



**MEMBER COUNTRY  
PARTNERSHIP STRATEGY FOR THE  
PEOPLE'S REPUBLIC OF BANGLADESH**  
Supporting Sustainable Economic Growth and Resilience  
2024–2026





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# ACKNOWLEDGMENTS

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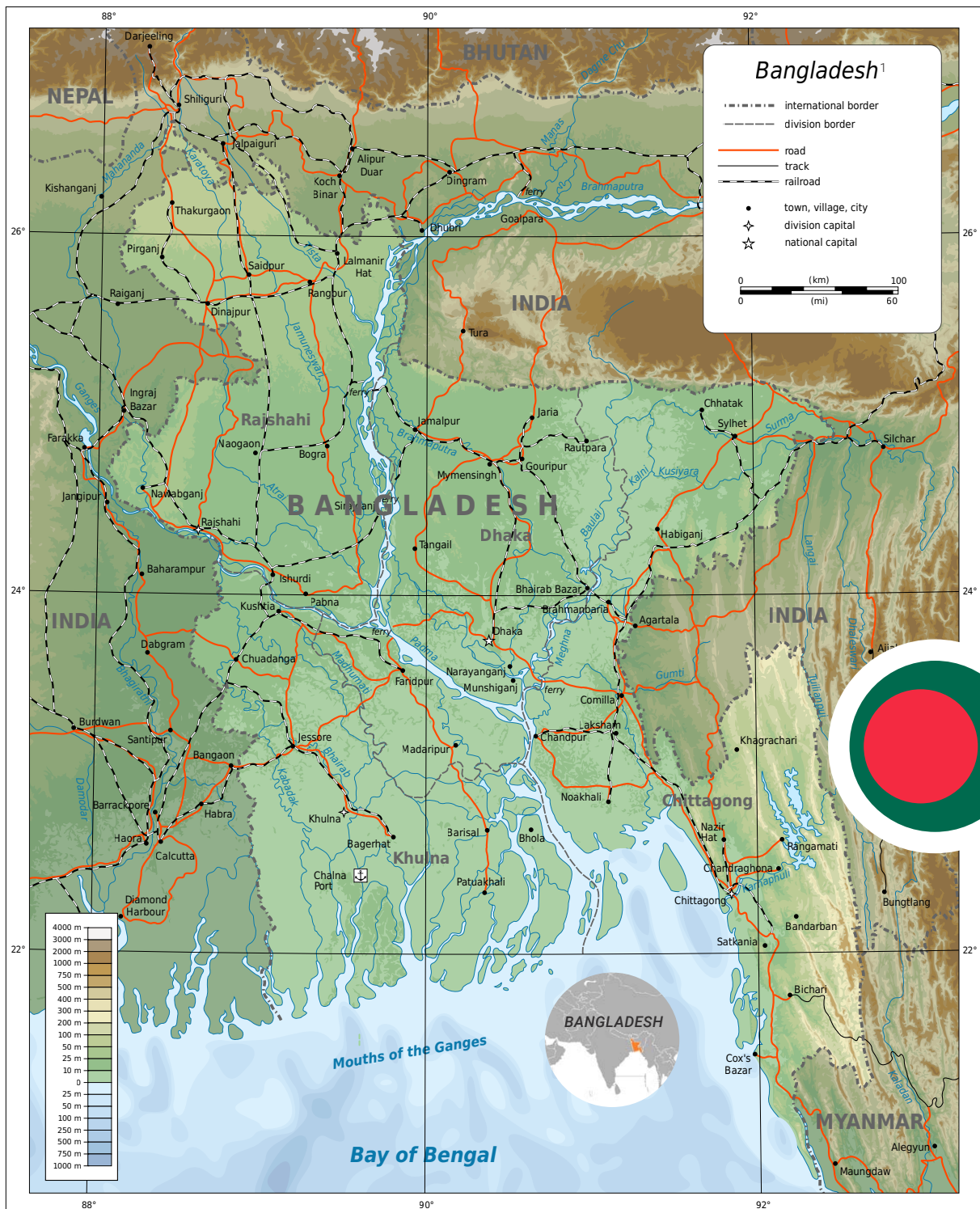
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# ABBREVIATIONS

<b>ADB</b>	Asian Development Bank
<b>BDT</b>	Bangladesh taka
<b>BGD</b>	Bangladesh (code in IsDB projects)
<b>BHBFC</b>	Bangladesh House Building Finance Corporation
<b>BoP</b>	balance of payments
<b>COVID</b>	coronavirus disease
<b>CPRN</b>	country portfolio review note
<b>CPTU</b>	Central Procurement Technical Unit
<b>e-GP</b>	electronic government procurement
<b>FDI</b>	foreign direct investment
<b>FYP</b>	Five-Year Plan
<b>GDP</b>	gross domestic product
<b>ICD</b>	Islamic Corporation for the Development of the Private Sector
<b>ICIEC</b>	Islamic Corporation for the Insurance of Investment and Export Credit
<b>ICT</b>	information and communications technology
<b>IsDB</b>	Islamic Development Bank
<b>IsDBG</b>	Islamic Development Bank Group
<b>IsDBI</b>	Islamic Development Bank Institute
<b>ISFD</b>	Islamic Solidarity Fund for Development
<b>IT</b>	information technology
<b>ITC</b>	International Trade Center
<b>ITFC</b>	International Islamic Trade Finance Corporation
<b>LC</b>	Letter of Credit
<b>LDC</b>	least developed country
<b>LLF</b>	Lives and Livelihood Fund
<b>LNG</b>	liquified natural gas
<b>LoF</b>	line of finance
<b>LTM</b>	limited tendering method
<b>MCPS</b>	Member Country Strategy Paper
<b>MDB</b>	multilateral development bank
<b>MSMEs</b>	micro-, small and medium-sized enterprises
<b>NBFI</b>	non-banking financial institution
<b>NCB</b>	national competitive bidding
<b>NGO</b>	non-governmental organization
<b>OCR</b>	ordinary capital resources
<b>PFM</b>	public financial management



<b>PIASR</b>	project implementation and assessment support report
<b>PMU</b>	project management unit
<b>PPP</b>	public–private partnership
<b>RH</b>	regional hub
<b>RMG</b>	readymade garments
<b>SDG</b>	Sustainable Development Goal
<b>SMEs</b>	small and medium-sized enterprises
<b>SOFR</b>	secured overnight financing rate
<b>TVET</b>	technical and vocational education and training
<b>UN</b>	United Nations
<b>US\$</b>	United States dollar



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# EXECUTIVE SUMMARY

Bangladesh, a model of rapid socio-economic development since its independence in 1971, has achieved remarkable growth, with its gross domestic product (GDP) surging from US\$53.1 billion in 2000 to US\$460 billion in 2022. The country has shifted from an agriculture-led to an industry- and services-driven economy, accompanied by significant improvements in key socio-economic indicators.

Bangladesh's rapid socio-economic development has thus far predominantly relied on price-competition-focused, low-tech-intensive readymade garments (RMG) exports and remittances from the export of labor. Promising industries such as electronics and pharmaceuticals have largely served the domestic market but have yet to make major inroads into international markets. In 2023, Bangladesh is facing a developmental turning point that is increasingly calling into question its current economic paradigm. Concurrently, disasters and climate change are most challenging for its development trajectory.

A balance of payments crisis in 2023 that led to an international reserves drawdown, the country's impending graduation from least developed country (LDC) status in 2026 affecting preferential market access for its RMG exports, low trade diversification, changing debt dynamics, and ambitious economic goals for 2031 and 2041 have all coalesced to force Bangladesh to embark on a new phase of structural transformation. This structural transformation will focus on foreign direct investment, private-sector-led industrialization into more sophisticated products, and brokering bilateral and multilateral trade agreements to expand market access, particularly with neighboring countries and key import partners.

In response, the Islamic Development Bank (IsDB) Group – comprising IsDB, International Islamic Trade Finance Corporation (ITFC), Islamic Corporation for the Development of the Private Sector (ICD), Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and Islamic Solidarity Fund for Development (ISFD) – has developed a **Member Country Partnership Strategy (MCPS) for Bangladesh, covering the period 2024–2026** to contribute to Bangladesh's shifting economic paradigm. The MCPS Bangladesh 2024–2026 has been developed with thorough consultation with the Government of Bangladesh. It is driven by Bangladesh's

national development plans and strategies, namely the Eighth Five Year Plan (2021–2025), Vision 2041 and the Bangladesh Delta Plan 2100.

The MCPS centers around two strategic pillars: Pillar 1 (Sustainable infrastructure for driving industry) focuses on key infrastructural bottlenecks in energy, transport, information and communications technology (ICT), and water and sanitation; and Pillar 2 (Enhancing future competitiveness) focuses on agriculture and nutritional security, education and health. These two pillars will be complemented by cross-cutting support on climate change mitigation and adaptation, women and youth empowerment, capacity development, and enhancing financial market depth and access to finance through Islamic finance.

The indicative financing package for the MCPS Bangladesh 2024–2026, totaling US\$5,150 million, involves a mix of instruments spanning support from IsDB ordinary capital resources (OCR), ITFC, ICD and ICIEC. IsDB OCR financing of US\$1,300 million will aim to support key infrastructural and human capital development constraints. The ITFC contribution of US\$3,600 million will focus on energy security, small and medium-sized enterprise (SME) support, RMG sector aid, and trade development. The ICD portion of US\$250 million will target large SMEs and corporates, equity investments, and debt capital market programs. ICD has already approved US\$132 million of new financing during 2023. The ICIEC contribution of US\$2,500 million will provide trade credit and investment insurance for strategic sectors.

This collaborative approach underscores the One Group, One Goal synergy agenda, demonstrating a holistic and flexible financing strategy to meet Bangladesh's evolving needs. The success of this initiative hinges on project readiness, co-financing and macro-level considerations,



reflecting a dynamic and adaptive approach to support the country's sustainable development.

The MCPS Bangladesh 2024–2026 internalizes lessons learned from the previous MCPS Bangladesh 2013–2018, active portfolio and fiduciary analyses.

MCPS implementation will be undertaken by a steering committee comprising the Regional Hub of Dhaka and the Government of Bangladesh. The Steering Committee will oversee project programming, design, implementation and monitoring of results in alignment with the MCPS.





# 1. INTRODUCTION

**[1]** The Islamic Development Bank Group (IsDBG), as part of its Strategic Realignment 2023–2025, designed this Member Country Partnership Strategy (MCPS) for the People’s Republic of Bangladesh for the period 2024–2026 to inform its future engagement with Bangladesh, focusing on the country’s development needs and priorities. Bangladesh, with a large population of 171.3 million in 2022, has made remarkable economic and social progress during the last three decades, with sustained economic growth, rapid structural transformation and significant improvements in human development indicators.

**[2]** Bangladesh’s per capita gross domestic product (GDP, constant 2015 US\$) increased from a meagre US\$646 in 2000 to US\$1,784 in 2022, with an impressive year-on-year growth rate of 5.7 percent. Over the same period, poverty<sup>2</sup> rapidly declined from 33.3 percent in 2000 to 9.6 percent in 2022. Despite these achievements, the country is still plagued with weak

economic diversification and business competitiveness, lack of quality infrastructure, limited human capital development, and significant threats from climate change and disasters.

**[3]** Over the course of 2022–2023, Bangladesh’s economy was navigating a challenging macro-economy due to the confluence of higher commodity prices, reduced remittances and a growing debt-servicing burden. Bangladesh’s real GDP growth is estimated to slow to 6.0 percent in 2023 and 2024. It is expected to revert to trend growth of 7 percent from 2026 onward. Inflation rose sharply in 2023 to 9.0 percent, owing to higher commodity and input prices. Despite a significant improvement in the current account deficit, which is projected to shrink from 4.1 percent of GDP in 2022 to 0.7 percent in 2023, foreign exchange reserves are falling due to a sizable financial account deficit.<sup>3</sup> These contexts are formally elaborated in section 2 of this document.



**TABLE 1.** MAIN ECONOMIC INDICATORS AND OUTLOOK

Economic indicator	2021	2022	2023*	2024*	2025*	2026*	2027*
Real gross domestic product (GDP) growth (%)	6.9	7.1	6.0	6.0	6.6	7.1	7.2
Inflation (%)	5.6	6.2	9.0	7.9	6.8	5.5	5.5
Budget balance (% of GDP)	-3.6	-4.1	-4.5	-4.5	-4.5	-5.0	-5.0
Current account balance (% of GDP)	-1.1	-4.1	-0.7	-0.8	-2.7	-3.0	-3.0
Foreign direct investment (FDI; % of GDP)	0.3	0.5	0.7	1.0	1.2	1.3	1.2
Remittances received (% of GDP)	6.0	4.6	5.1	4.9	4.6	4.4	4.1
Total external debt (% of GDP)	15.1	17.0	18.9	19.0	18.6	18.1	17.3
Gross international reserves (months)	5.8	4.6	3.5	3.8	4.2	4.4	4.5

\* Projections.

Sources: IMF Article IV Consultations Report, February 2023; and World Economic Outlook Database, October 2023.

<sup>2</sup> US\$2.15 a day (2017 purchasing power parity US\$).

<sup>3</sup> Bangladesh was granted US\$4.7 billion in loans by the International Monetary Fund (IMF) in 2023 to help reinstate macro-economic stability and rebuild economic buffers.





**[4]** The goal of the IsDBG MCPS for Bangladesh is to support the country in alleviating key structural impediments in its economic trajectory in alignment with the government’s priorities as laid out in its ongoing national development plan (Eighth Five-Year Plan, FYP) for 2021–2025. The Eighth FYP centers on six core themes: (i) rapid recovery from the coronavirus disease 2019 (COVID-19) pandemic to restore human health and economic activities; (ii) GDP growth acceleration, employment generation and poverty reduction; (iii) a broad-based strategy of inclusiveness; (iv) a sustainable development pathway that is resilient to disaster and climate change; (v) development and improvement of critical institutions necessary to lead the country to upper-middle-income status; and (vi) attaining Sustainable Development Goal (SDG) targets and mitigating the impact of graduation from least developed country (LDC) status. The Bank’s Strategic Alignment 2023–2025 consists of three broad strategic objectives: (i) a near-term orientation of ‘Boosting recovery’, (ii) a medium-term orientation of ‘Tackling poverty and building resilience’, and (iii) a longer-term orientation of ‘Driving green economic growth’.

**[5]** At the request of the Government of Bangladesh, IsDBG has formulated the Bangladesh MCPS for the period of 2024–2026 in alignment with Bangladesh’s Eighth FYP, Vision 2041, the Delta Plan 2100 and

the Bank’s Strategic Realignment 2023–2025. The MCPS is based on the following foundational documents: (i) Country diagnostic study (CDS) conducted by the Islamic Development Bank Institute (IsDBI); (ii) Country portfolio review note (CPRN) conducted by the IsDB Regional Hub (RH) of Dhaka; and (iii) Minutes of Meetings signed by the Government of Bangladesh endorsing the pillars and focus areas laid out in the MCPS in alignment with Bangladesh’s national priorities.

**[6]** This MCPS aims to provide broad strategic directions and sectoral focuses for IsDBG’s engagement in Bangladesh. Accordingly, the IsDBG MCPS for Bangladesh consists of two pillars: (1) Sustainable infrastructure for driving industry, comprising support for energy, transport, information and communications technology (ICT), and water and sanitation; and (2) Enhancing future competitiveness, comprising support for agriculture and nutritional security, education and health. In addition, IsDBG will integrate Islamic finance, women and youth empowerment, capacity-building, and climate change adaptation and mitigation as cross-cutting themes across its interventions. In the delivery of the MCPS, IsDBG will also take into consideration the rapidly evolving socio-economic and regional contexts of Bangladesh, through close country dialogue and adequate programming.



## 2. STRUCTURAL TRANSFORMATION



Bangladesh has transformed from a primarily agriculture-led economy in the 1970s–1980s, to an economy that is largely industry- and services-driven as of 2022.

**[ 7 ]** Bangladesh is widely considered an archetype of rapid socio-economic development among developing economies since it gained independence in 1971. Over the past two decades, Bangladesh’s GDP surged from US\$53.1 billion<sup>4</sup> in 2000 to US\$460 billion in 2022, with periodic average economic growth rates rising from 4.8 percent per annum in 2000–2005 to 6.2 percent per annum in 2006–2015, and to holding a stable average growth rate of 7.0 percent per annum from 2015 onward (excluding 2020, when the country’s growth rate declined to 3.4 percent). It is one of the fastest growing economies in the world.

**[ 8 ]** Bangladesh has transformed from a primarily agriculture-led economy in the 1970s–1980s, with 70 percent of GDP comprised of agricultural output, to an economy that is largely industry- and services-driven as of 2022. Between 2000 and 2005, agriculture’s contribution to GDP (at current prices) was 22 percent, falling to 12.3 percent by 2022; meanwhile, over the same period, the contribution of industry and services increased from 26.3 percent to 34.4 percent and from 51.1 percent to 53.3 percent, respectively (see Figure 1). However, the structure of employment has largely stayed the same over the country’s economic development, with 46.3 percent of employment coming from the agricultural sector, 37.6 percent from the services sector, and a meagre 18 percent from the industry sector on average over 2000–2022 (Figure 1).

