notably from textile, steel, pharmaceutical and leather industries, have reduced water quality in rivers around Dhaka to levels unsuitable for human use. The DPC aims to mitigate environmental risks of expansion of the leather sector through program-specific measures, including through introduction of environmental and social guidelines and through targeted efforts focused on addressing compliance in the Savar Leather Industrial Estate. Heavy metal contamination of the Buriganga river water and sediments around Hazaribagh where tanneries were concentrated until recently is well documented, and likely impacts the poor disproportionately, as suggested by the geographical overlap with slum areas. To control these risks, to mitigate negative health impacts, and to comply with increasingly stringent standards of global buyers, in 2017-2018 the GoB relocated the tanneries to a specialized industrial estate in Savar and invested in an industry-specific CETP. However, several functions of the CETP, including removal of toxic chromium have not become operational to date due to technical and institutional challenges. Proper disposal of the toxic sludge from the CETP, when it becomes operational, and collection and disposal of solid waste, will also be critical challenges. The MoI, which has a legal mandate over the leather industry, has made the full operationalization of the Savar CETP and environmental management of this industry in general, a priority. To this end, MoI is preparing a Leather Sector Policy, which emphasizes the high priority of achieving compliance. MoI has also made a request to international partners, including the WBG, to prepare an assessment and devise a plan to address current deficiencies with the Savar CETP. MoI intends to ensure the CETP is managed by a technically qualified professional operator so that it meets the discharge standards for tanneries prescribed by The Environment Conservation Rules (1997) in a continuous manner. MoI will need to put in place measures to ensure the CETP's financial sustainability, as well as ensuring sustainable waste management. Tannery level initiatives, including pre-treatment, waste recycling, energy efficiency, water managements and chemical management would not only help the Savar CETP reach compliance, but also allow the enterprises significantly improve their profit margins.[54]

90. **In addition, the Department of Environment (DoE) will need to adopt policy and institutional measures to better enforce environmental standards and facilitate public good investments in proper hazardous waste management, for industries both within and outside industrial estates.** MoI's above-mentioned initiatives to mainstream proper environmental management into industrial operations conforms with international good practice recommended by the CEA for all polluting industries. However, international experience also shows that

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[53] World Bank (2018). "Enhancing Opportunities for Clean and Resilient Growth in Urban Bangladesh: Country Environmental Analysis 2018" Washington, DC, The World Bank Group.

[54] WBG is currently providing the Bangladeshi leather industry with technical assistance on environmental compliance to help improve its competitiveness as part of BICF-financed activities.

consistent enforcement of environmental standards and the 'polluter pays' principle is an essential condition for widespread compliance. In this regard, the CEA recommends that the DoE be reformed and allocated adequate resources to modernize its information management, monitoring, and enforcement systems; build up and organize its staff to more effectively respond to pressing environmental challenges; and effectively decentralize to district and divisional levels, with priority given to areas / cities with the highest levels of pollution. Finally, there is a need to put in place a proper hazardous waste management system.

91. **DPC-supported policy actions, including streamlining approval processes to speed up firm licensing and operational set up (DPC 2 Trigger 1A), do not entail lowering of the environmental requirements.** Rather, they will bring more clarity in the approval process and regulatory requirements and introduce risk-based approaches that encourage GoB to invest more time and resources for high risk operations. Development of the procedures for environmental clearance through the OSS are still under development with close involvement of DoE, which will ensure that the procedures adopted are in line with the GoB regulation on environmental impact assessment.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

92. **While the GoB's Public Financial Management (PFM) and procurement systems show continued improvement over the past decade, there remain weaknesses that should be addressed to minimize risks of the program achieving its objectives**. Bangladesh has achieved steady improvement in scores on the Public Expenditure and Financial Accountability assessments from 2006 to 2010 and again to 2015, particularly with respect to execution, accounting, and auditing. However, gaps remain, including: delays in preparing program financial statements; delays in resolution of audit observations; delays in releasing annual budget; lack of professional resources in financial management; weak internal audit capacity; delays in procurement process, specifically for the large value contracts requiring approval of the Minstry or Cabinet; instances of inappropriate bidding practices for small value contracts at decentralized level; inadequate procurement management capacity in certain sectors; inconsistent monitoring of procurement perfromance time and cost overruns during contract implementation; and lack of strategic procurement planning. In a number of ongoing WBG operations with GoB, program action plans focusing on risk mitigation as well as capacity building were put in place[55].

93. **Disbursements.** The credit proceeds will be made available to the Government upon approval of credit effectiveness. The government will submit a withdrawal application in the requested format to the WBG once the credit has been approved and the WBG has notified the credit effectiveness to the GoB. Funds will be transferred to US$ account of BB (the account number of which will be specified in the withdrawal application), and then to the consolidated treasury account of GoB which is maintained in BDT.

94. **Confirmation and eligible expenditure**. MoF will provide to the WBG a confirmation that the amount of the operation has been credited to an account that is available to finance budget expenditures. If, after proceeds are deposited in the government account, proceeds of the operation are used for ineligible purposes as defined in the Financing Agreement, the WBG will require the GoB, upon notice from the WBG, to refund an amount equal to the amount of said payment to the GoB. Amounts refunded to the WBG upon such request shall be cancelled. The government will confirm to the World Bank, within 30 days, receipt of the proceeds and its credit in the US$ Bank account and consolidated Treasury account, including the date of receipt, the exchange rate applied to convert the credit proceeds into BDT, and the name and number of the government's bank account in which the

[55] These include, for example, Health Sector Program, the VAT Modernization Program, Quality Learning for All Program, as well as the Secondary Education Development Program.

funds have been deposited.