**[ 9 ]** Rapid socio-economic development was witnessed over this period, with a population growth rate almost halving from 1.9 percent in 2000 to 1.07 percent in 2022, GDP per capita growing more than five-fold from US\$413 in 2000 to US\$2,688 in 2022, maternal mortality reducing by almost three-quarters from 441 (per 100,000 live births) in 2000 to 123 (per 100,000 live births) in 2020, infant mortality reducing by almost two-thirds from 63.1 (per 1,000 live births) in 2000 to 22.9 (per 1,000 live births) in 2021, literacy rate climbing from 47 percent in 2001 to 75 percent in 2020, and poverty headcount at US\$2.15 a day falling from 33.3 percent in 2000 to 9.6 percent in 2022. Women’s empowerment has also made tremendous strides, with health, nutrition and educational metrics significantly improved and female labor force participation increasing from 28 percent in 2000 to 42.6 percent in 2023.<sup>5</sup>

**[ 10 ]** Much of Bangladesh’s developmental success over the past two decades can be attributed to a resolute focus on the export of manufactured goods, supplemented by remittances earned from migrant workers and the rapid empowerment of women. Bangladesh’s manufacturing exports have focused on low-tech-intensive, price-competitive readymade garments (RMG), with 34 categories of clothing and apparel representing the bulk of export earnings for 2005–2022 (85.6 percent of total exports in 2022)<sup>6</sup> (see Figure 2). Total exports represented 12.88 percent of GDP in 2022, while remittances climbed from US\$1.8 billion in 2000 to US\$21.5 billion in 2022,<sup>7</sup> representing 5 percent of GDP.

**[ 11 ]** Bangladesh’s economy has been facing some headwinds since 2022, in the context of the global economic slowdown, translating into higher inflation and external imbalances. Real GDP growth is projected to stay robust, estimated at 6.0 percent in 2023–2024. Nevertheless, Bangladesh’s economy finds itself needing to rethink its longstanding developmental model that has born significant fruits over the past few decades, central to which are five key factors: (i) reliance on RMG exports and inward remittances for import bill affordability;

4 All statistics used in this section are from World Development Indicators Database (WDID), unless otherwise stated.

5 Bangladesh Bureau of Statistics (2023).

6 International Trade Center (ITC) Trade Map data based on the UN Comtrade Database.

7 Bangladesh Bank – Wage Earners’ Remittance Inflow.

(ii) impending graduation from LDC status in 2026 and the loss of preferential market access for its RMG exports; (iii) low trade liberalization in, and little development of, alternative avenues of export revenue; (iv) the evolving nature of its total debt mix; and (v) the country's aspiration to become an upper-middle-income country by 2031 and a high-income country by 2041.

**[12] In 2022–2023, the factors mentioned above became particularly evident as domestic import demand rebounded post-pandemic** (from both private and public demand owing to large government-led mega projects), notwithstanding the surge in energy prices following the Russia–Ukraine conflict and the decline in foreign direct investment (FDI) induced by monetary normalization by the Federal Reserve and monetary tightening across developed economies.

**[13] Throughout 2015–2021, Bangladesh's trade deficit was largely financed by inward remittances (see Figure 3), allowing it to maintain a manageable current account deficit.** This in turn has typically been more than offset by a positive financial account (see Figure 4), enabling balance of payments (BoP) surplus or parity. The consecutive crises of the COVID-19 pandemic and Russia–Ukraine conflict jolted this macro-management set-up: Import bills rose sharply to US\$37.2 billion in 2022 from US\$26.9 billion in 2021 (Bangladesh is heavily import-dependent on primary energy, raw materials [cotton] for the RMG sector and inputs for other domestic industries such as pharmaceuticals), and remittances fell to US\$21.7 billion in 2022 from US\$25.4 billion in 2021, leading to a current account deficit of US\$18.6 billion (see Figure 3). Simultaneously, the financial account declined from US\$14.1 billion in 2021 to US\$13.7 billion in 2022, leading to an overall BoP deficit of US\$5.4 billion (see Figure 4).

**[14] In response, the government undertook several countervailing measures to contain the BoP deficit, including tighter capital controls, reprioritizing government spending, curbing the import of luxury goods and containing the issuances of letters of credit (LCs).** The BoP deficit combined with the Bangladesh Bank's practice of mediating the value of the taka (BDT) to within a narrow range of BDT80–85 per US\$ led to a large reserve drawdown, resulting in international reserves declining from US\$48 billion at the end of 2021 to US\$26.7 billion at the end of the third quarter of 2023.

**[15] The policy of mediating the value of the BDT to within this narrow band over the past decade, in a low-inflationary environment in the developed world, had the effect of real appreciation of the BDT and eroding the competitiveness of Bangladesh's exports.** The Bangladesh Bank has recently repealed this policy and allowed the exchange rate to be readjusted to BDT110/US\$. While this and the countervailing measures are welcome adjustments, remittances have declined year-on-year in 2023 due to the availability of better exchange rates on the curb market incentivizing unofficial flows of remittances – highlighting the need for a unified rate.

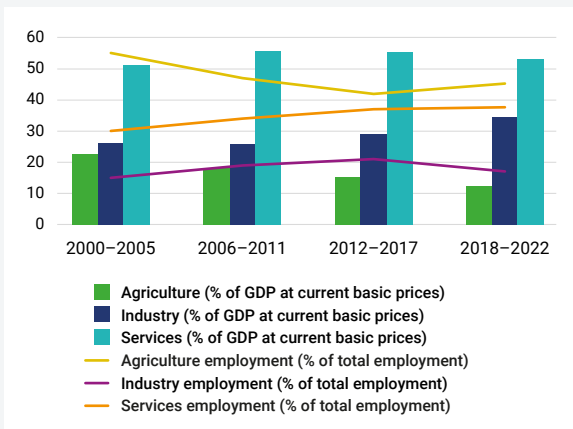
**[16] Furthermore, while Bangladesh's debt-to-GDP ratio is low and manageable (see Figure 5), the growth of short-term external debt over the last three years, especially for the state-owned enterprises, raises concerns.** Driven primarily by the private sector (see Figure 6) and the government's emerging preference for bilateral debt – which is mostly at a fixed interest rate lower than the market rate (i.e., floating rate), with a longer maturity period than multilateral development partners (except for the World Bank) – these collectively signify an evolution of the debt mix.

**[17] Bangladesh's economy, while showing impressive resilience, highlights its vulnerability to external shocks due to its high reliance on the RMG sector and remittances, alongside import dependency on primary energy and raw materials. The impending graduation from LDC status means that the economy must embark on a new phase of structural transformation.** As an LDC, Bangladesh has enjoyed preferential market access to US and European markets for its products (RMGs in particular), representing 73 percent<sup>8</sup> of total exports in 2022. On the flipside, 69.6 percent of Bangladesh's imports in 2022 have come from Asian countries, while only 7.1 percent of its exports have been destined for Asian countries, **signifying a dire lack of intra-regional penetration of export markets and heavy reliance on preferential access to US and European markets.** Meanwhile, high-potential industries such as pharmaceuticals and electronics have primarily focused on serving the domestic market and achieved less global value chain integration due to the focus on RMGs. ICT and transport services, ceramic products, leather and jute goods, light engineering, and design of semiconductors represent other avenues of diversification identified by the government.



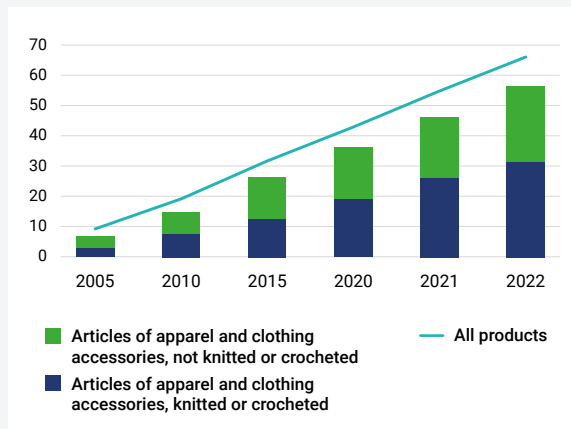


**FIGURE 1. EVOLUTION OF THE STRUCTURE OF OUTPUT AND EMPLOYMENT, 2000–2022**



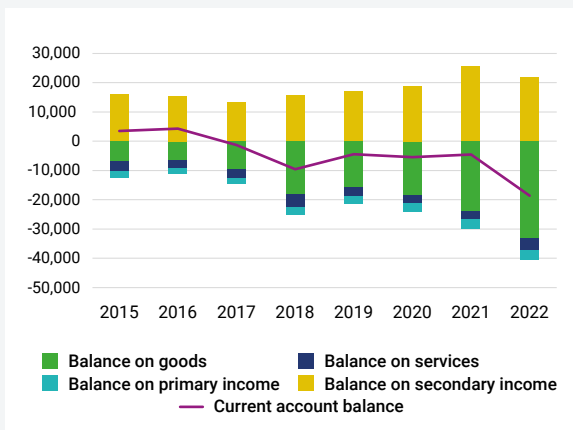
Source: Key Indicators Database, Asian Development Bank (ADB)

**FIGURE 2. READYMADE GARMENTS EXPORT CONCENTRATION (EXPORT VALUE, US\$ BILLIONS)**



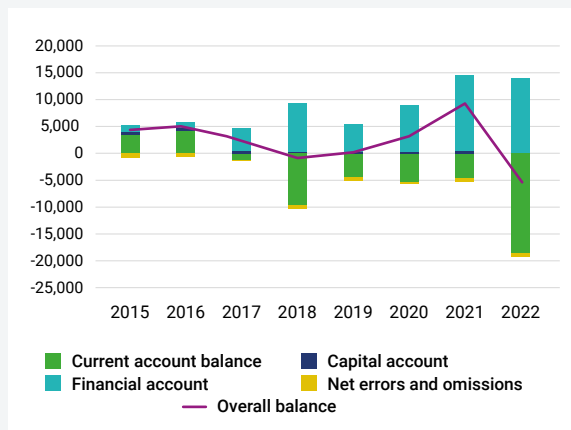
Source: International Trade Center (ITC) Trade MAP/UN Comtrade

**FIGURE 3. CURRENT ACCOUNT, 2015–2022 (US\$ MILLIONS)**



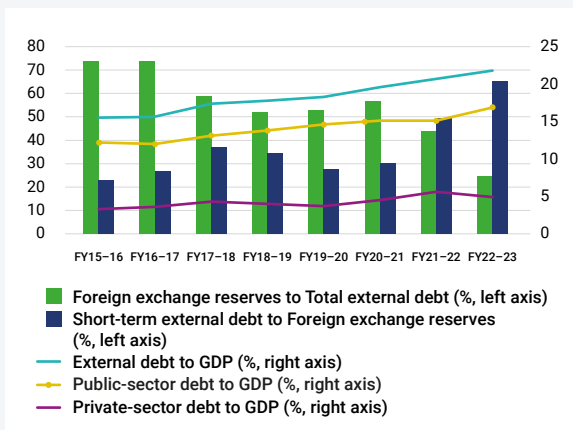
Source: Key Indicators Database, ADB

**FIGURE 4. BALANCE OF PAYMENTS, 2015–2022 (US\$ MILLIONS)**



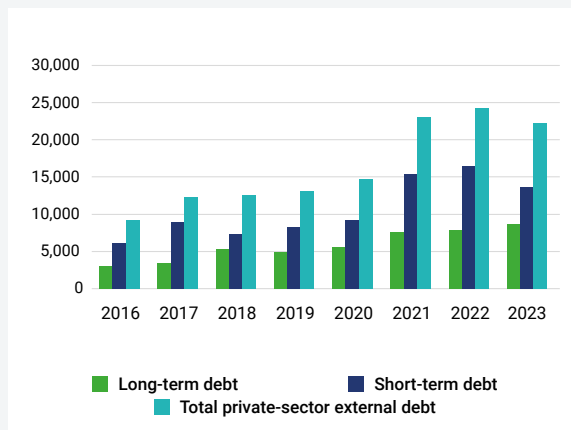
Source: Key Indicators Database, ADB

**FIGURE 5. FOREIGN EXCHANGE RESERVES VS. EXTERNAL DEBT DYNAMICS**



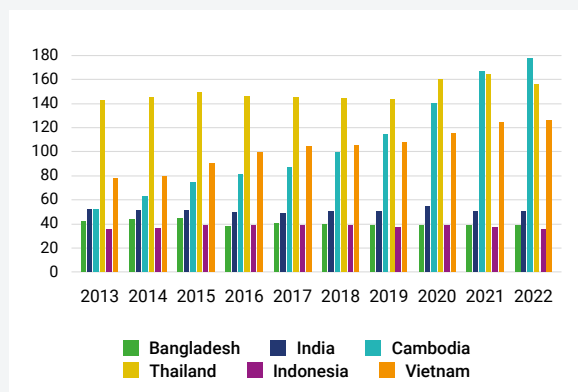
Source: Key Indicators Database, ADB

**FIGURE 6. TOTAL PRIVATE-SECTOR EXTERNAL DEBT (US\$ MILLIONS)**



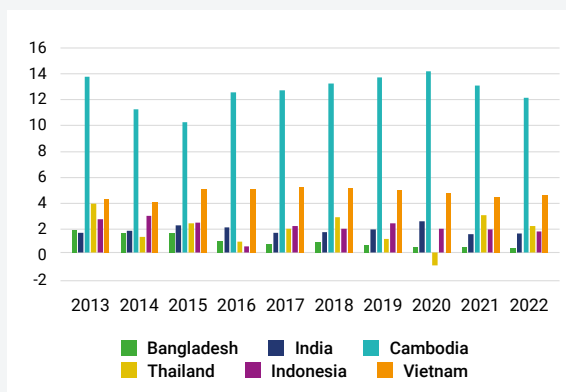
Source: Key Indicators Database, ADB

**FIGURE 7. DOMESTIC CREDIT TO THE PRIVATE SECTOR (% OF GDP)**



Source: WDID

**FIGURE 8. FOREIGN DIRECT INVESTMENT (% OF GDP)**



Source: WDID

[ 18 ] Bangladesh’s preferential market access is to be phased out following graduation from LDC status in 2026, followed by a three-year transition period extending to 2029. To facilitate the next phase of transformation and facilitate Bangladesh’s aspiration to become a high-income country by 2041, the country must urgently make tangible shifts from low-tech, low-innovation and price-competition-led exports toward diversified research-and-development (R&D)- and innovation-led medium- to high-tech manufacturing and services exports. Meanwhile, the backbone of employment, the agricultural sector, which acts as an economic safety net during shocks, needs to be further strengthened. This approach needs to be complemented by negotiating bilateral trade agreements with regional trade partners, fostering greater intra-regional market penetration and regional integration.

[ 19 ] FDI in conjunction with private-sector development will play a major role in this high-value-added industrialization process, particularly in facilitating technology transfer. Bangladesh fared unfavorably compared with its peers over 2013–2022 in terms of credit to the private sector and FDI as a percentage of GDP (see Figures 7 and 8), consistently placing in the bottom two across both metrics over this period. Bangladesh’s low cap on lending rates means a higher rate of unfeasible investments, translating to a banking sector that has been struggling to overcome the issue of non-performing loans.

[ 20 ] Despite notable improvement in governance and infrastructure, challenges still persist with regards to providing adequate infrastructure,

financing instruments and administrative support, and ensuring stringent enforcement of labor laws and good governance to encourage foreign investments. Limited access to finance is a top obstacle to small and medium-sized enterprise (SME) survival and growth in Bangladesh. The persisting challenges in ensuring high-quality and efficient infrastructure in the country result in more logistical cost, impacting business competitiveness and integration in global value chains. To achieve the government’s ambitious aspirations of gaining high-income status by 2041, Bangladesh will need market-based lending rates, greater financial market depth, and a diversified and vibrant private sector that will create employment opportunities and stimulate healthy economic growth, supported by well-functioning infrastructure and a policy environment that fosters private investments.

[ 21 ] Human capital and infrastructural constraints need to be alleviated to facilitate this diversified R&D- and innovation-led next stage of structural transformation. In particular, energy, transport, ICT, water, sanitation, and waste management remain key infrastructural bottlenecks that require upgrading. Meanwhile, the development of the agricultural sector, human capital development through robust education, health and food security, supported by private-sector development, empowerment of women and youth, and resilience-building for climate change and disease hazards need to be prioritized.

[ 22 ] Financial sector and fiscal management: Bangladesh’s financial markets are yet to be developed and efficient. To support future growth, Bangladesh



needs to increase public trust in the banking sector and enhance the capital market enabling environment for development. **The high level of non-performing loans (NPLs) is a serious cause for consternation in Bangladesh’s banking sector.** The Bangladesh Bank estimated NPLs to be 9.3 percent of total loans in 2022, which is much higher than that of comparators (Cambodia 2.7 percent, India 6.5 percent, Indonesia 2.5 percent, Vietnam 1.6 percent). Bangladesh is also characterized by **low financial market depth** relative to comparators (except Indonesia), with broad money-to-GDP standing at 52 percent in 2021 (Cambodia 143 percent, India 82.5 percent, Indonesia 46.3 percent, Vietnam 146 percent). The development of a comprehensive regulatory framework (corporate governance, transparency, and disclosure standards) should be prioritized, including aspects related to the development of basic market infrastructure.

**[ 23 ] Bangladesh has the lowest tax revenue-to-GDP ratio among economic comparators, at 7.64 percent in 2021 (Cambodia 16.4 percent, India 9.2 percent,<sup>9</sup> Indonesia 9.1 percent, Vietnam 12.4 percent), which translates into low fiscal capacity and a consistent**

**need for domestic and external resource mobilization to facilitate development objectives.** According to the 2017 Labor Force Survey (LFS), 85.1 percent of all employment was informal, and 49.9 percent of all adults were still unbanked according to the Global Findex database. Low tax mobilization and financial market depth, combined with high NPLs and low credit to the private sector, build dependence on external financing, placing high downward pressure on fiscal balance and debt metrics. To facilitate a broad-based industrialization process, Bangladesh needs to rapidly develop its capital markets, expand tax coverage and reduce economic informality.

**[ 24 ] Unemployment, poverty and inequality: The unemployment rate reached an all-time high of 5.3 percent in 2020, having previously peaked at 5.0 percent in 2009.** Bangladesh has a high rate of youth unemployment of 12.1 percent, with the job market providing fewer options for youths with higher levels of education. Every year, 2.1 million additional Bangladeshis enter the labor force. Despite remarkable progress in eradicating poverty, 18.7 percent of the population (about 32 million people) still lived below the national poverty line in 2022, with 5.6 percent (9.6 million people) in extreme

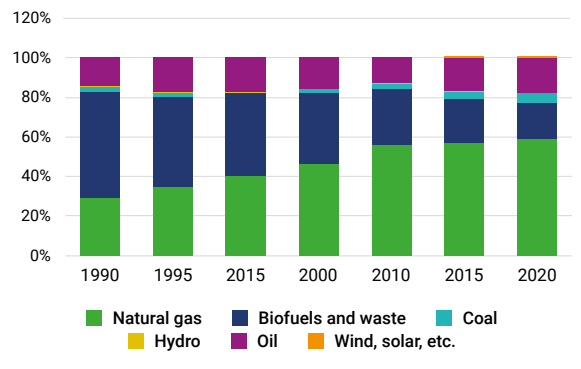


<sup>9</sup> CEIC Data (accessed October 2023).





**FIGURE 9. PRIMARY ENERGY MIX, 1990–2020**



Source: International Energy Agency (IEA)  
World Energy Balances 2022

poverty.<sup>10</sup> Rural poverty is significantly higher than urban poverty. Despite the decline in poverty, income inequality has been rising rapidly in Bangladesh (the Gini index rose from 0.45 in 2000 to 0.499 in 2022).

**[25] Energy: Despite increases in demand and power-generating capacity, there is a shortage of power production, challenging the maintenance and expansion of industrial, economic and social activities.**

Bangladesh was able to achieve 100 percent access to electricity in 2021 from only 14 percent in 1991. This rapid growth in electricity access has been the cornerstone of Bangladesh’s development success over the past few decades. However, Bangladesh’s energy mix has over the decades become highly reliant on natural gas (see Figure 9), while local exploration has not kept up to provide domestic supplies of natural gas. Bangladesh’s pronounced reliance on energy imports, predominantly in the form of natural gas (and coal), has laid bare its susceptibility to external factors, such as Russia’s conflict in Ukraine and escalating global gas prices.

**[26] This import-dependent energy model has triggered the closure of power plants and domestic price hikes in gas and electricity, and has strained various sectors, imposing significant economic challenges.**

To mitigate these issues, Bangladesh may prioritize domestic gas exploration to reduce its import reliance, diversify its primary energy mix, enhance renewable energy generation, and enhance energy security. To meet annual demand growth of about 10 percent during 2020–2030, about 25,000 MW of new generating capacity needs to be added by 2030.

**[27] Transport: The transport network consists of roads, railways, inland waterways, maritime and shipping, and civil aviation. Due to its strategic location, the country is vital for regional and subregional connectivity among South Asian nations. Despite the wide coverage of the transport network, the quality and performance of transport infrastructure and services are not up to the mark.** Although roads play a major role for passenger (88 percent) and freight transportation (80 percent), their maintenance is challenging due to a shortage of funds. High construction cost is the primary barrier to building critical infrastructure because of low-lying areas, the high cost of construction materials, flooding, and the need for high embankments. More than half of all roads are exposed to flooding and large sections of the overall transport network are vulnerable to flooding and other natural disasters. Climate resilience building for road infrastructure is essential.

**[28] The rural road network requires repairs, maintenance and rehabilitation.** The funds allocated for the maintenance of rural roads are insufficient and the use of new soil stabilization technologies needs to be embraced. Railways suffer from old rolling stock, downgraded signaling systems, and insignificant private-sector participation. The other major sector challenges include (i) lack of quality construction, inadequate capacity, and fast deterioration of transportation facilities; (ii) growing road safety concerns and accidents; (iii) climate change and environmental degradation; (iv) limited human capital development and capacity; (v) insufficient funding and regulations; (vi) uncoordinated

<sup>10</sup> BBS. 2022. *Household Income and Expenditure Survey HIES 2022: Preliminary report*. Bangladesh Bureau of Statistics, Dhaka.



sector governance; (vii) weak investment environment; and (viii) limited connectivity and integration with national, regional and global transportation networks.

**[ 29 ] ICT: Bangladesh has emerged as a freelance information technology (IT) and IT-enabled services (ITES) outsourcing center.** Currently, the country is the second largest freelance market after India, and promotion of ICT services export is needed to reach the export target of US\$5 billion by 2025 from the current US\$1.5 billion. Over 4,500 IT/ITES firms are thriving in Bangladesh, employing over 750,000 ICT professionals. Challenges for the ICT sector include low access to digital literacy, leading to higher cost of doing business; low skills of workforce in programming and other areas, creating challenges to cope with the requirements of the Fourth Industrial Revolution; inadequate infrastructure and uneven degree of connectivity; and more ICT service imports than exports, requiring developing import substitution for higher IT services exports. In the ICT sector, the government's focus is to: (i) establish an inclusive society through ICT infrastructure and digitalization; (ii) enhance skills development through upskilling and reskilling measures to reap benefits of the demographic dividend; and (iii) improve necessary infrastructure development.

**[ 30 ] Water, sanitation and waste management: The management of water resources is of paramount importance, particularly for Bangladesh with its unique geographical challenges. The importance of water resource management spans agricultural production for vulnerable people, flood control, drainage and irrigation.** The north-western region faces shortages of surface water, while management of major rivers during wet seasons is critical to prevent flash floods in the Haor region. Approximately 86 percent of the population has access to clean drinking water, while 20 million people are at risk of drinking arsenic-contaminated water. Only 62 percent<sup>11</sup> of the population has access to improved sanitation facilities. Integrated solid waste, fecal sludge and waste water management systems – incorporating industrial, agricultural, medical and domestic (including plastic) waste and waste water treatment systems – are critically needed to improve waste management and facilitate the government's aspirations to develop a circular waste economy. There are strong health and environmental imperatives to improve water, sanitation and waste management.

**[ 31 ] Agriculture and nutritional security: The agricultural sector plays a significant role in Bangladesh through its significant contribution to GDP (12.3 percent of GDP), food security, food price stability, poverty alleviation and employment creation (46.3 percent of the total workforce).** Most agricultural production in Bangladesh is characterized as traditional subsistence farming. Although there is great diversity in agricultural production, the lack of arable land and limited natural resources increase the importance of developing new agricultural technologies to help increase productivity and meet future demand. Bangladesh must continue to guide its agro-development toward crop diversification and greater value addition. Engaging private-sector enterprises and supporting pro-poor value chains are necessary to accelerate diversification and value addition.

**[ 32 ] The main challenges faced by agricultural value chains and the wider agricultural sector** include the decline in arable land, low productivity, adverse climate impacts, 30 percent wastage of fruits and vegetables due to lack of cold storage and appropriate transport facilities, the need for enhanced food grading and safety standards, and rising salinity levels in coastal regions. Commercialization and mechanization of agricultural production through modern tools and technologies, the development of food processing industries, and climate-smart agriculture practices are the new focus.

**[ 33 ] Education: Bangladesh's successive governments have continued to demonstrate a strong commitment to access to and quality of education. For about 40 million students, learning is offered through both formal and non-formal channels. The country has achieved near-universal primary education enrolment (98 percent in 2018) with gender parity.** However, areas of improvement still persist in inclusion, equity, quality of education provision, and learning outcomes for the education sector. The school dropout rate remains high and intensified during the COVID-19 pandemic. Around 5 million children aged 6 to 13 remained out of school, mostly in underserved areas and urban slums. While there is a pressing need to improve the education infrastructure, the quality of teachers is not adequate to deliver high-quality education. ICT infrastructure in educational institutions remains at a marginal level. The linkage between the education system and industry needs is weak, leading to poorly skilled graduates inadequately prepared for the labor market.

<sup>11</sup> World Bank, 2017.





“ Bangladesh faces multifaceted challenges in its health sector, marked by insufficient healthcare infrastructure, uneven distribution of health professionals, and a high burden of communicable diseases.

**[ 34 ] Health: Bangladesh faces multifaceted challenges in its health sector, marked by insufficient healthcare infrastructure, uneven distribution of health professionals, and a high burden of communicable diseases such as waterborne and vector-borne illnesses (the country is currently grappling with the worst dengue outbreak in its history, with 206,288<sup>12</sup> cases reported by October 2023).** Maternal and child health concerns persist, with maternal mortality rates and child malnutrition remaining significant issues. Access to essential healthcare services, especially in rural areas, is hindered by infrastructure gaps and transportation difficulties. The country also grapples with the rising prevalence of non-communicable diseases. Public health emergencies, exemplified by the COVID-19 pandemic, underscore the need for enhanced pandemic preparedness and healthcare capabilities. Despite progress, disparities in immunization coverage persist. Key concerns include a low hospital bed density of 0.8 per 1,000 people, a low physician density of 0.5 per 1,000 people, and an under-5 stunting rate of 31.1 percent.

**[ 35 ] Women empowerment: Bangladesh has successfully reduced the gender gap significantly, especially eliminating the gender gap in primary and secondary education, the sex ratio at birth, and political empowerment.** However, challenges remain, including inequalities in economic and social opportunities, violence against women/girls, early child marriage, and low financial empowerment of women. Limited opportunities for women to engage in formal sector jobs force many of them to work in the informal sector (e.g., unpaid care and domestic work, daily wage labor,

and unpaid family business). Women’s limited presence in technical and vocational training is one of the many factors that influence their employment patterns.

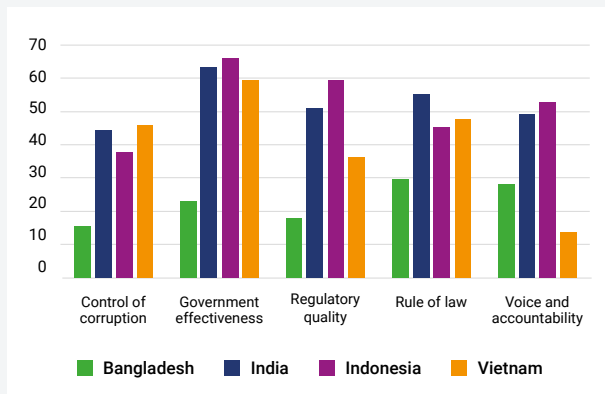
**[ 36 ] Youth empowerment: With a population of about 171.3 million, Bangladesh’s youth make up nearly 20 percent of the population. While the country is currently going through the phase of demographic dividend, youth are facing challenges in terms of acquiring skills, skills acquired being poorly matched to job opportunities and few job opportunities.** Reasons for significant skills gaps include low education quality, weak linkage between education and industry, the geographical disparity in the location of training institutions, lower level of participation in technical and vocational training, inadequate training infrastructure, and limited private-sector participation in skills training. Currently, the youth unemployment rate stands at 14.7 percent, and the proportion of youth not in employment, education or training (NEET) is as high as 29 percent. The government plans to improve education quality and reduce NEET by 50 percent through expanding vocational education training programs while making the youth ready for challenges related to the Fourth Industrial Revolution.

**[ 37 ] Governance: The political landscape and stability in Bangladesh are to a certain extent shaped by political deadlock and brinkmanship between leading political parties. Despite establishing institutional mechanisms to combat corruption and regular anti-corruption campaigns, corruption still constitutes a challenge to good governance, impacting the functioning of institutional checks and balances.** Justice systems need

<sup>12</sup> ReliefWeb (accessed October 2023).



**FIGURE 10. GOVERNANCE PERCENTILE RANKS, 2022**



Source: World Governance Indicators 2022.



improved capacity to uphold and defend constitutional rights and guarantee socio-economic advancement. Bangladesh ranks poorly on the World Governance Indicators (WGI 2022) relative to its comparators, particularly in the dimensions of control of corruption, government effectiveness, regulatory quality, and rule of law (see Figure 10).

**[ 38 ] Fragility and resilience: Despite economic and social empowerment, there is still significant gender inequality.** Growing young populations in Bangladesh are disproportionately affected by human development challenges, including young women who struggle to get access to amenities such as health and education and to stable employment. The COVID-19 pandemic caused industrial closures and limited both the formal and informal economies, which had a particularly negative impact on women’s and youths’ social security and economic advancement. Access to services and infrastructure generally lags in rural areas. Lack of economic diversification, high inflation and limited job opportunities are major economic challenges, posing threats to social stability. Bangladesh’s vulnerability is largely driven by climate change-related disasters such as cyclones and sea level rise.

**[ 39 ] Climate change and disaster mitigation: Bangladesh is one of the world’s most vulnerable countries to climate change as it faces multiple climate impacts, including flood, drought, extreme temperature and rainfall, salinity, and sea level rise.** As a result, Bangladesh suffers substantial loss of crops, housing, assets and livelihoods. Environmental hazards, rising

temperatures, changing disease conditions, and air pollution bring adverse health conditions and increasingly impact rapidly expanding urban areas and rural areas alike. Floods and land erosion can also lead to a situation involving climate refugees, caused by mass migration to urban centers. Livelihoods in the coastal zone, where many of the poorest communities live, are under threat from saline intrusion and degrading natural resources linked to climate change. For Bangladesh, mainstreaming climate across all sectors and thematic areas is essential. Additionally, many of Bangladesh’s natural environmental areas, including the Haor wetland region and forested areas, have high biodiversity value.

**[ 40 ] Regional cooperation and integration (RCI): Despite its strategic location and aspirations to become a regional hub, Bangladesh faces major infrastructure and logistical challenges to integrating its economy with the region and beyond.** Further investments in cross-border physical connectivity and economic corridor development projects could make a significant contribution to better integration into regional and global markets. The Bank can play a key role in enhancing Bangladesh’s greater integration with other IsDB Member Countries through its Technical Assistance Program (TAP) for Regional and Global Integration in Trade, RCI Grant Program, and Investment Promotion Technical Assistance Program (ITAP). The MCPS will provide technical and financial support to regional programs that aim to improve competitiveness and expand access to international markets using regional infrastructure connectivity, digital transformation, trade facilitation and investment promotion.

### 3. NATIONAL DEVELOPMENT PRIORITIES

[41] Bangladesh is governed by a triad of pivotal developmental plans, each serving a unique purpose in shaping the nation’s future. The **Bangladesh Delta Plan 2100** places strong emphasis on sustainable water resource management and infrastructure development within the Ganges River Delta. The **Strategic Goals of the Perspective Plan (Vision 2041)** are geared toward elevating the nation to high-income status through inclusive development across various sectors. The **Eighth**

**Five-Year Plan (2021–2025)** is centered on propelling economic growth, mitigating income inequality, and enhancing climate resilience, with a particular focus on key sectors such as agriculture, industry, education, healthcare and infrastructure development. Together, these plans provide the road map for Bangladesh’s comprehensive development and progress; their goals are summarized in *Table 2*.

**TABLE 2. NATIONAL DEVELOPMENT PRIORITIES**

Bangladesh Delta Plan (BDP) 2100	Perspective Plan (Vision 2041) Strategic Goal	Eighth Five-Year Plan 2021–2025 National Priority
<p><b>BDP Goal 1.</b> Ensure safety from floods and climate change-related disasters</p> <p><b>BDP Goal 2.</b> Enhance water security and efficiency of water usage</p> <p><b>BDP Goal 3.</b> Ensure sustainable and integrated river systems and estuary management</p> <p><b>BDP Goal 4.</b> Conserve and preserve wetlands and ecosystems and promote their wise use</p> <p><b>BDP Goal 5.</b> Develop effective institutions and equitable governance for in-country and transboundary water resources management</p> <p><b>BDP Goal 6.</b> Achieve optimal and integrated use of land and water resources</p>	<p><b>V1.</b> Eradication of extreme poverty by 2031; reducing poverty to less than 3 percent by 2041</p> <p><b>V2.</b> Toward upper-middle-income country by FY2031; high-income country by 2041</p> <p><b>V3.</b> Industrialization with export-oriented manufacturing will drive structural transformation into the future</p> <p><b>V4.</b> Paradigm shifts in agriculture will enhance productivity and ensure nutrition and food security for the future</p> <p><b>V5.</b> A service sector of the future will provide the bridge for the transformation of the rural agrarian economy to a primarily industrial and digital economy</p> <p><b>V6.</b> The urban transition will be an essential part of the strategy to move to a high-income economy</p> <p><b>V7.</b> Efficient energy and infrastructure will be essential components of the enabling environment that facilitates rapid, efficient and sustainable growth</p> <p><b>V8.</b> Building a Bangladesh resilient to climate change and other environmental challenges</p> <p><b>V9.</b> Establishing Bangladesh as a knowledge hub country for promoting a skill-based society</p>	<p><b>NP1.</b> Better human capital (education and TVET; strengthen teacher quality and skills; streamline <i>madrasah</i> education; develop the healthcare system; and social housing)</p> <p><b>NP2.</b> Ease infrastructure constraints (transport, diversification of primary energy, ICT infrastructure, water supply, drainage, sanitation and waste management)</p> <p><b>NP3.</b> Improve management in the financial sector</p> <p><b>NP4.</b> Promote export-oriented industrialization and enhance productivity and diversification</p> <p><b>NP5.</b> Integrate economic progress, environment, climate change and disaster management concerns into planning and budgeting</p>

FY: financial year; ICT: information and communications technology; NP: National Priority of the Eighth Five-Year Plan; TVET: technical and vocational education and training; V1–9: Visions of the Perspective Plan.