95. **Reporting and auditing**. No audit will be required for the proposed operation as fund will be transferred to treasury and not to a dedicated account. The closing date of the proposed loan will be June 27, 2019.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

96. **Responsibility for monitoring implementation of the DPC program rests with MoF.** The Finance Division of the MoF will be responsible for coordinating and reporting to the WBG on the progress of implementing the DPC policy programs with the GoB authorities responsible for program implementation, including: BIDA, NBR, the MoC, MoLE, MoEWOE, NSDA, and MoWCA. Throughout implementation, a multi-sector team from WBG will undertake supervision missions and provide technical assistance and policy advice to support implementation and monitor the DPC-supported program. In addition, as noted elsewhere, ongoing technical assistance is in place from the WBG and development partners to support implementation of the program across all results area. The proposed results indicators will be monitored to evaluate the impact of the DPC program in supporting Bangladesh to address jobs challenges. Monitoring and evaluation of results indicators will be based on data available from GoB implementing authorities and verified by the WBG through DPC supervision. Given the cross-cutting nature of the program, the GoB will establish an inter-ministerial program monitoring committee, led by the Finance Division, to oversee implementation.

97. **Citizen Engagement**. Individual actions supported through the DPC are all subject to extensive, typically formal, processes of consultation with stakeholders. Table 4 on page 35 provides a brief overview of the nature and scope of consultations carried out by the GoB with respect of each Prior Action in DPC 1. In addition, several individual actions incorporate mechanisms for direct stakeholder feedback. For example, when the OSS is operational (Action 1, DPC 3 trigger), it will provide transparency on the licensing processes and include a module enabling users to provide direct feedback. Under Action 6, triggers in DPC2 and DPC3 will support the national rollout of a Labor Inspections Management Application (LIMA), including a mechanism for workers to (anonymously) file grievances or reports to DIFE about workplace issues – including sexual harassment – and publication of regular inspection reports to increase transparency of the process. The DPC will also ensure compliance of all entities with Access to information law which is a key precondition in improving accountability. The 2009 Right to Information Act provides an adequate legal basis for pursuing sharing of information and data.

98. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit ***www.inspectionpanel.org***.

6. SUMMARY OF RISKS AND MITIGATION

99. **The overall risk rating is assessed to be substantial.** Table 6 on page 45 summarizes individual ratings. Following is a review of the main risks identified and potential for mitigation.

100. **Political and governance risk is substantial.** Major bilateral partners remain cautiously optimistic in their assessment of the prospect of peaceful elections. Moreover, based on past election experiences, few observers see risk of major changes in macroeconomic and structural policies as a result of the elections. To date, the election environment has been benign. Economic activity could be negatively affected in the short term by eroding consumer confidence, a credit bubble, weakening revenue collection, and worsening inflation. As has been the case in the past, capital flight could increase ahead of the election. However, the economy has proven relatively resilient to political upheavals in the past[56]. The influx of Rohingya refugees into Bangladesh represents an ongoing risk. In this context, a combination of policy measures and improvements in safety net programs, improved capacity of civil administration, and the strength of the country's renowned NGOs which helped mitigate the impact of the natural disasters in the past, and these can be leveraged to manage risk.

101. **Institutional capacity risks are substantial.** In addition to governance risks of reform, there is a substantial risk at the technical level for implementation and monitoring. This stems from fragmentation across the ministerial bureaucracy and lack of effective mechanism for coordinating and monitoring reforms, particularly where they are cross-sectoral in nature. The program aims to mitigate these risks through several means: (i) Limiting the number of ministries attached to the program – most Prior Actions are under control of the Ministry of Finance or Prime Minister's office; (ii) Outside of these actions, focusing on reforms that have been publicly identified has high priority by the Prime Minister; and, (iii) Establishing a cross-ministerial working group, chaired by the Ministry of Finance, to coordinate implementation and monitoring of DPC reform actions.

102. **Fiduciary risks are substantial.** Fungibility of funds under a DPC raises risks that budgetary resources may be diverted or misused. The GoB, however, has a good record of allocating public spending to key development sectors, as well as emergency relief and rehabilitation activities. Auditing arrangements, financial management within government ministries, and external oversight by the Comptroller and Auditor General's office are also being strengthened, including through introduction of the new Budget Accounts and Classification System and introduction of an entity audit model. The WBG-supported project in digitizing public procurement system is expected to reduce inappropriate bidding practices and the scope for misuse of budgetary funds in contracting. To enhance the safeguard framework, the MoF is strengthening its financial management with support from a WBG-executed Multi-Donor Trust Fund program which aims to bring external auditing practices up to international standards, enhance capacity of Parliamentary oversight committees, and enable civil society to engage on budget formulation, execution, and oversight. In addition, with WBG support, the GoB is expanding the scope of electronic government procurement nation-wide and strengthening monitoring of implementation of all development programs and projects using digital technology.

103. **Environmental and social risks are substantial.** The environmental assessment highlights the environmental risks of actions designed to increase investment and output in the manufacturing, particularly in sectors like leather. As indicated in the assessment, it will be important for the GoB to put in place regulatory and budgetary measures to mitigate these risks, most notably in addressing compliance shortfalls at the Savar Leather

[56] GDP growth remained robust in FY14 even with the prolonged protests in the latter months of 2013, as factories moved work shifts to nights and weekends.

Estate. This has been built directly into the program. In addition, the Department of Environment (DoE) will need to adopt policy and institutional measures to better enforce environmental standards and facilitate public good investments in proper hazardous waste management, for industries both within and outside industrial estates.

104. **Stakeholder risks are substantial.** The program touches on many stakeholders from across government, the private sector, and civil society, some of whom may be in opposition to some aspects of the many of the reforms. Some interest groups, particularly from segments of the business community, have significant influence and history of slowing reforms. These risks are mitigated by the fact that the reforms outlined in this program are strongly owned by the GoB, and most of them have already gone through significant consultation with key stakeholders. Internal stakeholder risks are mitigated through coordination of the reform program by the MoF.