## 4. ISDB GROUP PARTNERSHIP STRATEGY



IsDB will finance priority development interventions in Bangladesh under the theme of **‘Supporting sustainable economic growth and resilience’**. This will comprise two strategic pillars: (i) Sustainable infrastructure for driving industry, and (ii) Enhancing future competitiveness.

### 4.1. Objectives of IsDB Group’s Strategy

[ 42 ] **Objectives of IsDB:** The overall objective of this MCPS is to support Bangladesh in fostering sustainable economic growth, enhancing human capital, promoting social inclusion, and ensuring environmental sustainability. The MCPS aims to address major development challenges of Bangladesh (highlighted in section 2) to enhance the structural transformation of the economy – details are summarized in *Table 3*. Under the IsDBG Strategic Realignment 2023–2025, which has the objectives of boosting recovery, tackling poverty and building resilience, and driving green economic growth, IsDB will finance priority development interventions in Bangladesh under the theme of **‘Supporting sustainable economic growth and resilience’**. This will comprise two strategic pillars: (i) **Sustainable infrastructure for driving industry**, and (ii) **Enhancing future competitiveness**. These MCPS pillars will be supported by the cross-cutting pillars of climate change, women and youth empowerment, capacity-building, and Islamic finance.



**TABLE 3. DEVELOPMENT CHALLENGES ALIGNMENT MATRIX**

Key development challenge	Bangladesh Eighth FYP FY2021–FY2025	IsDB Strategic Realignment 2023–2025	SDGs alignment
<p><b>Slow human capital development</b> (Lack of high-quality education; weak link between education and jobs; limited jobs for <i>madrash</i> students; low quality of teachers; technical skills shortage; inadequate technical and vocational education; lack of access to quality health services; inequities in the health services exist for women, children and the poor; and lack of housing)</p>	<p><b>NP1. Better human capital</b> (Interlink all tiers of education and vocational training; strengthen the relevance of education to skills and employment; strengthen teacher quality and skills; streamline <i>secondary</i> education; develop the healthcare system; and construct social housing)</p>	<p><b>P.2:</b> Inclusive human capital development <b>Cross-cutting areas:</b> Women and youth empowerment (CC2)</p>	<p><b>SDGs 3, 4, 5, 8, 10 and 11</b></p>
<p><b>Continued infrastructure bottlenecks</b> (Over-dependence on expensive fuel-based electricity generation plants; low energy efficiency and inadequate development of renewable electricity generation; transport infrastructure remains insufficient, suffering from a skewed modal mix and lack of high quality and maintenance; lack of improvement of rural roads; and urban areas with insufficient basic utility infrastructures, including piped water supply, sanitation and drainage)</p>	<p><b>NP2. Ease infrastructure constraints</b> (Develop an efficient, sustainable, safe, and regionally balanced green and resilient transportation system; priority given to national and regional connectivity, sustainable and resilient infrastructure, and mass urban green transit facilities; improve the inter-modal transport balance; diversification of primary energy to liquified natural gas (LNG), coal, and renewable energy; ICT infrastructure; invest heavily in critical urban services such as water supply, drainage, sanitation and waste management)</p>	<p><b>P.1:</b> Green, resilient and sustainable infrastructure</p>	<p><b>SDGs 1, 6, 7, 9 and 11</b></p>
<p><b>Financial sector vulnerabilities</b> (Some vulnerabilities in the banking sector include distortions in credit and asset quality, high ratio of non-performing loans, and underdeveloped capital and bond markets)</p>	<p><b>NP3. Improve management in the financial sector</b> (Strong institutional reforms)</p>	<p><b>Cross-cutting areas:</b> Women and youth empowerment (CC2), capacity-building (CC3) and Islamic finance (CC4)</p>	<p><b>SDGs 8 and 10</b></p>
<p><b>Highly concentrated exports</b> (80% share of readymade garments in total exports; lack of economic and industrial diversification; weak competitiveness and business environment; and significant skills gaps at managerial and technical levels)</p>	<p><b>NP4. Promote export-oriented industrialization and promote domestic market demand</b> (Enhance productivity, and strive for diversification and competitiveness)</p>	<p><b>P.2.</b> Inclusive human capital development <b>Cross-cutting area:</b> Islamic finance (CC4)</p>	<p><b>SDGs 8 and 9</b></p>



Key development challenge	Bangladesh Eighth FYP FY2021–FY2025	IsDB Strategic Realignment 2023–2025	SDGs alignment
<p><b>Climate change and environmental vulnerabilities</b> (Climate change, environmental degradation and natural hazards; frequent extreme weather events, e.g., changing rainfall and water flow patterns, flash floods, drought and cyclones)</p>	<p><b>NP5. Integrating economic progress, environment, climate change and disaster management concerns into planning and budgeting</b> (Sustainable water and land management, biodiversity conservation, climate-resilient development and disaster management)</p>	<p><b>P.1. Green, resilient and sustainable infrastructure</b> (clean and renewable energy) <b>Cross-cutting area:</b> Climate change (CC1)</p>	<p><b>SDGs 12 and 13</b></p>

CC1–4: cross-cutting area of IsDB Strategic Realignment; FY: financial year; FYP: Five-Year Plan; ICT: information and communications technology; NP1–5: National Priorities of the Eighth FYP; P.1–2: pillars of IsDB Strategic Realignment; SDG: Sustainable Development Goal.

**[ 43 ] Objectives of the International Islamic Trade Finance Corporation (ITFC):**



In line with the current Strategy 2.0, ITFC has expanded its private-sector operation in Bangladesh. Since 2018, ITFC has onboarded four private-sector banks through which it is facilitating import transactions of the essential goods of SME customers. The aggregate facility amount, as of July 2023, stood at US\$115 million. ITFC will continue to expand the trade facility program for SMEs in Bangladesh through the private-sector banks in the coming years.

**[ 44 ] Objectives of the Islamic Corporation for the Development of the Private Sector (ICD):**



ICD is focused on extending direct financing to large companies engaged in manufacturing and agribusiness sectors, in infrastructure sector projects, and direct equity investments in financial institutions (e.g., Islamic banks, non-banking financial institutions [NBFIs] and digital banks) and corporates. ICD’s Lines of Finance (LoF) remain a key intervention to effectively support the SME sector in Bangladesh via providing financing to local banks and NBFIs for them to lend on to SMEs. ICD is also actively looking to support the development of the private sector in Bangladesh under its Debt Capital Market Program, while continuing to assess opportunities to work with the government and private-sector stakeholders (corporates and financial institutions) for the potential issuances of sovereign or corporate sukus.<sup>13</sup> To make the issuance successful, ICD is also proposing a multi-

currency issuance program to give an option for the issuer to utilize the *sukuk* proceeds effectively.

**[ 45 ] Objectives of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC):**



While addressing its exposure and risk appetite, ICIEC will consider supporting FDI in various key sectors, such as power and energy (particularly renewables), agriculture, transport, water, health and manufacturing, by offering risk mitigation and credit enhancement solutions via its foreign investment insurance and reinsurance services to international commercial lenders, export credit agencies (ECAs), global engineering, procurement and construction (EPC) contractors, and foreign equity investors – safeguarding their investments against sovereign, sub-sovereign or political risks, if any, in Bangladesh. ICIEC is keen to collaborate with relevant government authorities and institutions (e.g., Bangladesh Investment Development Authority [BIDA], Public Private Partnership [PPP] Authority), for potential opportunities to mobilize financing/investment from international banks/foreign investors in PPP and public-sector projects in Bangladesh. With the looming global economic recession in the aftermath of the COVID-19 pandemic and more recently the Russia–Ukraine conflict, risk appetite in certain sectors (including apparel and retail) has been limited across the trade credit insurance industry. Given the ongoing challenges, ICIEC will consider approaching large apparel exporters to explore opportunities to offer export credit insurance services. ICIEC will also continue its

<sup>13</sup> Sukus (Islamic bonds) are financial instruments that comply with Islamic Shariah principles. Unlike conventional bonds that generate returns through interest payments, which is considered usury in Islamic finance, sukus represent ownership in an asset, project or business venture.

support in facilitating the import of strategic commodities and capital goods into the country, covering the non-payment risks of the local commercial banks, thereby improving their creditworthiness in the international market. Overall, ICIEC remains committed to supporting the socio-economic development of Bangladesh through its insurance and reinsurance services, with a particular focus on advancing sustainable energy and enhancing food security in the country per its strategic priorities.

**[46] Objectives of the Islamic Solidarity Fund for Development (ISFD):**



ISFD will focus on two strategic thematic areas in Bangladesh:

(i) Economic empowerment, by focusing on job creation through supporting micro-, small and medium-sized enterprises (MSMEs), women and youth; and (ii) Human capital development, particularly education, focusing on the Out-of-School Children (OOSC) Program and vocational training, and health, focusing on prevention. Bangladesh is also one of the countries to be targeted by the IsDB–ISFD NGOs Empowerment for Poverty Reduction program, which aims to lift hard-to-reach communities out of poverty.

**[47] Objectives of IsDBI:**



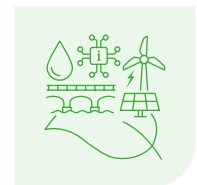
IsDBI has developed a flagship Islamic Finance Sector Development toolkit that aims to assess the current state of Islamic economics, finance and social finance sector in Member Countries. It also provides tailored recommendations to governments on effective strategies to realize the best development outcomes through leveraging Islamic finance for sustainable development. Given that Bangladesh is among the top 10 global Islamic banking jurisdictions,<sup>14</sup> IsDBI will be pleased to support the Government of Bangladesh through this initiative. If needed, IsDBI can formally write to His Excellency the IsDB Governor’s Office with more details. As part of the implementation support for this initiative, IsDBI will be able to further design intervention mechanisms comprising a blend of Islamic finance technical assistance support to the country’s authorities, market players and other stakeholders that can include deepening the enabling environment for Islamic finance through laws, regulations, policies, strategic road maps, product structures, capacity-building, promotion and awareness activities. IsDBI also stands ready to respond to any specific requests from Bangladesh related to Islamic finance sector development.

“The objective of MCPS Pillar 1 is to support Bangladesh in improving the infrastructure needed to diversify the country’s productive capabilities.”

**4.2. MCPS Pillars and Priorities**

**[48] Focus, selectivity and allocative efficiency:** The priority areas of the MCPS Bangladesh 2024–2026 have been selected on the basis of the principles of focus and selectivity. This is to ensure that IsDBG’s limited financial resources are allocated to interventions that represent the greatest value for money and impact with due consideration of government priorities and IsDBG competitive advantages.

**[49] PILLAR 1: Sustainable infrastructure for driving industry:**



The objective of MCPS Pillar 1 is to support Bangladesh in improving the infrastructure needed to diversify the country’s productive capabilities and generate new sources of export competitiveness to reinforce its structural transformation in economic activities. In particular, support will focus on energy supply and efficiency, transport improvement, ICT connectivity, and management of water resources, sanitation and waste.

**[50] Supporting energy sustainability to fuel economic growth: As the bedrock of any economic transformation process, the energy sector demands attention in Bangladesh’s economic development.**

IsDBG underscores the importance of ensuring future energy sustainability, particularly through the adoption of renewable energy sources. Therefore, IsDBG’s support to the energy sector will focus on (i) reliable (and low-carbon) rural electrification; (ii) renewable energy infrastructure support for solar and wind; (iii) support for smart distribution and metering systems; and (iv) enhanced

<sup>14</sup> In order of share of global Islamic banking assets as reported in the Islamic Financial Services Board (IFSB) Islamic Financial Services Industry Stability Report 2023.



primary energy infrastructure, including rehabilitation and construction of liquefied natural gas (LNG) pipelines.

**[ 51 ] Rural–urban center connections and enhancing regional and urban mobility: Improving transport infrastructure is vital to foster regional and rural connectivity, meet growing transportation demands and address congestion in Dhaka.** Accordingly, IsDBG’s interventions in the transport sector will focus on two streams: rural development and urban mobility.

- **Rural development:** focusing on (i) rehabilitation and construction of small and medium-sized rural bridges; and (ii) rehabilitation or upgrading of existing rural roads and building new sustainable roads, including climate-smart submersible roads and ecosystem-sensitive elevated roads in biodiversity hotspots. IsDB will explore soil stabilization technologies under the Reverse Linkage modality to enhance the durability and longevity of rural roads. In addition, the importance of rural transport infrastructure improvements in facilitating agricultural development cannot be overstated – IsDBG will deploy a programmatic approach to enhance the synergy between its rural development and agricultural development interventions.
- **Urban mobility:** focusing on (i) supporting strategic transport infrastructure projects that facilitate regional connectivity across economic centers; (ii) supporting strategic bridges and connections that help divert traffic away from Dhaka city; and (iii) fostering private-sector participation and capacity enhancement initiatives.

**[ 52 ] Expanding ICT and digitalization for Industry 4.0:** ICT is an enabler of economic growth and innovation. IsDB recognizes the significance of ICT infrastructure in propelling Bangladesh’s development, and the MCPS will prioritize access to ICT connectivity and digital literacy and foster digital entrepreneurship.

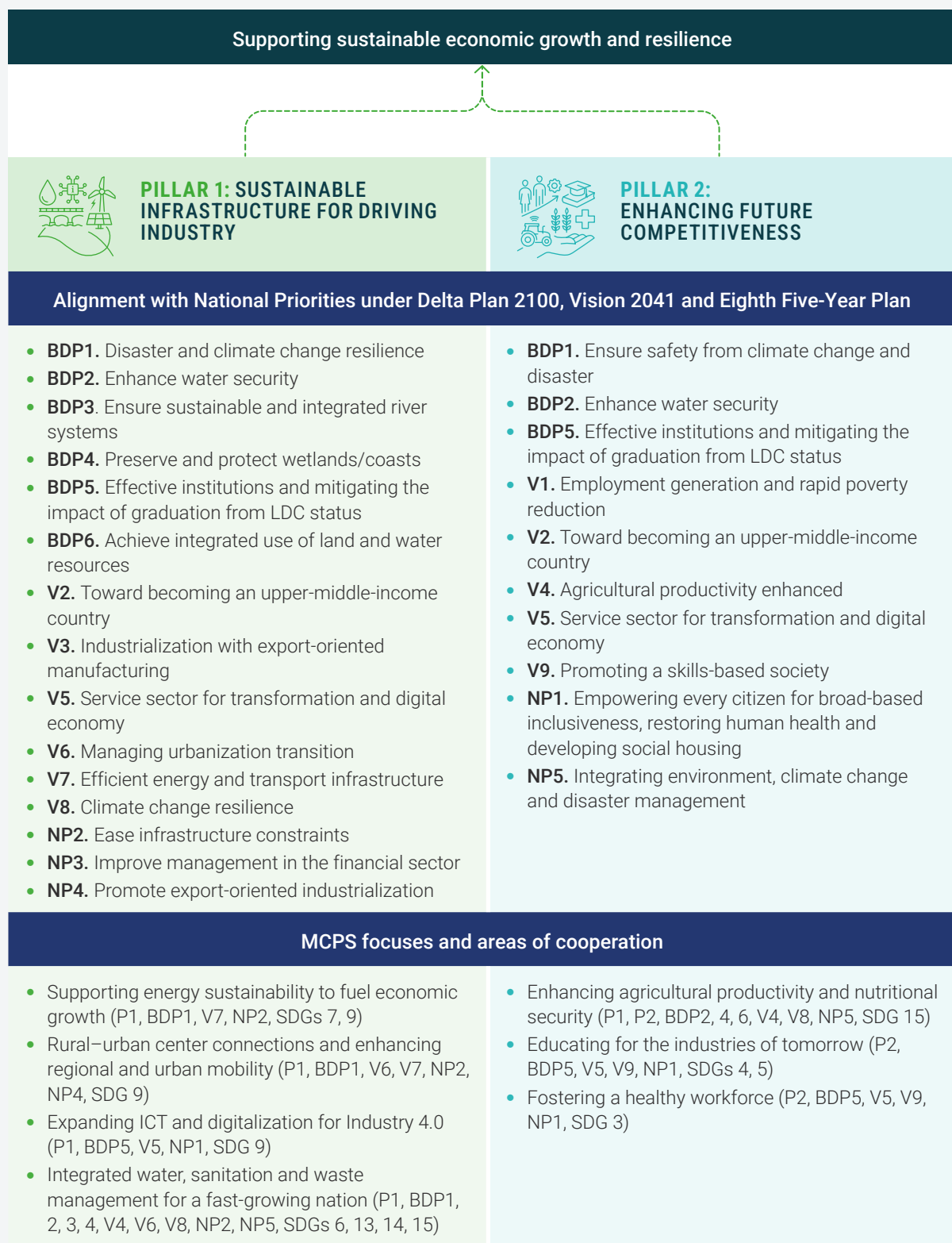
**[ 53 ] This will be done in accordance with IsDB’s forthcoming Digital Inclusion Operational Strategy 2024–2027, which will be mainstreamed across IsDB operations** and focuses on (i) smart policy and regulatory frameworks maximizing competition and private-sector investments in digital infrastructure and services, (ii) enhanced investments to achieve universal affordable services and universal access, (iii) digital skills enhancements, and (iv) mainstreaming ICT in other operational sector interventions. IsDB support to the ICT sector will particularly focus on (i) ensuring affordable access to broadband connectivity in rural areas; (ii) cross-sectoral (ICT and education) support on upskilling and

reskilling workers, including women and youth, through digital literacy to enable them to capitalize on the Fourth Industrial Revolution; and (iii) lines of financing support for start-ups and SMEs in the private tech sector (including women and youth entrepreneurs and green businesses) to foster digital entrepreneurship and job creation, and enhance Bangladesh’s competitiveness in the global economy.

**[ 54 ] Integrated water, sanitation and waste management for a fast-growing nation:** The management of water resources is of paramount importance, particularly for Bangladesh with its unique geographical challenges. IsDB support to the water and sanitation sector will focus on (i) coastal protection and enhancement of irrigation systems in alignment with the Bangladesh Delta Plan 2100; (ii) construction and expansion of drinking water supply and sanitation systems in urban and remote rural areas; (iii) digitalization of integrated water resources management in urban, peri-urban and rural regions; (iv) provision of safely managed sanitation services and infrastructures in urban areas guided by the Citywide Inclusive Sanitation (CWIS) approach and framework; and (v) integrated solid waste, fecal sludge and waste water management systems, incorporating industrial, agricultural, medical and domestic (including plastic) waste and waste water treatment.



**FIGURE 11. MCPS PILLARS AND CROSS-CUTTING AREAS, AND ALIGNMENT WITH NATIONAL DEVELOPMENT PLAN**







### Cross-cutting areas

- Climate change mitigation and adaptation (CC1, BDP1, 2, 3, 4, 5, 6, V8, NP5, SDG 13)
- Empowering women and youth (CC2, BDP1, V1, V9, NP1, SDGs 1, 5, 10)
- Capacity development (CC3, BDP5, V5, V7, V9, NP2, SDGs 8, 10, 17)
- Enhance financial market depth and access to finance through Islamic finance (P2, CC4, BDP1, 5, V5, NP3, SDGs 8, 9)

BDP: Bangladesh Delta Plan; CC1–4: cross-cutting area of IsDB Strategic Realignment; FYP: Five-Year Plan; GDP: gross domestic product; LDC: least developed country; NDP: National Development Plan; NP1–5: National Priorities of the Eighth FYP; P1–2: pillars of IsDB Strategic Realignment; SDG: Sustainable Development Goal.

### [55] PILLAR 2: Enhancing future competitiveness:

This pillar will focus on improving human capital development to enhance Bangladesh’s economic transformation with the requisite human capital base. The primary focus of this pillar will be on strengthening educational and vocational training systems, improving health infrastructure and services, and the enhancement of agricultural productivity and nutritional security.



### [56] Enhancing agricultural productivity and nutritional security: Bangladesh’s rapid economic transformation necessitates a strong focus on agriculture, which serves as a crucial economic buffer during times of economic shocks.

In line with IsDB’s Food Security Response Program (FSRP), IsDBG’s support for agriculture and food and nutritional security will focus on (i) increasing farming mechanization and productivity; (ii) expansion of general and temperature-controlled storage facilities for reserve stocks and reduction of postharvest losses; (iii) support for agricultural value chains and food processing capacity for value addition, with consideration for quarantine facilities, traceability of produce, management information systems, strategic commodities identification, integration of the Fourth Industrial Revolution, certification and standards; (iv) enhancement of water resources management (particularly at the river basin level) and irrigation systems; (v) reducing malnutrition and micronutrient deficiencies; and (vi) climate-smart agriculture technologies and varieties of crops, wetland and forest conservation/restoration, and enhanced utilization of agricultural

waste/circular agriculture. Agricultural development interventions will be considered in a programmatic approach to maximize complementarity with the ‘Rural development’ stream under ‘Transport’ in Pillar 1.

### [57] Educating for the industries of tomorrow: To build a robust foundation for industrial transformation, Bangladesh must focus on developing a strong educational and vocational training system.

IsDB support to the education sector will focus on the dual objectives of (i) enhancing and expanding education in rural areas and (ii) upskilling workers for enhancing domestic value addition and higher remittance earnings from exported labor.<sup>15</sup> The support for education will comprise three intervention themes: (i) enhancing infrastructure for building new schools and rehabilitating existing ones; (ii) facilitating ICT integration and furnishing ICT equipment in schools and technical and vocational education and training (TVET) centers; and (iii) capacity-building for teachers through digital literacy, languages and science, technology, engineering and mathematics (STEM) training. In addition, support will be explored for enhancing digital literacy/coding skills, and TVET for women and youth to equip workers for the Fourth Industrial Revolution.

### [58] Fostering a healthy workforce: To ensure inclusive human capital development, Bangladesh will need to address critical gaps in the health sector.

IsDB support for the health sector will focus on supporting: (i) the construction of health centers in rural areas; (ii) upgrading and constructing specialized maternal, newborn and child healthcare facilities; (iii) capacity development for midwives and nurses; (iv) improving

15 According to the International Organization for Migration (2019), Bangladesh’s remittances per worker were US\$203, which is one of the lowest among top remittance-earning countries such as the Philippines (US\$564), China (US\$533) and India (US\$398). Furthermore, only 36 percent of Bangladesh’s migrant workers are skilled compared with 45 percent from the Philippines.

urban primary healthcare services; (v) cross-sectoral (nutritional security and health) support for reducing malnutrition and micronutrient deficiencies; (v) cross-sectoral (health and water and sanitation) support for medical waste management; and (vi) managing the impact of climate change and environmental risk factors on disease vectors (e.g., dengue fever).



**[ 59 ] Cross-cutting thematic areas:** To ensure comprehensive and sustainable development, IsDBG emphasizes the following cross-cutting thematic areas that underpin the overall MCPS.

**[ 60 ] Climate change mitigation and adaptation:** Bangladesh is considered to be within the top 10 most climate-vulnerable countries globally. As such,

climate change is strongly integrated into national policies, including the National Adaptation Plan (NAP), which outlines US\$230 billion in investment needs. Thus, climate adaptation and resilience-building measures must be mainstreamed across all sectors and thematic interventions. The MCPS can support Bangladesh’s transition toward a low-carbon, climate-resilient economy. IsDB can explore climate finance mobilization options, including green/climate *sukuk* opportunities, and explore the potential for Islamic products, such as insurance (*takaful*)<sup>16</sup> for climate disasters, and carbon market opportunities under Paris Agreement Article 6. Additionally, while Bangladesh is considered a role model in early warning systems, there is strong potential to integrate support for early warning systems<sup>17</sup> in highly vulnerable areas, and support for nature-based solutions (NbS) in climate action and biodiversity conservation/restoration in many key biodiversity regions in Bangladesh. IsDB will also explore supporting hollow-brick technology and clean brick kilns, in addition to affordable, climate-resilient rural and peri-urban housing.

**[ 61 ]** More broadly, at the UN Climate Change Conference (Conference of the Parties [COP] 28) in Dubai in December 2023, several international financial institutions, in collaboration with the Government of Bangladesh, announced a country platform for climate and development, which is committed to generating a robust project pipeline integrating a financing strategy to enhance the nation’s ability to mitigate and adapt to the effects of climate change.<sup>18</sup> Hence, greater cross-multilateral development bank (MDB) collaboration is expected during the period of this MCPS, with opportunity for collaboration and co-financing on climate change for IsDB. IsDB will mainstream climate resilience into all project interventions and adhere to its own environmental and social safeguards policy.

**[ 62 ] Women and youth empowerment: Resilience-building of women and youth is vital to harnessing the demographic dividend in Bangladesh.** More initiatives and substantial investment are critical to empower women and youth to enable the country to make the transition to a smart nation. Hence, women and youth empowerment perspectives will be mainstreamed in all sectors of the economy, ensuring targeted measures and

16 Takaful (sometimes translated as ‘solidarity’ or mutual guarantee) is a cooperative system of reimbursement or repayment in case of loss, organized as an Islamic or Shariah-compliant alternative to conventional insurance, which contains *riba* (usury) and *gharar* (excessive uncertainty) (Wikipedia contributors (2024) Takaful. In: Wikipedia, The Free Encyclopedia. <https://en.wikipedia.org/wiki/Takaful>).

17 IsDB is exploring support for the UN-led Systematic Operations Financing Facility (SOFF), as part of the UN Secretary-General’s Early Warning for All Initiative, launched in 2022.

18 COP28UAE press release, 4 December 2023. [www.cop28.com/en/news/2023/12/Multilateral-Development-Banks-announce-over-180-billion-in-new-climate-finance](http://www.cop28.com/en/news/2023/12/Multilateral-Development-Banks-announce-over-180-billion-in-new-climate-finance)



activities are put in place to increase the participation of women and youth in development and build a more inclusive economy. IsDB will develop the capacity of women and youth by improving the quality of and access to education and TVET to adequately respond to labor market needs, including enhancing their digital literacy to equip them for the Fourth Industrial Revolution. A key focus will be on the creation of decent jobs, with increased social protection measures, including promoting and supporting women and youth entrepreneurship and businesses by increasing women's and youths' access to productive, technical and financial resources, and basic essential services. Moreover, to realize a demographic dividend, Bangladesh must increase women's access to quality, affordable healthcare services and nutrition, particularly in rural areas. IsDB can support upgrading and construction of specialized maternal, newborn and child healthcare facilities in the country.

**[ 63 ] Capacity development: To address the capacity development needs of Bangladesh at the individual, institutional and organizational levels, IsDB will utilize its available South–South Cooperation modalities such as the Technical Cooperation Program, Reverse Linkage Program and Capacity Development Program** to enhance the national ecosystem for South–South and triangular cooperation, the Investment Promotion Technical Assistance Program (ITAP), Regional Cooperation and Integration Program, and Technology Transfer Cooperation Program. Potential areas of collaboration include (i) digitalization of public services and creation of management information systems; (ii) supporting and facilitating the *madrasah* and TVET Education Board, and exploring TVET capacity-building for nursing education; (iii) mapping of resource centers in Bangladesh under the Reverse Linkage Mechanism; (iv) establishing an entity in Bangladesh to promote South–South and triangular cooperation; (v) facilitating rice production and yield research; (vi) technology transfer in agricultural value chain development; (vii) trade facilitation and investment promotion; (viii) training programs for workers in the agricultural, health, education and ICT sectors; and (ix) public financial management capacity-building and Technical Assistance.

**[ 64 ] Enhancing financial market depth and access to finance through Islamic finance: With its emphasis on financial inclusivity and supporting MSMEs, Islamic finance will play a critical role in promoting economic growth and reducing informality.** IsDB support will comprise: (i) expanding access to Islamic finance in terms of volume along with instruments to support MSMEs

and enhance financial market depth; (ii) supporting banking the unbanked to reduce informality within the economy and expand the tax base; (iii) expanding the scope of Islamic banking in the country; and (iv) exploring financing modalities, such as green/climate *sukuk*, *takaful* for climate resilience, green lines of finance in domestic banks, and Islamic climate finance. IsDBI will invite the Government of Bangladesh to voluntarily participate in the Islamic Finance Sector Development exercise to unlock greater developmental potential through Islamic finance both locally and through cross-border integration with other developed Islamic finance markets.

**[ 65 ] Rapid development of the private sector to diversify beyond the RMG sector will be a key tenet for the structural transformation of Bangladesh.** IsDBG's support for private-sector development will focus on providing greater access to and variety of financing for MSMEs and facilitating greater industrial activity in and out of the special economic zones centering around agriculture, light engineering, pharmaceuticals and semiconductor manufacturing.

**[ 66 ] Government-prioritized additional focus area:** In addition to the potential areas of support outlined in *Figure 11*, IsDBG has been requested by the government to include **support for social housing** as part of this MCPS cycle. Bangladesh is experiencing rapid rural–urban migration, particularly to Dhaka, with resulting informal (slum) urban development and pressure on urban infrastructure and services. There is a great need for additional housing, including affordable housing for poor and vulnerable communities, with consideration for the establishment of a satellite city to ease population pressures in Dhaka. Additionally, greening the brick-kiln production sector offers climate support opportunities.

**[ 67 ] IsDB approved 270.57 million euros for the Rural and Peri-Urban Housing Finance Project – Second Phase in 2023 in response to the government's request for support in the social housing sector.** This project is included as part of this MCPS and aims to: (i) expand access to affordable finance for constructing 1,989 sustainable multistorey housing units with improved quality and necessary basic facilities for 70,632 lower- and middle-income people dwelling in rural and peri-urban areas; (ii) ensure the optimum use of land and save cultivable land; and (iii) facilitate climate change adaptation by introducing 55 climate-resilient housing units for climatically vulnerable segments and 39 eco-friendly housing units to reduce greenhouse gas (GHG) emissions.



# 5. IMPLEMENTING THE PARTNERSHIP STRATEGY



As of September 2023, IsDBG has approved total financing of about US\$25.595 billion for Bangladesh.

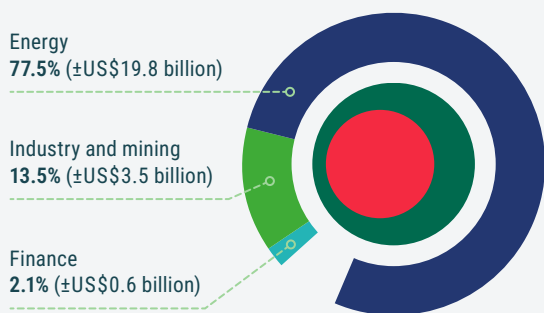
## 5.1. Current Implementation Issues

### 5.1.1. IsDB Group Portfolio Performance

[ 68 ] As of September 2023, IsDBG has approved total financing of about US\$25.595 billion for Bangladesh. This comprises US\$2.134 billion project financing by IsDB; US\$0.471 billion approved by ICD; US\$17.430 billion trade operations by ITFC; and US\$5.56 billion by other IsDBG funds and operations. In addition, ICIEC has so far provided cover for US\$6.6 billion as business insured in Bangladesh.

[ 69 ] Project financing (excluding loans) represents 6.9 percent (US\$1.759 billion) of total financing, while trade financing represents 90.6 percent (US\$23.193 billion) and concessional financing 2.5 percent (US\$0.643 billion). Sectoral breakdown of the IsDBG operations in Bangladesh is as follows: the sector with the highest share is energy at 77.5 percent (about US\$19.828 billion), followed by industry and mining at 13.5 percent (about US\$3.465 billion) and finance at 2.1 percent (about US\$0.555 billion).

ISDB GROUP OPERATIONS IN BANGLADESH: SECTORAL BREAKDOWN





**[70] IsDBG total disbursement reached US\$17.689 billion, comprising US\$1.524 billion (8.6 percent) by IsDB, US\$15.802 billion (89.3 percent) by ITFC and US\$363 million (2.1 percent) by ICD.**

The total repayment is US\$16.531 billion, comprising US\$733 billion (4.4 percent) to IsDB, US\$15.490 billion (93.7 percent) to ITFC and US\$308 million (1.9 percent) to ICD.

**[71] Modalities and sectoral breakdown:** Ordinary capital resources (OCR) take the largest share of financing: 97.5 percent of the active portfolio comprising trade financing (90.6 percent), leasing (3.5 percent), instalment sale (2 percent), Istisna<sup>19</sup> (1.3 percent) and equity (0.1 percent). The concessional financing covers 2.5 percent of the total financing, comprising loan (1.9 percent) and grants (0.6 percent) covering special assistance (0.3 percent) and technical assistance (0.3 percent). The active portfolio stands at 87 operations with a total amount of US\$4.7 billion (18.3 percent of the total portfolio). A total of 435 operations have been completed totaling US\$20.9 billion (81.7 percent of the total portfolio).

**[72] IsDB portfolio:** Since its inception in 1975, cumulative approvals of IsDB to Bangladesh amount to US\$2.134 billion. IsDB

support has focused on energy, water and sanitation, finance, agriculture and rural development, and education. The country has benefitted from an array of financing modes: OCR; Istisna, leasing and instalment sales; and non-ordinary capital resources (loan and grants). IsDB approval in the four years 2019–2022 was moderate compared with IsDBG’s total net approvals. The maximum approval from 2019 to 2022 was US\$70.5 million (7.8 percent of total net approval) recorded in 2019, while 2022 experienced an all-time-low approval of only US\$0.9 million (0.07 percent), partly due to COVID-19, volatility of the capital market and rise in pricing/markup. However, in 2023, IsDB approvals experienced an upward trend, standing at US\$297 million as of September (22.7 percent of total net approval), made possible by effectively blending project financing with concessional loan financing bringing down the effective markup/pricing on the Rural and Peri-Urban Housing finance project that was approved on 10 May 2023. This project was formulated by the Regional Hub of Dhaka (RH Dhaka)



as a part of the MCPS Bangladesh 2024–2026, with which it is aligned.

**[73] IsDB responded to the country’s need to tackle the COVID-19-related health challenges and approved two projects under the Strategic Partnership Response Program (SPRP):** (i) Hygiene Project in Response to COVID-19 was approved on 21 July 2020 for US\$24.8 million. The project experienced start-up delays in signing the finance agreements, causing it to lose its focus from an emergency response to a development project and was therefore canceled at the request of the Government of Bangladesh. And (ii) Line of Finance to Support SMEs Project was approved on 30 December 2020 for US\$47 million and is progressing, albeit with implementation challenges.

**[74] ITFC portfolio: Since its inception in 2008 and up to June 2023, ITFC has approved around US\$17.35 billion in favor of both**



**public- and private-sector entities in Bangladesh.** A total of US\$4.526 billion was approved for Bangladesh during the period 2019–2023.

**[75]** ITFC is committed to continuing its support to meet the financial needs of Bangladesh for the import of essential commodities, such as petroleum and LNG, through the public-sector entities that will ensure the country’s energy security.

**[76]** As part of expanding the private-sector intervention, ITFC will continue to support:

- a. SMEs by providing lines of finance to local private-sector banks, and
- b. the readymade-garments (RMG) sector through the Supplier Financing Scheme.

These two interventions will not only provide working capital support to SMEs and RMG producers, but will also allow them to expand production and increase the country’s overall export capacity.