Table 6: Summary Risk Ratings

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

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers			Results		
Prior Actions under DPC 1	**Indicative Triggers for DPC 2**	**Indicative Triggers for DPC 3**	**Indicator Name**	**Baseline (2018[57])**	**Target (*2022*)**
Pillar A---Modernizing the trade and investment environment					
Prior Action 1*:* The Recipient, through its Parliament, has enacted the One Stop Shop Act 2018 (Act No. 10 of 2018) and published it in the Official Gazette.	**Trigger 1A**: BIDA has issued OSS rules and streamlined processes in relevant line agencies to bring them into line with the OSS Act. **Trigger 1B**: The GoB has enacted the new Companies Act.	**Trigger 1C**: BIDA has made the OSS fully operational, with an automated system including a feedback loop; RJSC has introduced an enhanced, automated business registration system with interoperability across relevant government agencies.	Time to and cost to set up a new business (disaggregated by gender) Annual growth in new business registrations (disaggregated by gender)[58]	Time: 19.5 days Cost: 22.3% of income/capita (no gender difference) 0.4% (average over last 5 years)	25% reduction 5% per annum (overall); 10% for women-owned businesses
Prior Action 2: The Ministry of Finance has submitted the Customs Act 2018 (Bill No. 58 of 2018) to the Recipient's Parliament for approval.	**Trigger 2A**: The MoF has issued implementing regulations for the Customs Act 2018. Trigger 2B: The NBR has established a risk management Directorate.	**Trigger 2C**: Cabinet has approved the National Single Window Policy / Law.	Share of import shipments inspected by border agencies Import clearance time (days)	100% import inspection Chittagong: 8-9 Benapole: 5-6 Dhaka: 6-7 Dhaka ICD: 7	70% import inspection Chittagong: 6 Benapole: 3 Dhaka: 3 Dhaka ICD: 2
Prior Action 3*:* The NBR has made publicly available on its website a comprehensive set of rules and procedures for Bonded Warehouse business licensing and operation.	**Trigger 3A**: NBR has implemented recommended actions from bonded warehouse business process review, including new / rationalized rules and instructions governing the SBW regime and introduction of methodologies and techniques to manage program.	**Trigger 3B**: NBR has introduced an automated bond licensing and reconciliation system to improve efficiency and minimize leakage.	Number of active bond license holders outside RMG sector	594 (Dhaka and Chattagram)	891

[57] Baseline data point varies by indicator, but is latest available; where relevant the specific data is indicated
[58] RJSC does not currently capture gender of registrants; this will be added in the new system and growth tracked at least for last two years of program.

Prior actions and Triggers			Results		
Prior Action 4: (i) The Ministry of Finance has rolled out Climate Budgeting across 20 ministries with climate relevant expenditures; and, (ii) The Cabinet has approved the National Environmental Policy 2018.	**Trigger 4A**: The GoB has issued guidelines for environmental and social compliance standards for the leather sector and at least one other manufacturing sector, including guidelines to improve energy efficiency.	**Trigger 4B:** The GoB has implemented a program of technical and operational improvements of the Central Effluent Treatment Plant to ensure environmental compliance at the Savar Leather Industrial Estate.	Share of Ministry of Industry budget relevant for climate mitigation or adaption Savar tannery complex meeting relevant ECR effluent standards.	3.74% (FY19) No	7.5% (at some point by FY22) Yes
Pillar B--- Strengthening systems that protect workers and build resilience					
Prior Action 5: The Ministry of Finance has integrated the management of the Government Service Pension Fund and the General Provident Fund of civil servants through the establishment of the Central Accounts Office for Pension and Fund Management.	**Trigger 5A**: The Cabinet has approved a comprehensive pension strategy.	**Trigger 5B**: The GoB has established a pension regulatory authority.	# of civil service pensioners receiving electronic payments (disaggregated by gender) Institutional readiness to oversee regulation of private pensions	0 (2018) No private pension schemes regulated by GoB	100,000 (2022) -- 80,000 men / 20,000 women At least one GoB-regulated pensions pilot launched outside of the civil service
Prior Action 6: The Recipient, through its Parliament, has passed the Bangladesh Labor Act (Amendment) 2018 (Act No. 48 of 2018).	**Trigger 6A**: MoLE has launched nationally and across sectors the Labor Inspection Management Application (LIMA), including mechanisms for feedback from workers and publication of inspection results.	**Trigger 6B**: MoLE and MoF have approved a plan to ensure labor regulation enforcement and labor courts have capacity sufficient to deliver faster and more effective enforcement. **Trigger 6C**: MoLE has initiated a pilot of the EII scheme in at least one sector.	# of labor and safety complaints disposed of (addressed) by DIFE (quarterly average), of which # related to sexual harassment or GBV	500 (Q4 2017); [no baseline on sexual harassment or GBV]	1,000 (2022 quarterly average), with at least 50 related to sexual harassment or GBV

Prior actions and Triggers			Results		
Pillar C--- Improving policies and programs that enhance access to jobs for vulnerable populations					
Prior Action 7: The Recipient, through its Parliament, has enacted the Wage Earners Welfare Board Act 2018 (Act No. 30 of 2018) and published it in the Official Gazette.	**Trigger 7A:** The MoEWOE has issued the rules and regulations of the Overseas Migration Act 2013 pertaining to recruitment agency conduct and migrant welfare management.	**Trigger 7B**: The MEWOE has submitted amended overseas migration legislation to Parliament addressing legal gaps in the regulation of intermediaries.	Average cost of migration through formal channels (disaggregated by gender) Budget allocation for: (1) Legal assistance for expatriate workers; (2) Emergency repatriation of female workers	BDT 418,455 (male); BDT 253,078 (female) (1) BDT 3.01m (2) BDT 5.73m [FY17]	25% real reduction in costs for each 30% real increase in budget allocation of each
Prior Action 8: The Recipient, through its Parliament, has enacted the National Skills Development Authority Act 2018 (Act No. 45 of 2018) and published it in the Official Gazette.	**Trigger 8A**: The Prime Minister's Office has (i) issued NSDA related rules, regulations, and guidelines for operation; and (ii) completed NSDA's staffing and established a long-term funding model; all aiming at ensuring NSDA's institutional sustainability.	**Trigger 8B**: The NSDA has implemented sustainable funding models, with substantial private sector financing, across Industry Skills Councils.	# of workers trained in partnership with private industries with support from the NSDA/ISCs (by gender) # of competency standards (by occupation and level) developed and introduced in at least one training center	13,213, of which 31% female (FY'18) 294	19,345, of which 41% female (i.e. 10% pa increase; 18% pa female) 500
Prior Action 9: The Ministry of Women and Children Affairs has submitted the draft Child Daycare Act to the Scrutiny Committee of the Recipient's Cabinet of Ministers.	**Trigger 9A:** The GoB has enacted the Child Daycare Act.	**Trigger 9B:** The MoWCA has established an institutional structure to oversee regulation of daycare facilities.	# of Daycare centers licensed under new regulatory framework	None	200