**[77]** As part of trade development and business development initiatives, ITFC will coordinate with relevant governmental and private-sector entities to provide trade and business development solutions such as:

- a. trade-related capacity-building and training
- b. Trade-Related Technical Assistance (TRTA)

<sup>19</sup> *Istisna* (also *Bia Istisna* or *Bai’ Al-Istisna*) is ‘forward contracts’ – customized contracts where immediate payment is made for goods in the future – goods not yet manufactured, built or harvested (Wikipedia contributors (2024) Islamic banking and finance. In: Wikipedia, The Free Encyclopedia. [https://en.wikipedia.org/wiki/Islamic\\_banking\\_and\\_finance#Istisna\\_and\\_Bai\\_Salam](https://en.wikipedia.org/wiki/Islamic_banking_and_finance#Istisna_and_Bai_Salam)).

- c. trade facilitation and promotion
- d. trade digitization
- e. advisory services.

**[ 78 ] ICD portfolio:** Since its inception, ICD has approved US\$605 million for Bangladesh, with US\$282 million since the beginning of 2019. ICD has been supporting Bangladesh to address constraints on private-sector development to promote a more balanced and vibrant private sector.



**[ 79 ] ICD aims to anchor its private-sector development strategy in Bangladesh on the following interventions.**

- a. **Direct financing to large SMEs and corporates:** ICD is focused on extending direct financing to large companies in the manufacturing and agribusiness sectors. ICD shall also consider non-sovereign/PPP infrastructure projects.
- b. **Line of Finance (LoF) to banks and non-banking financial institutions (NBFIs).** ICD LoF remains one of the key interventions to support the SME sector effectively in Member Countries via bilateral financing or syndication basis with local banks and NBFIs.
- c. **Equity investments in financial institutions such as banks, including digital banks, and NBFIs:** ICD is actively looking to intervene in the financial sector by participating via equity stakes in the financial institutions in the country.
- d. **Debt Capital Market Program for government and private-sector stakeholders (corporates and financial institutions):** In addition to ICD's funding activities for the private sector and the finance community, ICD is also actively looking to support the development of the private sector in Bangladesh. Under its Debt Capital Market Program, ICD continuously assesses opportunities to work with the government and private-sector stakeholders (corporates and financial institutions) for potential issuance of sovereign or corporate *sukuk*. To make the issuance successful, ICD is also proposing a multi-currency issuance program to give an option for the issuer to use the *sukuk* proceeds effectively.

**[ 80 ] ICIEC portfolio:** Since its inception, ICIEC has insured US\$6.66 billion of business through its trade credit insurance services to support import to and export from, and investment insurance services to mobilize foreign investment/financing into, Bangladesh (up to October 2023).



- a. **ICIEC's credit enhancement and risk mitigation solutions have facilitated US\$5.93 billion of imports of strategic commodities, including LNG, petroleum, fertilizer and wheat, and capital machinery related to RMG, power, telecoms and manufacturing sectors by state-owned entities and private-sector importers, including SMEs, through 25+ local banks (both private commercial and state-owned) in the country.** ICIEC insurance cover enhances the creditworthiness of the local banks in the international market and allows for a reduction in confirmation fees charged by international banks abroad for the import of strategic goods into Bangladesh. Over the years, the risks associated with ICIEC's exposure to Bangladeshi banks have increased significantly. As a result, ICIEC has signed a memorandum of understanding (MOU) with the Central Bank of Bangladesh to better manage these risks, allowing it to maintain a reasonable amount of exposure to local banks.
- b. **Thus far, ICIEC has provided insurance services to exporters covering US\$92.85 million of exports and supported US\$643 million of foreign investment/financing into private-sector power and telecoms sectors (three independent power producers and one telecoms operator) in the country through its reinsurance services.** ICIEC's long experience of collaborating with its network of international commercial banks and export credit agencies in covering public-sector infrastructure projects in its Member Countries should be very helpful in mobilizing international financing/investment for such projects in Bangladesh. However, foreign commercial financing opportunities for large public infrastructure projects in the country are rather limited as most such projects are financed with loans from bilateral lenders under the Government-to-Government (G2G) Framework Agreement/MOU or loans from MDBs. ICIEC's insurance services offered to a foreign supplier covering the non-payment risk of medium-term Lines of Credit (3–4 years) issued by local commercial banks in Bangladesh have facilitated the import of capital machinery by local apparel manufacturers and exporters, positively contributing to the growth of the apparel export sector of the country.
- c. **As part of the ICIEC–ISFD COVID-19 Emergency Response Initiative (ICERI) under the Strategic Preparedness and Response Program of IsDBG, ICIEC has supported the import of US\$33.6 million of agri-commodities to Bangladesh, with its insurance services contributing to food security for the country during the pandemic, where ISFD contributed**





US\$65,000 as a grant contribution to insurance coverage of four transactions.

**[ 81 ] Under the King Abdullah bin Abdulaziz Program for Charity Works (KAAP, previously called Fael Khair), the following projects have been completed in Bangladesh:**

(i) Non-Formal Primary Education and Vocational Training for the Rohingya Children and Adolescents, in cooperation with UNICEF for an amount of US\$7.29 million; (ii) a grant operation amounting to US\$1.8 million for the Establishment of the Women and Children Hospital in Rohingya Camp 4, along with the HOPE Foundation, is already completed; (iii) in December 2022, an additional 13 School-cum-Cyclone Shelters (SCCs) were completed on time, and subsequently handed over to the government-authorized representatives. Earlier, 172 SCCs were completed and handed over to the Government of Bangladesh at the end of 2019. Altogether, 185 SCCs have been handed over.

**[ 82 ] Ongoing projects by the Korea–Arab Society for Health Promotion in Bangladesh** include the Integrated Rehabilitation Project for Uplifting the Ultra-poor Communities, approved in 2019 for US\$16 million. Implemented through various non-governmental organizations (NGOs), components such as health and water, sanitation and hygiene (WASH) by BRAC, TVET by Muslim Aid Bangladesh Field Office, and

non-formal education by Dhaka Ahsania Mission have gained momentum after a slow start during the COVID period. Under the Build and Operation of Floating Mobile Medical Units (FMMUs), two units are operational, and construction of three more is under way with Friendship NGO. Two FMMUs are expected to deliver services by December 2023 and the fifth by February 2024. Two projects supporting Rohingya refugees are ongoing, one for community resilience and another for multi-sector assistance, with completion dates in April and June 2024, respectively. To respond to the COVID-19 crisis, the Society allocated US\$1.3 million for capacity-building, laboratory equipment and a risk awareness campaign. For the future, the Society is considering supporting the expansion and renovation of the Hope Field Hospital in Camp 4 over the next three years.

**[ 83 ] ISFD portfolio: Since its inception, ISFD has contributed to the financing of 19 projects in Bangladesh, totaling US\$40.97 million, including**

US\$15 million as concessional loans, US\$5.54 million as grants and US\$20.4 million as investment with the private sector. Total projects approved reached US\$304.3 million, which includes both projects under flagship programs and stand-alone projects. Of the 19 projects supported by ISFD, 17 were completed, and only 2 projects are still active: (i) Rural Access Road Improvement in Sylhet;



and (ii) Piloting a low-cost, accessible and acceptable nutrient bar to combat micronutrient deficiency among young menstruating women in Bangladesh.

**[ 84 ] IsDB portfolio performance:** The IsDB Active Portfolio in Bangladesh covers nine projects with a total approval of US\$836 million largely supporting the housing sector (48 percent of approval for the country). As of the third quarter of 2023, US\$301 million (36 percent) of total approval was disbursed, while cumulative undisbursed commitment (CUC) stood at US\$234 million (28 percent), of which 53 percent is over five years (after first date of disbursement).

**[ 85 ] The average age of the Regional Hub of Dhaka portfolio is 4.3 years, which is below the recommended maximum portfolio age.** This will be improved further as efforts are being made to add new projects by the end of the year (2023) – Housing project (US\$297 million) and Women In Sanitation Enterprises (WISE) project (US\$6.13 million).

**[ 86 ] An assessment of the current active portfolio shows that the time taken from approval to first disbursement ranges from 23 to 46 months, except for 12 months in the case of BGD1066 (a Lives and Livelihood Fund [LLF] project).** In general, the delays experienced are due to **late setting up of project management units (PMUs)**; delays in fulfilling effectiveness and disbursement conditions; delays in the start of project activities due to **slow procurement of goods, works and services**; inherent government project approval processes for the signing of financial agreements; changes in government priorities; and force majeure events (COVID-19) that derailed government business. On average, it takes 29 months from Approval to First Disbursement, of which 9 months (close to 30 percent of the time) was taken for the processing from Effectiveness to First Disbursement. Approval to Signing and Signing to Effectiveness took on average 6 months (22 percent) and 14 months (48 percent), respectively. The high-level portfolio metrics are given in *Table 4*.

**TABLE 4. ISDB HIGH-LEVEL PORTFOLIO METRICS**

Number of active projects	9
Size of active portfolio	US\$836 m
Disbursements	US\$301 m
Cumulative undisbursed commitment (CUC)	US\$234 m
Proportion of CUC of active portfolio > 5 years of age	53%
<b>Average age of active portfolio</b>	<b>4.3 years</b>
<b>Average time elapsed from approval to signing</b>	<b>6 months</b>
<b>Average time elapsed from signing to effectiveness</b>	<b>14 months</b>
<b>Average time elapsed from effectiveness to first disbursement</b>	<b>9 months</b>
<b>Average project completion report (PCR) score</b>	<b>0.88</b>
<b>Average project implementation and assessment support report (PIASR) score</b>	<b>0.79</b>
<b>Percentage of expired last dates of disbursement (LDDs)</b>	<b>0%</b>

m: million.



In terms of implementation experiences, overall IsDB's projects in Bangladesh have been suffering from implementation delays, which have been exacerbated by the effects of COVID-19.

**[ 87 ]** Consolidated from seven project implementation and assessment support reports (PIASRs) prepared recently representing all active projects (excluding grant financing), the overall project performance in 2022 is satisfactory, rated 0.79 out of 1.0. Overall, project performance rating scores increased from 0.7 in 2021 to 0.79 in 2022. Projects received high ratings for the following performance dimensions: implementation arrangement (0.85); compliance of contracts completion in terms of schedule, cost and quality (0.80); and risk and sustainability (0.77). Projects received low ratings for results (0.65) and disbursement (0.66). However, satisfactory performance of other dimensions will translate into an improvement in disbursements in the long run.

**[ 88 ]** Despite a satisfactory rating of 0.78 for procurement performance, this score has not translated into a satisfactory disbursement rating (0.66). Nonetheless, both metrics had improved compared to the previous year when they stood at 0.70 and 0.55, respectively. The portfolio implementation Action Plan is attached as *Annex 1*.

**[ 89 ]** **Implementation challenges:** In terms of implementation experiences, overall IsDB's projects in Bangladesh have been suffering from implementation delays, which have been exacerbated by the effects of COVID-19. However, the decentralization of IsDB operations through the Regional Hub of Dhaka has been helping: (i) establishment and recruitment of PMU staff; (ii) preparation of a complete implementation plan (including procurement and disbursement plan); (iii) capacity-building of PMU officials; and (iv) development of a tool to monitor and address operational, technical, procurement and disbursement processes.

**[ 90 ]** The volatile nature of the capital market has led to an unprecedented increase in the secured overnight financing rate (SOFR) and the Bank's overall markup/pricing, which affects the rate of return and financial viability of projects that were assessed viable during appraisal (e.g., in BGD1074 the Line of Finance to Support SME in Bangladesh Project that was supposed to provide an LoF through intermediary financing institutions to SMEs has lost its appeal due to a 400 percent increase in the SOFR; the project is currently at an impasse; further exacerbating this issue is the restrictive policy imposed on intermediary financing institutions to cap interest rates at 7.18 percent for commercial lending to SMEs).

**[ 91 ]** Late setting up of PMUs, understaffing and high staff turnover in PMUs are prevalent in Bangladesh and pose serious project implementation challenges, leading to delays in submission of quality procurement documents, task completion and overall project timelines; risk of deficiencies in quality of work and scope creep; and loss of project knowledge and disruption of continuity (e.g., in BGD0181 only 4 engineers against 10 engineers provisioned in the project appraisal document [PAD] are placed in the PMU, which is a challenge for a US\$115.1 million project with 82 packages to gain and retain momentum and strive to disburse US\$54.29 million in the remaining period of the project).

**[ 92 ]** Project implementation is commonly constrained by issues of quality at entry and implementation readiness. For example, preparation of realistic procurement strategies and procurement plans, preparation of detailed designs and specifications, and acquiring land for construction of project assets (e.g., in BGD0181 Urban Water Supply and Sanitation in 23 Pourashava Project and BGD0173 Rural Access Road Improvement Project in Sylhet District, land issues are affecting the projects' abilities to construct some of the intended assets promptly; for BGD1066 LFF 10 Town Project, the opening of the special account took a long time due to delays in appointing the project director of the PMU).

**[ 93 ]** Due attention will be given to land issues because land is an extremely scarce resource in Bangladesh and suitable land for the construction of project assets is even more scarce. Despite several initiatives undertaken by the Government of Bangladesh to make the process of land acquisition easier and shorter, challenges still persist in this area. Unavailability of land at project start-up leads to project redesigns and delays that increase implementation costs and delay the development objective of projects, especially for





energy, urban development, agriculture and infrastructure projects.

**[94] Over 50 percent of projects implemented in Bangladesh have 50 packages or more that present high transactional costs during project implementation, especially in procurement and disbursement tasks.**

There is also a potential for consistency to become a challenge during project implementation because of the number of contractors/service providers engaged (e.g., BGD0173 Rural Access Road Improvement Project in Sylhet District has 187 packages and BGD0181 Urban Water Supply and Sanitation in 23 Pourashava has 82 packages). However, PMUs will be strengthened through Technical Assistance (TA) and post-review to facilitate procurement requirements in line with the procurement strategy on the ground.

**[95] For improving portfolio performance, the CPRN prepared in 2023 suggested the need for: (i) increasing concessional financing** to provide a more realistic blending on the current pricing/markup (e.g., in May 2023 the IsDB Board of Executive Directors approved 270.57 million euros for the Rural and Peri-Urban Housing Finance Project – Second Phase at a cost of US\$297 million, comprising a concessional loan of US\$42.7 million and an instalment sale of

US\$254.3 million as blended financing); (ii) **reducing first disbursement delays by ensuring high project readiness**, using advance procurement procedures with retroactive financing, applying risk mitigation measures, early setting up of PMUs; (iii) **reducing delays in signing by obtaining concurrence with the executing agency** on the term and conditions, and the reduction in delays in government approval of the development project proposal (DPP); (iv) **adopting a strong filtering process**, including approval of the preliminary DPP in selecting the official requests; (v) mitigating start-up risks by fostering the use of advance contracting for priority procurement activities (including financial auditor selection) and encouraging the early establishment of PMUs with all resources and staff (or recruitment of an independent consultant to carry out advance contracting actions); (vi) **allocating a preparatory budget to assist the government to develop robust feasibility studies** and improve the readiness of the project; (vii) **improving the efficiency in procuring works** by adopting an electronic government procurement (e-GP) system for national competitive bidding (NCB) works contracts, capacity-building on the Bank's Procurement Principles and Guidelines, and raising the awareness of executing agency/PMU staff on compliance with IsDB's Procurement and Integrity Policies.



**TABLE 5. SUMMARY OF SYSTEMIC PORTFOLIO-LEVEL IMPLEMENTATION CHALLENGES**

Key challenge	Action to resolve
The unprecedented increase in SOFR makes projects less financially viable	Blending with OCR and other concessional modes of financing. Increase engagement with partners such as LLF. In addition, RH Dhaka will target projects with high economic and financial returns while subjecting economic and financial analyses to robust sensitivity analysis.
Timely deployment of capable PMU staff	Setting up the PMU needs to be incorporated into project covenants. IsDB to monitor compliance throughout the implementation of the project.
High turnover of PMU staff, especially in leadership roles	RH Dhaka to follow up and conduct meetings with the heads of the executing agencies (EAs) to confirm the availability of key PMU staff for the project period.
Delay in the procurement process by the EAs, specifically for the smaller NCB works packages	Use the e-GP system for procurement of small NCB works packages.
Delay in submission of quality procurement documents	The EA shall ensure the availability of full-time procurement experts for the projects.
Delays experienced in project implementation due to land scarcity and climate-related events such as flooding	Embark on rigorous adaptive feasibility/design studies that focus on sustainable land management practices. Pre-implementation activities should include acquiring suitable land for the project and including land availability and confirmation of land availability as a precondition to first disbursement. To mitigate the risks of climate change and impacts on project implementation, project preparation and appraisal should focus on the quality of project design, including the selection of project site, and relevant protective measures should be in place.
Contract management issues	<p>The IsDB project preparatory team shall conduct meetings with the EA and other project beneficiaries during project preparation/appraisal to confirm land availability; site clearance will be confirmed at the implementation stage. The land and sites for the works contracts shall be ready for handing over before contract signing. Prepare and use contract management plans for critical contracts. EA staff will be encouraged to complete IsDB’s e-learning course on procurement and contract management. To reduce the number of packages for future projects, the project preparation team will focus on increasing package sizes in line with the capacity of available contractors and the procurement strategy developed for the project.</p> <p>Develop a project implementation manual (PIM) to describe the essential project management and <b>procurement</b> requirements to implement the project on time, within budget, and per <b>IsDB’s procurement policies and procedures</b>. The PIM should include reference to all <b>available templates and instructions</b> either through links to online versions or directly incorporated in the PIM.</p>

e-GP: electronic government procurement; EA: executing agency; LLF: Lives and Livelihood Fund; NCB: national competitive bidding; OCR: ordinary capital resources; PMU: project management unit; RH: Regional Hub; SOFR: secured overnight financing rate.