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes 2018 Article IV Consultation with Bangladesh

June 8, 2018

On May 30, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the 2017 Article IV Consultation with Bangladesh. [1]

The Bangladesh economy continues to perform well with robust and stable growth. The strong growth comes with stable inflation, moderate public debt, and greater resilience to external shocks. The country continues to make steady progress in reducing poverty and improving social indicators.

Real GDP growth in FY17 (ending September 30) further accelerated to 7.3 percent from 7.1 percent in the previous fiscal year, led by strong private consumption and investment. Headline inflation slightly picked up towards the end of the fiscal year with higher food prices caused by flood-related disruption in agricultural harvest. The current account turned into a deficit with slower export growth, higher imports, and decline in remittances, while the balance of payments remained in small surplus. The debt-to-GDP ratio has remained stable at around 30 percent with the fiscal deficit well below the 5 percent of GDP budget target.

The macroeconomic situation is expected to remain robust in FY18. Growth is projected at around 7 percent with strong domestic demand. Inflation is expected to remain below 6 percent, close to Bangladesh Bank's target as flood-related pressure on food prices eases with the rice harvest recovery. The current account deficit is projected to widen to close to 2 percent of GDP with stronger import demand for food, industrial raw materials, and capital machinery, while remittances and exports start to recover. Slow progress in resolving the Rohingya refugee crisis could add to economic, political, and social pressures.

Executive Board Assessment [2]
Executive Directors commended the authorities for their sound macroeconomic policies which have contributed to robust growth, a significant reduction in poverty, and improvement in social indicators. Directors agreed that continued implementation of prudent policies and structural reforms, including enhancing productive investment, will be key to further strengthening strong and inclusive growth over the medium term. Directors commended the authorities for their efforts to host the large number of Rohingya refugees and highlighted the importance of continued financial support from the international community.

Directors welcomed the authorities' efforts to contain the fiscal deficit and keep the public debt-to-GDP ratio broadly stable. Noting the urgent need to increase tax revenues, they encouraged the authorities to undertake tax reforms, especially implementation of the VAT reform and improvements in tax administration. Directors underscored the importance of raising revenues to finance the needed infrastructure investment and social safety nets. They welcomed the progress in implementing the public financial management reform strategy and encouraged sustained efforts in this area.

Directors highlighted the need to remain vigilant to inflation dynamics and tighten monetary policy as needed. They recommended that addressing liquidity problems in individual banks should be done through targeted conditional liquidity support, and considered that a gradual increase in exchange rate flexibility would help buffer the economy against external shocks.

Directors emphasized that stronger banking regulation and supervision is necessary to address banking sector weaknesses. Noting the high non-performing loans (NPLs), particularly in state-owned commercial banks (SOCBs), they called for an accelerated resolution of the NPLs, a shift towards risk-based supervision, and strengthened banks' internal controls and risk management systems. Directors encouraged the authorities to avoid regulatory forbearance and put in place a robust resolution framework for troubled banks. For the SOCBs, it would be important to enforce the monitoring mechanism and clearly formulate their public policy role with transparent budgetary support. Directors called for steps to further strengthen the AML/CFT framework.

Directors supported continued efforts to develop the capital market to mobilize long-term financing for investment, which remains limited. In this context, they called for review and reform of the scheme for the national savings certificates by tightening its eligibility and revising the pricing mechanism.

Directors noted that further progress in diversifying exports, increasing female labor participation, and enhancing financial inclusion, especially for women, are critical to sustain strong and inclusive growth. They highlighted the need to increase expenditure on health, better align vocational training to market demands, improve rural infrastructure, and strengthen labor laws. Directors emphasized that climate change poses significant risk to Bangladesh's economy and this issue requires continued attention and efforts.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.
[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here :http://www.imf.org/external/np/sec/misc/qualifiers.htm.

IMF Communications Department

MEDIA RELATIONS

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ANNEX 3: LETTER OF DEVELOPMENT POLICY

Ministry of Finance
Government of the People's
Republic of Bangladesh

Abul Maal A Muhith
Minister

No: 07.00.0000.091.24.001.18- 177

Date: 1 November, 2018

Dear Dr. Kim,

Subject: First Jobs Programmatic Development Policy Credit

Bangladesh has made remarkable progress toward poverty elimination and shared prosperity over several decades. As we approach the 50th anniversary of Bangladesh's independence, we are well on our way to achieving our aim of becoming a developing nation. In fact, this year Bangladesh attained all three criteria for graduation from LDC status.

Much of the impressive socioeconomic headway is attributable to planned development strategy as well as policy intervention and targeted resource allocation towards growth-enhancing sectors, like power and energy, transport and communications, agriculture, education, health, and social security. It has been complemented by sustained macroeconomic stability, inherent resilience of the economy, and rapid information technology (IT) penetration. While in earlier years, policy focused on growth acceleration, now it is time to consolidate the growth momentum and focus on promoting inclusion, including through supporting access to productive, quality jobs for all citizens. This will require renewed reform efforts and recalibration of policies and programmes. Building on the achievements to date and the strong partnership between the Government of Bangladesh (Government) and the World Bank Group (WBG), Government would like to engage in an ambitious reform agenda to promote expanded job creation, improved job quality, and inclusive access to jobs for vulnerable Bangladeshis.

Annual GDP growth was more than 6 percent over the past decade. GDP growth accelerated even further in recent years, with FY 18 growth at 7.86 percent, the third consecutive year of growth at 7 percent or above. Growth has been broad-based and has benefited from robust demand in both domestic and export markets. Alongside this strong growth performance, there has been a notable decline in poverty and praiseworthy achievement on key social indices. People living below the national poverty line reduced from 49.8 percent in 2000 to 21.8 percent in 2018. Moreover, people living below the extreme poverty line reduced from 34.3 percent in 2000 to 11.3 percent in 2018. Further, supported by the Government's targeted policy intervention and extended resource allocation to the education and health sector, the literacy rate (7+ years) increased from 52.1 percent in 2005 to 72.9 percent in 2018. During the same period, maternal mortality halved and life expectancy at birth increased from 65.2 years to 72.8 years.

As Bangladesh moves forward, continued high growth should be maintained with greater attention to labour market dynamics. With around 2 million young people entering working age each year and increasing pressures on urban labour markets resulting from internal migration, particularly as a result of increasing effects of climate change, the generation of adequate and

1

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decent employment and enhancing the eligibility and access of new entrants into the job market is a key policy issue for government.

Despite faster GDP growth in recent years, overall employment creation has slowed. To address this job creation challenge, Bangladesh will need to look beyond RMG, diversify the export sector, develop labour-intensive micro, small and medium enterprises (MSMEs) and continue focus on overseas migration as a major source of employment. Improving the quality of jobs will be critical to improving the lives of the working poor and ensuring equity. Between 2010 and 2016-17, 2.4 million additional jobs were created for women, yet women's labour force participation stagnated. To get the best out of the potential of women in the Bangladesh labour market, existing socioeconomic and institutional barriers need to be removed. Finally, improving access to jobs for youth is rapidly becoming a priority challenge for Bangladesh. Gaps in competencies and lack of alignment between education and changing labour market demands has led to hiring skilled labour from foreign countries.

The 7th Five Year Plan (2016-20) includes the broad macroeconomic objective of growth acceleration along with inclusiveness and environmental sustainability; eradication of poverty, inequality, and human deprivation; and the economy's structural transformation in terms of enhanced contribution of the manufacturing sector to employment generation and GDP growth. As the Government intensifies efforts to attain the objectives and set strategies beyond the 7FYP, it intends to accelerate key reforms targeting the jobs agenda and coordinate their implementation. In this context, the Government has proposed a three-year matrix of reforms. With support of the Jobs Programmatic DPC series, Government intends to address job challenges by: (i) modernizing the trade and investment environment; (ii) strengthening systems that protect workers and build resilience and (iii) improving policies and programmes that enhance access to jobs for vulnerable populations.

Modernizing the Trade and Investment Environment

Bangladesh has made good use of deep and elastic demand offered by global economy to expand job opportunities in the manufacturing sector. Bangladesh is now the world's second largest exporter of RMG after China. It is increasingly attracting Foreign Direct Investment (FDI) but the absolute amounts are still relatively small and insufficient to transform the broader economy. Thus, the Government recognises the need to pursue a policy agenda that can help the private sector absorb about two million youth that enter the labor force every year. Continued large-scale job creation will require taking advantage of opportunities beyond RMG. Therefore, facilitating diversification, particularly in manufacturing sectors capable of generating large-scale employment – including leather, footwear, light manufacturing and pharmaceuticals, among others – is a top policy priority for the Government. Such priorities are reflected in the

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Ministry of Finance
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Industrial Policy, and the Ministry of Commerce is in the process of finalizing comprehensive Export Development Roadmaps/Strategies for a number of priority sectors.

The 7FYP aims to accelerate economic development through stronger trade and investment, including targets such as: (i) increase in gross investment from 29 percent to 34 percent of GDP; (ii) increase in private investment from 22 percent to 27 percent of GDP; (iii) quadrupling of FDI to US$10 billion; and (iv) a near two-thirds increase in exports to US$54 billion. To achieve these targets, the Government now plans to move into a more coordinated phase of reforms to address a range of factors adversely affecting investment incentives, as well as production and trading efficiency. This requires improving the policy environment for domestic and foreign investors to establish, expand, and operate businesses on a long-term basis. It will also require reforming the trading sector, to ensure that investors are able to take advantage of Bangladesh as a location to manufacture for global markets. In this context, the Government is introducing a series of reforms to support the trade, investment, and business environment.

In order to oversee efforts to improve the business environment, National Committee on Monitoring and Implementation of Doing Business Reforms was established in September 2017 which is working closely with the World Bank and IFC. It set out an ambitious objective to become one of the top 100 ranked economies in the Doing Business Index by 2021. The reform committee is headed by the Cabinet Secretary and has the responsibility to provide guidance to remove any challenges faced during implementation and encourage the agencies to adopt doing business reform targets in their Annual Performance Agreements. SDG Coordinator in the Prime Minister's Office has held two rounds of follow-up meetings in the past six months with individual line agencies responsible for the Doing Business reforms.

Bangladesh Investment Development Authority (BIDA) has been tasked with addressing many of the Doing Business reforms in order to ease private sector investment. To that end, passage of the One-Stop-Services Act, 2018 paves the way for establishing an electronic one-stop services to facilitate simplified, transparent, and improved access to the various licenses and registrations required to establish a business. The Government will continue to support actions required to ensure the OSS is effective, including through investments in automated systems and procedures to ensure coordination across multiple agencies.

The Government will introduce a new Companies Act to replace the current Act, most of whose provisions were developed in the colonial era. Changes introduced in the new Companies Act will not only smooth the process of starting a business, but will also make it easier for companies to operate and for unprofitable firms to close. As with the OSS reforms, introduction of the new Companies Act will coincide with the development of fully electronic mechanisms for registration and licensing, easing the bureaucratic burden on businesses and reducing the scope for corrupt practices.