### 5.1.2 Lessons Learned from Previous MCPS

[ 96 ] The MCPS 2012–2018 for Bangladesh covered three key pillars and two cross-cutting areas for interventions. Pillar I Improving infrastructure development, Pillar II Assisting sustainable agriculture, and Pillar III Supporting primary and secondary education and vocational training covering education infrastructure for *madrasahs*, TVET and teacher training. The cross-cutting areas were enhancing private-sector development, supporting Islamic finance, capacity-building and reverse linkages.

#### [ 97 ] Major highlights of the overall assessment of the development impact of past IsDB interventions

- a. IsDB has established a long record of intervention in Bangladesh's energy sector, which has resulted in (i) the delivery of 363.86 MW of electricity against a target of 341 MW; (ii) the establishment of a 363,860 kW gas combined-cycle power plant against a target of 341,000 kW; (iii) construction of six 33/11 kV substations with total capacity of 45 MVA and 2,500 km low-voltage distribution lines; and (iv) some 91,760 new connections were provided to various consumers.
- b. IsDB's intervention in the Regional Submarine Telecommunication Project delivered 20,127 km of cable against a target of 20,000 km, and the actual output was an additional 1,500 Gbps submarine telecommunication ultimate bandwidth capacity against the 1,300 Gbps target.
- c. The Rural and Peri-Urban Housing Finance Project reached 64,290 beneficiaries (134.34 percent of target), and built 1,161 multistorey buildings (110 percent of target) and 10,715 family units (134 percent of target).

[ 98 ] An implementation review of the Bangladesh MCPS 2012–2018, the MCPS Completion Review Report, suggested the need for: (i) improving the alignment of project activities with the MCPS pillar objectives to make projects more relevant; and (ii) improving efficiency in project implementation in the agriculture and rural development, and education sectors.

[ 99 ] The IsDB presence in the field led to efficient implementation, especially after the involvement of the Regional Hub, as evidenced by improved disbursements. The decentralization of IsDB through its Regional Hub of Dhaka and greater delegation of authority to the hub to process operational transactions prevented project implementation delays. The executing agencies unanimously expressed their positive views on the contribution of the Regional Hub of Dhaka for facilitating greater awareness of IsDB's processes and procedures and faster implementation of projects.

The Regional Hub of Dhaka also helps establish closer relationships with other development partners (e.g., it is represented on Bangladesh's Local Consultative Group and actively participates in the Agriculture, Water and Sanitation, and Energy Sectoral Working Groups). Other development partners have long had country offices with high levels of delegation for issues such as procurement and disbursement, which enables faster implementation of projects.

[ 100 ] **Disconnected alignment, lack of coordination and focus, and implementation delays lead to decreased effectiveness.** Several objectives, interventions and output targets in the MCPS Results Matrix were either not addressed or inadequately addressed by the set of identified projects (e.g., the previous MCPS was rated less effective due to the inclusion of the Regional Submarine Telecommunication Project under Pillar III). Also, start-up delays (e.g., effectiveness declaration) and slow implementation processes weakened overall effectiveness (e.g., the 400 MW Ashuganj East Power Plant Efficiency Improvement Project took about 688 days to become effective from the date of signing). No project was approved concerning the target of developing postharvest technologies (e.g., cold storage) or irrigation networks. Total financing to the Islamic banks was very small in comparison to the size of the Islamic finance (IF) sector and the interventions lacked coordination and focus on improving the IF sector in Bangladesh. Thus, the cross-cutting theme of supporting IF was not well served under the previous MCPS.







**IsDB’s review process for procurement documents requires several steps and is lengthy compared with government procurement.**

**[101] Improving the capacities of executing and implementing agencies helps project implementation.**

The lack of readiness for project implementation, insufficient quality of PMU staff, and inadequate implementation capacity by implementing and executing agencies were evident. Other MDBs share a similar opinion. While other development partners continuously work to improve the capacity of executing and implementing agencies, IsDB’s focus in this area has been negligible. It is evident that improving the capacities of these agencies through regular capacity-building programs and training on MDBs’ procedures, and procurement and disbursement guidelines speed up project implementation.

**[102] Given the faster implementation cycle in the private sector, a more diversified portfolio could promote this vibrant sector**

that constitutes the force for improving lives, strengthening communities and accelerating sustainable development. In general, IsDB’s private-sector projects (including PPP projects) experienced faster implementation cycles (e.g., BGD1023 Bhola 220 MW Dual Fuel Combined Cycle Power Plant Project, Bangladesh was implemented within 37 months despite COVID-19 delays).

**[103]** However, there was a lack of diversification in clients and product base (e.g., private Islamic banks were not as well served as envisaged). The support for SMEs needs special attention for enhancing their roles in job creation. Also, export-oriented industries, especially those in the apparel sector, did not receive due attention. Finally, support can be extended to PPP in other priority sectors, including health and renewable energy.

**[104] Less stringent procedures and more efficient terms for tendering could reduce delays in project implementation.**

IsDB’s review process for procurement documents requires several steps and is lengthy compared with government procurement. Bangladesh has a well-developed e-GP system, which is faster and

more transparent than offline tendering. All MDBs used e-GP for the NCB works contracts except for IsDB; this resulted in delays in procurement and project implementation. Receiving tenders offline is complex for the procuring entities (PEs) given the procurement environment in Bangladesh. The use of e-GP is convenient for both the bidders and PEs.

**5.1.3. Fiduciary Analysis**

**A. PROCUREMENT**

**[105] Assessment of the National Procurement System:**

**Public procurement in Bangladesh is governed by a comprehensive legislative and regulatory framework** that is conducive to competition, efficiency, transparency and fairness, and which helps the Government of Bangladesh achieve maximum value for money. Public procurement is regulated by the Public Procurement Act (PPA 2006) with supplementary Public Procurement Regulation (PPR 2008), e-GP Guidelines and Delegation of Financial Power (DOFP). A comprehensive sustainable public procurement (SPP) policy has been prepared. SPP is a priority initiative of the government to achieve the SDGs. SPP emphasized the need for SMEs and women-owned enterprises (WOEs) to adopt gender-responsive public procurement.

**[106] Most of the elements of the procurement framework are consistent with international best practices in procurement,**

except the following: (i) the government introduced a few amendments in the Public Procurement Act, including the rejection of bid prices beyond the price cap of  $\pm 10$  percent estimated cost for NCB (open competitive) works; (ii) for the Limited Tendering Method (LTM) of national works contracts there is provision of a price cap ( $\pm 5$  percent of estimated cost), and a lottery system is used to determine the winner in the case of tied bids and not requiring any past experience. The threshold for the shopping method of goods is low (up to a max of US\$5,000). Due to such a low threshold, most of the MDB-funded procurement contracts require approval of a higher authority, which delays the overall procurement process. The sanction/debarment process for public procurement lacks independent review (the decision by the head of the procuring agency is final) except by way of appeal to the judiciary. In addition, the absence of detailed guidelines for debarment causes inconsistent implementation by procuring agencies.

**[107] A well-functioning national agency for public procurement, the Central Procurement Technical Unit (CPTU), was established in 2002.** CPTU has done extensive capacity-building on procurement for

various stakeholders, and training activities are ongoing under the World Bank's ongoing reform project. The procurement functions are decentralized and delegated to the procurement entities.

**[ 108 ] The e-GP system was rolled out in 2011 with the support of World Bank Group financing.** The e-GP system is robust, significant progress and developments have been made, and end-to-end procurement processes, including the electronic contract management system (e-CMS) and auto-payment system, are active. In addition, international competitive bidding (ICB) procurement for goods and works and an e-audit module have recently been developed in e-GP. The e-GP system was assessed by IsDB in 2021, based on the IsDB's recommendations. A few enhancements have already been made but need further enhancement.

**[ 109 ] The World Bank (WB) conducted a Methodology for Assessment of Procurement Systems (MAPS) assessment in 2020 and identified a few gaps in public procurement.** The overall procurement risk is "moderate". Further reforms based on the recommendations of the MAPS report are being implemented with the support of WB. Overall, the government's Fiduciary Procurement Strategy will not significantly impact the Bank's Fiduciary Oversight Strategy during MPCS implementation.

**[ 110 ] Key procurement risks include** (i) price cap for NCB and LTM for works discourages completion, encourages poor contract performance, and affects the quality of works; (ii) no provision for preventing abnormally low bids; (iii) debarment system lacks independent review by a third party; (iv) the inability to make use of advance contracting due to complex government procedures; and (v) the complaint handling mechanism is lengthy with four tiers. Delays in the procurement process and contract execution are common across IsDB-financed projects.

**[ 111 ] IsDB fiduciary procurement strategy during the MCPS implementation:** IsDB's fiduciary procurement strategy during the MCPS exercise is to collaborate with other MDB and development partners (DPs) and continue dialogue with the Government of Bangladesh on public procurement reform to improve the performance of the public procurement system, adopt sustainable procurement in a way that is consistent with IsDB core procurement strategies, and assist the country through funding to implement its procurement reforms. To mitigate the risks, IsDB will (i) keep coordinating with CPTU to monitor reforms, including enhancement of the

e-GP system as per the agreed action plan reflected in the e-GP assessment report; (ii) promote the effective use of advance contracting; (iii) provide support for executing and implementing agencies to enhance their procurement and contract management capabilities; and (iv) continue the use of e-GP for NCB works contracts for IsDB-funded projects.

## **B. FINANCIAL MANAGEMENT**

**[ 112 ] Bangladesh's latest action plan for implementing the Public Financial Management (PFM) Reforms Plan covers the period 2018–2023 and has the following goals:** (i) Maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth; (ii) allocate resources consistent with government priorities as reflected in the National Plan; (iii) promote the efficient use of public resources and delivery of services through better budget execution; (iv) promote accountability through external scrutiny and transparency of the budget; and (v) enhance the enabling environment for improved PFM outcomes.

**[ 113 ] Furthermore, the following four closely connected pillars underpin the change management approach for PFM in Bangladesh:** (i) Systematic learning and sharing of good reform practice; (ii) Communication and stakeholder alignment; (iii) Rewarding performance; and (iv) Adaptive leadership skills through implementation coaching. In addition to these, Bangladesh is expected to graduate from being classified as a least developed country (LDC) in November 2026; consequently, a review is currently being undertaken regarding legal, operational and regulatory PFM reforms in light of the graduation.

**[ 114 ] Based on the meetings held with the Finance Division of the Ministry of Finance, Office of the Comptroller and Auditor General (OCAG), Office of the Controller and General of Accounts (CGA), Financial Reporting Centre (FRC), and Bangladesh House Building Finance Corporation (BHBFC), the following PFM areas for capacity-building and IT systems are proposed, which depend on the priorities of the government.**

- a. Since the World Bank, the Asian Development Bank (ADB) and the European Commission are assisting the Government of Bangladesh in its efforts to improve PFM, IsDB can partner with these organizations to further enhance PFM in the country.
- b. OCAG's unit for audit of foreign-funded projects – Foreign Aided Project Audit Directory (FAPAD) – expressed its requirement for capacity-building on IT environment audit and performance audit.



- c. FRC expressed its requirement for an IT system for managing the 3,000+ financial audit reports it receives on an annual basis.
- d. BHBFC expressed the following requirements:
  - assistance in the creation of a mortgage refinancing agency in the country similar to Fannie Mae and Freddie Mac in the USA;
  - assistance in the development of an Islamic housing finance product for BHBFC – due to the demand for low-cost housing, BHBFC has also requested capacity-building visits to countries that have implemented low-cost housing projects.

**C. DISBURSEMENT**

**[ 115 ] There is an excessive number of contracts under some projects in Bangladesh.** For example, BGD0181 Urban Water Supply and Sanitation in 23 Pourashava Project comprises a total of 82 contracts, and the Rural Access and Road Improvement Project in Sylhet Division comprises 187 packages within the Bank’s operations management system (OMS). Up to 21 September 2023, the Financial Control and Dues Department (FCD) had processed 256 disbursement requests under BGD0181. The presence of numerous contracts under the projects significantly complicates contract management, leading to an unnecessary workload for both the Project Operations Team and the FCD team. Instead of generating numerous small contracts for projects, it would be more efficient to explore the option of

employing a lead contractor. This would help reduce the proliferation of small contracts. Alternatively, the use of the special account modality should be considered when appropriate. The latter approach raises concerns about the essential due diligence required for effective contract management and monitoring by IsDB or FCD. However, adopting these strategies would empower the PMUs to manage contract-related matters more efficiently. PFM clinics will be held for executing agencies and PMUs to improve their understanding of and compliance with IsDB Financial Management Procedures and Guidelines, including complying with the requirements for special account replenishment.

**[ 116 ] Delays in BDT payments occur occasionally, with the majority of these delays being attributed to the lack of cooperation from local agent banks that the housing bank, Gulf International Bank (GIB) London, has been working with in Bangladesh.** While the FCD team and the housing bank GIB London have maintained continuous communication to expedite BDT payments and mitigate delays, this approach has sometimes been inefficient in addressing the issue. It may be worth exploring the establishment of direct communication mechanisms between IsDB and local agent banks to effectively eliminate BDT payment delays.

**[ 117 ] In certain cases, involving Line of Credit-related payments in Bangladesh, where issuing banks do not have the authenticated SWIFT messaging line with**





the paying bank (GIB London), IsDB's intervention will always be required to honor any claims under the Lines of Credit. To eliminate IsDB's manual intervention, the issuing banks may be strongly advised to create the authenticated SWIFT messaging line with the paying bank, GIB London. Alternatively, issuing banks might send their confirmations to IsDB as soon as they authorize negotiating banks. The executing agencies could immediately convey the SWIFT message to IsDB, and the clearance would be timely. This would save significant time while honoring claims.



The total group indicative financing package for the MCPS Bangladesh 2024–2026 is approximately US\$5,150 million.



## 5.2. Implementing the Current Partnership Strategy

### 5.2.1. Setting Up the Implementation Framework

[118] The MCPS implementation framework considers previous lessons learned and provides mitigating measures for operational, technical and fiduciary issues/challenges. The MCPS will be implemented by a Steering Committee comprising the Regional Hub of Dhaka and the Government of Bangladesh. The Steering Committee will oversee project programming, design, implementation and monitoring of results in alignment with the MCPS.

[119] The most important portfolio issues have been highlighted with recommended actions to mitigate their occurrence or impact: (i) unprecedented increase in the cost of borrowing from the capital market will be mitigated during the MCPS period by blending with concessional loans and seeking other co-financing opportunities with funds such as LLF and Arab Coordination Group (ACG), and other development partners; (ii) to prevent general delays in project implementation, IsDB will work on improving project quality at entry during project preparation and appraisal, and focus on supporting the government to have better designs. Start-up workshops would focus on hand-holding the PMU through project start-up activities, including conducting fiduciary clinics; and (iii) high transaction costs in carrying out fiduciary functions in disbursement and procurement as a result of multiple packages will be managed by allowing special account modality, fully deploying e-GP for IsDB-funded NCB packages.

[120] The guiding principles for the implementation of the MCPS will therefore include adopting a programmatic approach, promoting partnership and collaboration between IsDBG and other development partners, leveraging co-financing and blending with IsDB concessional loan and other trust funds, building capacity of counterpart staff involved in project implementation, and aligning bank interventions with the priorities of the country.

[121] Programmatic approach: The MCPS for Bangladesh is formulated in line with the Bank's Strategic Realignment 2023–2025 and designed to espouse strong Group synergy, enshrined focus, and selectivity in programming in line with the IsDB core strengths; and to be driven by national priorities, solution-centric pipeline-building approaches, identifying cooperation



opportunities with development partners, and resource mobilization opportunities. The MCPS seeks to leverage IsDBG's proximity to its clients through its field presence, RH Dhaka, which will be entrusted with the programming, development and implementation of all activities in the MCPS in line with the One Group, One Goal synergy agenda.

**[ 122 ] Implementation priorities:** The MCPS Bangladesh is aligned with the national priorities stated in Bangladesh's Eighth Five-year Plan, Vision 2041 and The Delta Plan 2100, to ensure strong country ownership and sustainability. In close collaboration with the Government of Bangladesh, IsDB will prioritize efforts to eliminate project start-up and implementation delays to improve implementation pace. RH Dhaka will apply the Bank's Qualification and Prioritization (QnP) mechanism at the project programming stage and integrated quality assurance framework at the project design stage to improve quality at entry and portfolio management. Efforts will also be extended to preparing better project concept notes so that the projects receive higher scores in terms of their readiness and prioritization. Furthermore, RH Dhaka will endeavor to target big-ticket projects in alignment with national priorities.

**[ 123 ] One Group, One Goal:** RH Dhaka will also be responsible for ensuring that the One Group, One Goal synergy agenda is executed. RH Dhaka will work closely with all entities in enabling upstream joint operational activities during the stages of project identification and design. This will be supplemented by regular joint follow-up on implementation. See section 5.2.3 for more details on key areas of group synergy that will be cultivated during the implementation phase of the MCPS.

**[ 124 ] Partnership and collaboration:** The MCPS Bangladesh will be implemented in effective collaboration with other development partners to foster synergy and complementarity while avoiding duplication. Strong country dialogues and follow-up will be maintained during the implementation of the MCPS with local authorities, executing agencies and PMUs to resolve implementation bottlenecks to improve program outcomes.