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Ministry of Finance
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Replicating the success of the RMG sector to create large-scale employment will require that diversified sectors are successful in tapping into global value chains (GVCs). The Government is committed to establishing a modern trade facilitation environment and support the environment for labour-intensive, export-oriented manufacturing. Most importantly, this includes efforts by the National Board of Revenue (NBR) to introduce a risk management approach to customs and establish a National Single Window (NSW) for trade. Introduction of a new Customs Act (replacing the outdated 1969 Act), will provide the legal basis to enable the effective implementation of risk management and NSW; it will also promote greater transparency, raise revenue collection capacity and reduce tax evasion. NBR is also committed to make continued improvements to the special bonded warehousing (SBW) regime in order to improve its efficiency and increase access for firms outside the RMG sector. This will be delivered through business process simplification and automation. NBR's recent bond management automation project (iBMS) has importantly recognized the need to introduce efficiencies for compliant licensees.

Strengthen Systems that Protect Workers and Build Resilience

The Government recognizes that it is not just about creating more jobs but also better jobs. In the wake of the Rana Plaza tragedy, the Government, working closely with the international community, has taken a number of steps to improve factory safety, to introduce systems to compensate for injured workers, and to raise minimum wages. To this end, the Government is committed to introducing further reforms to improve worker protection and to raise and safeguard returns to workers.

National Social Security Strategy outlined a plan for a National Social Insurance Scheme (NSIS), which would include the development of a comprehensive pension system covering the private sector. The Government is modernizing management of civil servant pension. Electronic Fund Transfer (EFT) for pensioners is launched in February, 2018 and all new retirees will be issued electronic Pension Payment Order and enrolled in the EFT very soon. The new electronic payment scheme, managed through a central accounts office will significantly improve the pension system. Beyond the civil service pensions, the Finance Ministry will prepare a concept paper outlining the proposed pension reform strategy, which will begin implementation in 2019. The proposed arrangement will involve employees subscribing and contributing to a government-administered pension scheme, with the possibility for employers to also contribute. A Pension Regulatory Authority will be established to provide regulatory oversight of private pension funds and ensure integrity, fairness, and financial sustainability.

Delivering on its commitments made to the international community, the Government has brought amendments to Labour Law. A number of important provisions are included in the revisions. These changes to the Labour Law are in line with conventions and set the stage for implementing a number of ongoing actions designed to improve the quality of jobs. Substantial

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Ministry of Finance
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progress has been made in improving worker safety and in enforcing national labor and safety regulations. Much of the emphasis has been on the RMG sector. Safety evaluation work has been completed in 3,780 factories under the work plan formulated by tripartite body comprising ILO, Ministry of Labour and Manpower and factory owners. In March 2018, Department of Inspections of Factories and Establishments (DIFE) launched a pilot of a digitized Labor Inspections Management Application (LIMA), which, once fully operational, will facilitate registration and renewal of factory licenses, improve the collection, storage, and analysis of labor inspection data, allowing for the generation and publication of labor inspection reports, and enable workers or employers to file grievances or reports to DIFE about workplace issues.

As one of the world's economies most vulnerable to the effects of the climate change, the Government increasingly focuses on building resilience against climate-induced shocks. In this context, Bangladesh has been a pioneer in introducing a climate-responsive public financial management system. In 2014, the Government adopted a Climate Fiscal Framework providing a roadmap to link national climate strategies with the resource allocation system. 'Bangladesh Climate Financing for Sustainable: Budget Report 2018-19' was rolled out covering all 20 Ministries that have programs and projects of climate relevance. The Government also produced for the first time a Citizen's Climate Budget which translates the technical report into a set of simplified infographics for the general public. Together, these reports enhance transparency and helps stakeholders identify areas of opportunity to leverage public expenditure to strengthen climate resilience.

Large scale increases in manufacturing output will have implication for energy demand. To ensure sustainability of growth and address inherent risks resulting from rising GHG emissions, the Government will put increased efforts into raising the efficiency of energy production. This will include taking measures to ensure more market-based pricing as well as regulation. This will be complemented by continued efforts, through energy and trade policy as well as fiscal instruments, to promote investment in efficient, renewable source of energy to drive our jobs-intensive economic growth.

Improving Policies and Programmes that Enhance Access to Jobs for Vulnerable Populations

The Government is also taking targeted actions to support access to good jobs for parts of the population that have historically, or more recently, faced specific challenges in the labor market. These include: i) *women*, whose participation in labor markets remains low by international standards, and who tend to be concentrated in low quality jobs; *youth*, who are recently experiencing sharply rising rates of unemployment; and iii) *migrant workers*, whose numbers are growing, but who face challenges to accessing good jobs, face risks when overseas, and often struggle to reintegrate upon returning.

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Government of the People's
Republic of Bangladesh

Abul Maal A Muhith
Minister

Bangladesh has a well-established system of institutions to support the process of migration, led through the Ministry of Expatriates Welfare and Overseas Migration. The Ministry, along with the Bureau of Manpower Employment and Training processes overseas employment and provide training. The Government operates a Wage Earners' Welfare Fund (WEWF) to support overseas migrants with financing and services. The passage of the Wage Earners Welfare Board Act, 2018 provided support to important reforms to management of the WEWF, including ensuring representation on the board by overseas migrants. More broadly, the Act paves the way for the WEWF to significantly expand the range of services it offers to overseas migrants and facilitate their reintegration. The Government will also implement rules and critical amendments to the Overseas Migration Act (2013) to improve migration management, most importantly to help reduce the excessive costs of agencies and middlemen.

The Government is committed to improving the path for youth from education into employment through supporting efforts to improve access to skills and ensure that these skills are relevant for the needs of employers. In order to implement National Skills Development Policy, the Government established a 37-member National Skills Development Council (NSDC), headed by the Honorable Prime Minister, to coordinate the activities related to skills development, training, and employment of 23 ministries / divisions and NGOs. A National Human Resources Development Fund (NHRDF) has been established to ensure the flow of funds to finance skills development efforts. National Skills Development Authority (NSDA) in the Prime Minister's Office, established through the NSDA Act, 2018 will create a sustainable institution for coordination of currently fragmented national training programs.

The Government of Bangladesh has taken strong efforts over many years to promote women's empowerment and reduce gender disparities. Bangladesh stands 47th among 144 countries in 2017 in the 'Global Gender Gap Report'. The Government will also put specific emphasis on facilitating access to good jobs for women through programmatic and legal reforms. One key priority, to support both women's ability to participate in work and child development, will be to establish the legal and institutional foundations for a national child daycare system. To this end, a Child Daycare Act is under preparation, which will provide the basis for licensing and regulating public and private childcare services to ensure the environment of childcare centers is conducive for children's physical, emotional, and cognitive development.

The Government's commitment to the programme of reforms described above, supported by a credible financing package and robust technical assistance, can help ensure maximum impact to address Bangladesh's jobs challenges to deliver an economic transformation that is jobs rich, resilient, and equitable. In this context, the Government requests the approval of World Bank for 750.00 million US Dollar as Development Policy Credit for three years (2018-19 to 2020-21) to support our programme.

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গণপ্রজাতন্ত্রী বাংলাদেশ সরকার

Abul Maal A Muhith
Minister

Allow me to reiterate our sincere appreciation to the WBG for its ongoing support to Bangladesh and we look forward to continuing the strong partnership into the future.

With best wishes.

Yours sincerely

(Abul Maal A. Muhith, M.P.)
1/11/18

Dr. Jim Yong Kim
President
World Bank Group
Washington, DC, USA

7

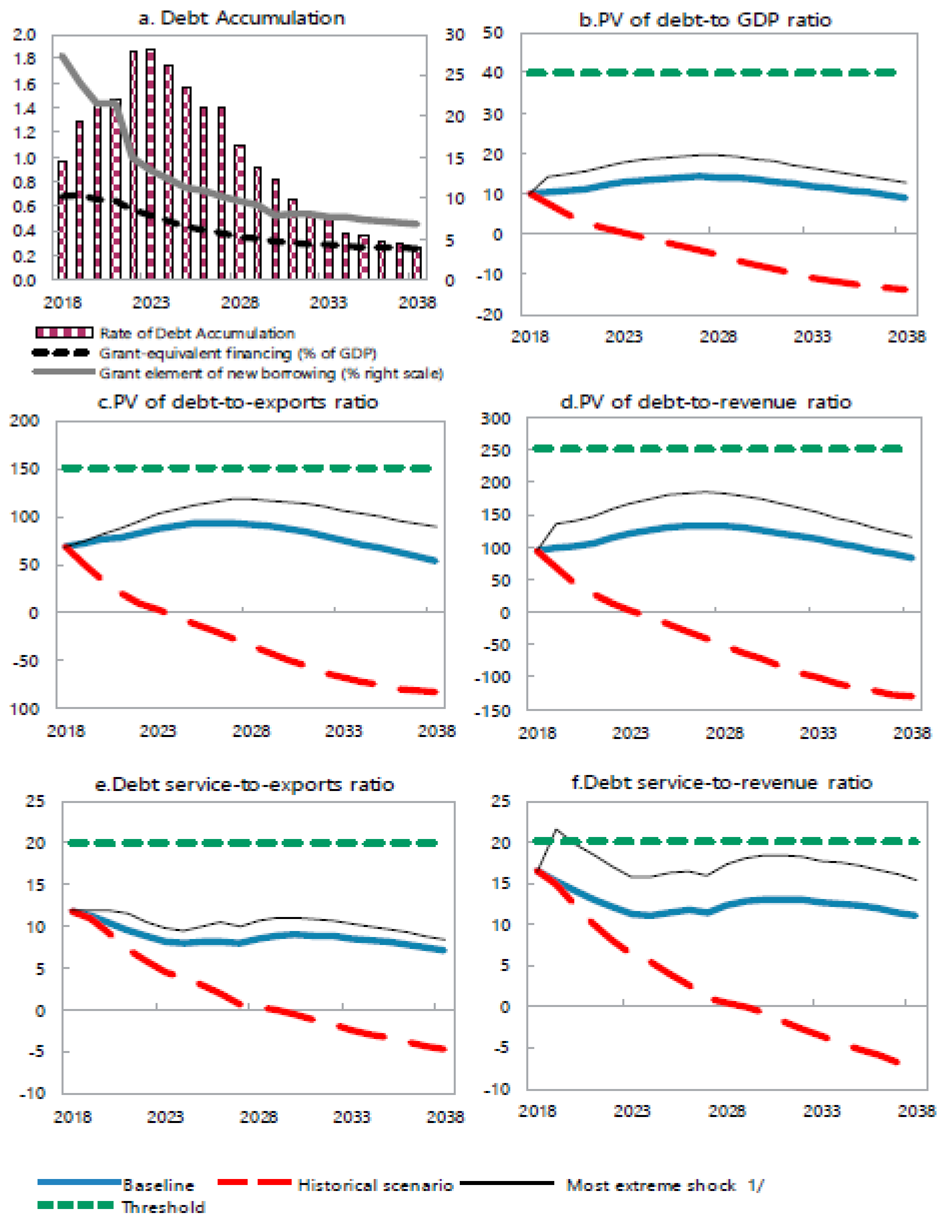
Office of the Minister, Ministry of Finance, Bangladesh Secretariat (Building # 7, Room # 332-339, 3rd floor), Dhaka-1000, Bangladesh

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions and triggers	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar A: Improving the trade and investment environment		
Prior Action 1*:* The Recipient, through its Parliament, has enacted the One Stop Shop Act 2018 (Act No. 10 of 2018) and published it in the Official Gazette.	Potential negative impact from increased investment in industrial sector	Positive impact – increased investment and job creation
Prior Action 2: The Ministry of Finance has submitted the Customs Act 2018 (Bill No. 58 of 2018) to the Recipient's Parliament for approval.		Positive impact on workers in export sectors, but potential distributional impact on import-competing industries
Prior Action 3*:* The NBR has made publicly available on its website a comprehensive set of rules and procedures for Bonded Warehouse business licensing and operation.		
Prior Action 4: (i) The Ministry of Finance has rolled out Climate Budgeting across 20 ministries with climate relevant expenditures; and, (ii) The Cabinet has approved the National Environmental Policy 2018.	Positive impact	No significant effects expected
Pillar B: Strengthening systems that protect workers and build resilience		
Prior Action 5: The Ministry of Finance has integrated the management of the Government Service Pension Fund and the General Provident Fund of civil servants through the establishment of the Central Accounts Office for Pension and Fund Management.	No significant effects expected	Positive impact – increased access to old-age security
Prior Action 6: The Recipient, through its Parliament, has passed the Bangladesh Labor Act (Amendment) 2018 (Act No. 48 of 2018).	No significant effects expected	Positive impact on existing workers but potential negative impact on hiring and wages
Pillar C: Improving policies and programs that enhance access to jobs for vulnerable populations		
Prior Action 7: The Recipient, through its Parliament, has enacted the Wage Earners Welfare Board Act 2018 (Act No. 30 of 2018) and published it in the Official Gazette.	No significant effects expected	Positive impact – increased access to jobs and reduced vulnerability of overseas workers
Prior Action 8: The Recipient, through its Parliament, has enacted the National Skills Development Authority Act 2018 (Act No. 45 of 2018) and published it in the Official Gazette.	No significant effects expected	Positive impact – increased access to skills contributes to productivity and jobs access
Prior Action 9: The Ministry of Women and Children Affairs has submitted the draft Child Daycare Act to the Scrutiny Committee of the Recipient's Cabinet of Ministers.	No significant effects expected	Positive impact – increased female labor force participation, but potential distributional effects.

ANNEX 5: DEBT SUSTAINABILITY ANALYSIS

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, 2018–2038 1/
(In percent, unless otherwise mentioned)

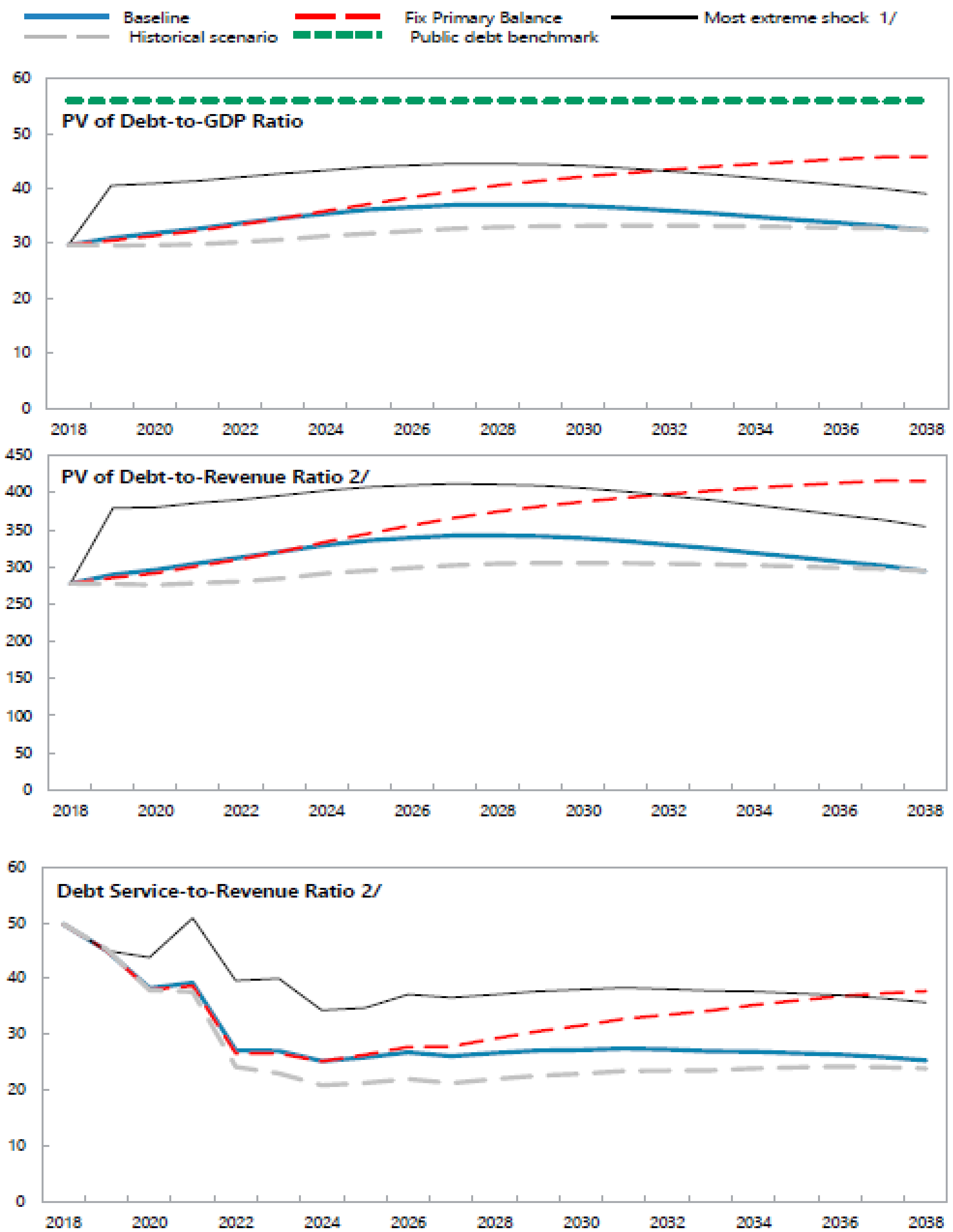


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2028. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Bangladesh: Indicators of Public Debt, 2018–2038 1/

(In percent)



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2028.
2/ Revenues are defined inclusive of grants.