**[ 125 ] Co-financing and blending:** The MCPS was prepared during a volatile capital market with the SOFR still on an upward trend. The MCPS will be implemented with a focus on mobilizing concessional co-financing resources to blend finance. IsDB's thematic sector departments and Global Practices will play crucial roles in mobilizing more concessional resources to blend with limited loan resources and IsDB sale products.

**[ 126 ] Capacity-building:** Given the capacity challenges recognized, project preparatory support will be extended for the preparation of feasibility studies and procurement strategies to enhance project quality at entry and readiness. The MCPS recognizes that different agencies in Bangladesh have different capacity constraints in project implementation and therefore tailor-made capacity-building activities will be planned during the MCPS period.

### 5.2.2. IsDB Group Indicative Financing

**[ 127 ] As part of the One Group, One Goal synergy agenda, the IsDBG financing and programming will feature a mix of instruments** drawing on the strengths of IsDB-OCR, LLF grant, PPP, ISFD, ICD, ITFC and ICIEC as one holistic group financing package, and pursue joint programming for Bangladesh. **The total group indicative financing package for the MCPS Bangladesh 2024–2026 is approximately US\$5,150 million. In addition, ICIEC's indicative trade credit and investment insurance for Bangladesh is estimated at US\$2,500 million over the MCPS period.**

**[ 128 ] This financing package is indicative and flexible:** The actual financing amounts of MCPS 2024–2026 will be determined later during the programming and implementation stages in close consultation with the government and will be based on the country's headroom and assessed risks.

**[ 129 ] IsDB's indicative OCR financing for the Bangladesh MCPS stands at US\$1,300 million over the period and will focus on** (i) sustainable infrastructure for driving industry through support for energy, transport, ICT, coastal protection, water and sanitation; and (ii) enhancing future competitiveness through support for agriculture and food security, education and health. Support for climate change, enhancing financial market depth, women and youth empowerment, and capacity-building will be mainstreamed across all interventions as cross-cutting areas of focus.

**[ 130 ] Given the relatively higher pricing of IsDB's financing, the IsDB-OCR support will primarily focus on economic infrastructure programming as guided by the IsDB Governor's Office.** Meanwhile, social infrastructure and softer components of the MCPS will be supported subject to the availability of sufficient concessional resources to offer blended finance.

**[ 131 ] ITFC's indicative financing for the Bangladesh MCPS stands at US\$3,600 million over the period and will focus on** (i) continuing to support Bangladesh's



financing needs concerning ensuring energy security (i.e., import of essential commodities such as LNG and petroleum); (ii) as part of its private-sector development initiatives, ITFC will support SMEs in export-oriented sectors in line with the MCPS's aspirations with lines of finance to local private-sector banks; (iii) supporting the RMG sector through its Supplier Financing Scheme; and (iv) trade development and business development initiatives, in which ITFC will coordinate with the relevant governmental and private-sector entities to provide trade/business solutions encompassing trade-related capacity-building and training, trade digitization and advisory services. This amount depends on the oil price in the international market.

**[132] ICD's indicative financing for the Bangladesh MCPS stands at US\$250 million over the period and will focus on** (i) direct Lines of Financing for large SMEs and corporations operating in target MCPS focus areas of manufacturing and food sectors (processing and downstream activities); (ii) Line of Finance to banks and NBFIs to support the SME sector; (iii) equity investments in financial institutions such as banks and NBFIs; and (iv) Debt Capital Market Program for government and

private-sector stakeholders to enhance private-sector development. ICD continuously assesses opportunities to work with government and private-sector stakeholders (corporates and financial institutions) for potential issuances of sovereign or corporate *sukuk*. To make the issuances successful, ICD is also proposing a multi-currency issuance program to give an option for the issuer to utilize the *sukuk* proceeds effectively. ICD has already approved US\$132 million of new financing during 2023.

**[133] ICIEC's indicative trade credit and investment insurance volume for the Bangladesh MCPS stands at US\$2,500 million over the period and will focus on** (i) supporting FDI in various key sectors, such as power and energy (particularly renewables), agriculture, transport, water, health and manufacturing, by offering risk mitigation and credit enhancement solutions to international commercial lenders, foreign equity investors, export credit agencies (ECAs), and global energy, procurement and construction (EPC) contractors; (ii) facilitating imports of strategic commodities (e.g., liquefied natural gas [LNG], petroleum, fertilizer, wheat), and capital machinery related to the RMG, power, telecoms and manufacturing sectors by state-owned





entities and private-sector importers, including SMEs, by enhancing the creditworthiness of local banks in the international market; and (iii) exploring opportunities to offer export credit insurance services to large apparel exporters to help them increase their export volume and diversify the export market by securing their export proceeds. Overall, ICIEC remains committed to supporting the socio-economic development of Bangladesh through its insurance and reinsurance services, with a particular focus on advancing sustainable energy and enhancing food security in the country per its strategic priorities. However, the actual volume of ICIEC support will largely

depend on the country’s headroom, macro-economic indicators, ICIEC’s outstanding exposure to, and risk appetite of the country during the MCPS period.

**[134] All financing support is contingent on the availability of ready, well-designed projects, co-financing/syndication, and capacity of the executing agencies, country risk, and other macro-level considerations.** Subject to IsDBG Management consideration, headroom availability and readiness of bankable projects, the MCPS allocation (especially the OCR amounts) may be revisited.

**TABLE 6. ISDB GROUP INDICATIVE FINANCING ENVELOPE FOR MCPS BANGLADESH, 2024–2026**

Entity	2024–2026 financing (US\$ millions)*
IsDB ordinary capital resources (OCR)	1,300
International Islamic Trade Finance Corporation (ITFC)	3,600
Islamic Corporation for the Development of the Private Sector (ICD)	250
<b>Total</b>	<b>5,150</b>
ICIEC (credit and investment insurance)	2,500
ISFD Grant**	1

\* Indicative financing package to be reviewed annually based on headroom, risk, availability of ready projects in the pipeline and the country’s willingness to borrow.

\*\* Potential IsDB grant allocation for a proposed school feeding project.

**“All financing support is contingent on the availability of ready, well-designed projects, co-financing/syndication, and capacity of the executing agencies, country risk, and other macro-level considerations.”**

### 5.2.3. One Group, One Goal

**[135] RH Dhaka will be responsible for ensuring that the One Group, One Goal synergy agenda of the IsDB Strategic Realignment 2022–2025 is executed.** RH Dhaka will work closely with all entities in enabling upstream joint operational activities during the stages of project identification and design. This will be supplemented by regular joint follow-up on implementation.

**[136] While the MCPS presents a wide-ranging scope for group synergy, the matrix in Table 7 presents explicit areas of group synergy that have emerged strongly during the formulation of the MCPS and will be given special attention during joint MCPS implementation by IsDBG to maximize complementarity across the entities.**

**TABLE 7. MCPS GROUP SYNERGY MATRIX**

Key area of Group synergy	Nature of synergy
Energy security	<p><b>IsDB, ITFC and ICIEC:</b> IsDB will focus on infrastructure enhancement in the energy sector. ITFC will focus on providing financing to enable primary energy access.</p> <p>ICIEC will focus on facilitating the import of energy commodities by enhancing the creditworthiness of the local LC-issuing banks to the international lenders including ITFC and supporting foreign direct investment into renewable energy projects through its risk mitigation and credit enhancement solutions to contribute to the energy security of the country. ICIEC also aims to explore opportunities to provide insurance services to mobilize financing from potential international lenders that are willing to participate in any syndicated financing arranged by ITFC to enable primary energy access.</p>
Agricultural development	<p><b>IsDB, ICD and ICIEC:</b> IsDB will focus on infrastructure enhancement and capacity development support for agricultural mechanization and enhancing processing, storage and food security. ICD will look to support large companies involved in downstream and processing activities in the food sector.</p> <p>ICIEC will focus on facilitating the import of agricultural commodities by enhancing the creditworthiness of the local LC-issuing banks to the international lenders including ITFC to contribute to the food security of the country.</p>
Financing micro-, small and medium-sized enterprises (MSMEs)	<p><b>ISFD, ICD, ITFC and ICIEC:</b> ICD and ITFC will be involved in the financing of NBFIs to support SMEs.</p> <p>ISFD will focus its support for micro- and small enterprises through its Economic Empowerment program.</p> <p>ICIEC aims to explore opportunities to offer insurance to ICD and ITFC, and other international lenders for their potential line of finance to local banks to on-lend to SMEs covering the non-payment risk of local borrowing banks.</p>
Financial market depth	<p><b>IsDB, ICD, ITFC and ICIEC:</b> IsDB will explore the development of green sukuk in Bangladesh. ICD aims to continue exploring opportunities for corporate and sovereign sukuk alongside lines of finance to NBFIs, and direct LoF to large SMEs and corporates.</p> <p>ITFC will also aim to provide lines of finance for the private sector, including the RMG sector. ICIEC aims to collaborate with ICD to explore the opportunities to offer <i>sukuk</i> insurance leveraging ICD's success in supporting other Member Countries in their issue of sovereign <i>sukuk</i>.</p>
Industrialization and export diversification	<p><b>IsDB, ITFC and ICIEC:</b> IsDB will focus on supporting the requisite infrastructure needed to facilitate Bangladesh's structural transformation through industrialization and export diversification.</p> <p>ITFC will look to facilitate market diversification for the RMG sector and export diversification by supporting up-and-coming export-oriented industries. ITFC could be a loss-payee to ICIEC's insurance policy in the event an exporter's receivables (price paid for the goods) are financed by ITFC.</p> <p>ICIEC will explore opportunities to offer export credit insurance services to large RMG exporters to help them increase their export volume and diversify the export market by securing their export proceeds.</p>
Capacity-building	<p><b>IsDB and ITFC:</b> IsDB will focus its capacity-building support on the digitalization of public services, rice production and yield research, training of workers, and PFM capacity development, among others.</p> <p>ITFC will focus on capacity-building for trade facilitation and promotion.</p>

LC: letter of credit; NBFIs: non-banking financial institution; PFM: public financial management; RMG: readymade garment; SMEs: small and medium-sized enterprises.



IsDB will provide technical assistance to support the Government of Bangladesh in its seeking of financing from thematic trust funds in selected cross-cutting areas such as climate change and resilience, women and youth empowerment, and Islamic finance.

#### 5.2.4. Co-financing

[ 137 ] IsDB, through its Regional Office in Bangladesh, will strategically engage with other development partners active in the MCPS focus areas. IsDB will participate in organizing investment forums with other MDBs and engage in joint programming missions and meetings to foster deeper collaboration. The mutual relationship shared between IsDB and ADB as established through the IsDB–ADB Framework and Cooperation Co-financing Agreement and country dialogues between IsDB and ADB country offices will be leveraged to increase the number of projects co-financed in the energy sector while seeking new sectors for collaboration, especially in transport, urban development and ICT.

[ 138 ] IsDB will provide technical assistance to support the Government of Bangladesh in its seeking of financing from thematic trust funds in selected cross-cutting areas such as climate change and resilience, women and youth empowerment, and Islamic finance.

[ 139 ] The MCPS requires IsDB to improve collaboration with government agencies and local authorities that support public–private partnerships. Representation in local consultative groups (agriculture, energy, and water, sanitation and hygiene) will be vital to crowd in (draw in) private-sector co-financing projects.

#### 5.2.5. MCPS Monitoring and Evaluation of Results

[ 140 ] At the MCPS level, the MCPS mid-term review, MCPS Final Review, country portfolio performance review (CPPR)/CPRN and individual PIASRs will be used as input to report on actual progress against benchmark implementation timelines, outputs and outcomes set in the Results Matrix. The overall MCPS Results Framework focuses on strategic results and synergies among the MCPS sector- and project-level strategies, which are closely aligned and consistent with the goals/strategies of the Eighth Five-Year Plan of Bangladesh.

[ 141 ] IsDB will monitor the results and report on overall country portfolio progress, covering both active and pipeline projects. For this purpose, the annual CPRN will report on progress and highlight major implementation challenges.

[ 142 ] The MCPS will be implemented by a Steering Committee comprising RH Dhaka and the Government of Bangladesh. The Steering Committee will oversee project programming, design, implementation, and monitoring of results. In addition, the MCPS Coordination Team in the Country Programs Complex will conduct the MCPS mid-term review, which will document the progress on the MCPS Results Framework and, if warranted by macro-economic developments and prospects, propose adjustments in the indicative financial envelope and modifications to the Results Matrix.

[ 143 ] The MCPS mid-term review report is expected to be shared with government authorities and reflect their viewpoints for the consideration of IsDB Management. In addition, the MCPS mid-term review will also contribute to the conduct of the in-the-field Country Assistance Evaluation by the Group Independent Evaluation Department and the MCPS Completion Review by the Country Programs Directorate at the end of the MCPS implementation cycle. IsDB’s standard evaluation approach combines and captures issues related to country portfolio performance, delivery envisaged in the benchmarked MCPS Results Matrix, and reports on outputs and outcomes.

[ 144 ] For project-level evaluation, tripartite reviews of the progress of project implementation coordinated by the Economic Relations Division (ERD) of the Ministry of Finance will continue, with PIASRs for well-defined problematic projects on a shorter time horizon.



## 6. RISKS AND MITIGATIONS

**TABLE 8. RISK MITIGATION MATRIX**

Risks	Scale	Mitigation
<p><b>Procurement risks.</b> (i) The provision of a price cap for NCB and LTM for works in the Public Procurement Act discourages competition, causes poor contract performance and affects quality; (ii) the Public Procurement Act has no provision for treatment of abnormally low bids (ALBs); (iii) inability to use advance contracting due to complex government procedures; (iv) delay in procurement processes and contract management is common across IsDB-financed projects in Bangladesh.</p>	<p><b>Medium</b></p>	<p>(i) The government to remove the provision of price caps in the Public Procurement Act through an Amendment; (ii) introduce provision for treatment of ALBs in government tender documents; (iii) promote the effective use of advance contracting with commitment from the government at the appraisal stage and fielding of the PMU staff soon after the project is approved; (iv) continue the use of e-GP for NCB works contracts, which will reduce the end-to-end procurement time; (v) support executing agencies to enhance their capabilities in procurement and contract management.</p>
<p><b>Slow deployment and high turnover of PMU staff.</b> Project implementation delays have often been caused by the slow deployment of PMU staff and the high turnover of PMU staff, especially in leadership roles.</p>	<p><b>Medium</b></p>	<p>Setting up the PMU needs to be incorporated into project covenants, with IsDB monitoring compliance throughout the implementation of the project. RH Dhaka to follow up and conduct meetings with the heads of the executing agencies to confirm the availability of key PMU staff for the project period. Discussions with the line ministries will be pursued to explore other causes of and propose solutions for the high turnover of PMU staff.</p>
<p><b>External shocks and global uncertainty.</b> The risk of uncertainty will continue to loom over the development of the world economy. As Bangladesh is a highly trade-oriented and remittance-reliant economy, external shocks can have serious adverse consequences on interventions carried out by development institutions.</p>	<p><b>Medium</b></p>	<p>The majority of IsDB's strategic focuses and priority areas in the MCPS are geared toward enhancing structural transformation and export competitiveness and providing skills to labor market entrants.</p>
<p><b>Climate change and natural disaster risk.</b> Bangladesh faces many natural threats, including floods, cyclones and droughts. Such events will likely impact water and food security, urban development (particularly in coastal zones), and disaster risk management, with implications for poverty and further inequality. High variations in potential impacts are expected across Bangladesh.</p>	<p><b>High</b></p>	<p>The design of all IsDB projects will follow international standards, safeguards and best practices to minimize the effects of natural hazards. Climate change mainstreaming is recommended for all investments and activities. Climate forecasting is to be included in all planning, design and operation activities. Climate vulnerability assessment to be conducted, where possible.</p>

e-GP: electronic government procurement; LTM: limited tendering method; NCB: national competitive bidding; PMU: project management unit; RH: Regional Hub.



# ANNEX 1. PORTFOLIO IMPLEMENTATION ACTION PLAN (extracted from Bangladesh CPRN 2023)

**TABLE 9. SUMMARY OF THE ISSUES, BEST PRACTICES AND REMEDIAL ACTIONS WITH TIME FRAME**

Remedial actions	Time frame
<p><b>Action #1: Maintain the current health of CUC (a large percentage of the CUC to be derived from young projects aged 3 or 4 years or less)</b></p> <ul style="list-style-type: none"> <li>Discourage extensions of LDDs in general.</li> <li>Expedite implementation to ensure Power Grid Expansion Project (BGD0172) remains on track as per extended LDD.</li> <li>For Line of Finance (BGD1074): It has been assessed that further progress of the project is unlikely, and the project is now being considered for cancellation. Government to provide NOL to cancel the remaining financing under the project.</li> </ul>	<p><b>Short to medium term</b></p>
<p><b>Action #2: Improve readiness for implementation (quality at entry)</b></p> <ul style="list-style-type: none"> <li>Follow up with FCD and FPPA to conduct an analysis of the concessional elements of IsDB financing and comparison with similar donors such as ADB, JICA and AIIB.</li> <li>Enhance the filtering of current and future Official Requests; only proposed projects approved or endorsed by the Planning Commission should trigger project processing.</li> <li>Allocate budget to assist the government in updating or preparing a robust feasibility study sufficient to generate detailed engineering design and other necessary inputs for project approval.</li> <li>Assist or encourage the implementing/executing agency to use advance contracting, based on capacity assessment and past performance.</li> </ul>	<p><b>Short to medium term</b></p>
<p><b>Action #3: Improve implementation performance by expediting the contract award processes, monitoring the procurements with PIU/PMU developing and using appropriate tools for (i) Urban Water Supply and Sanitation in 23 Pourashava Project (BGD0181); and (ii) Rangpur Division Agriculture and Rural Development Project (BGD1004). Work closely with the PPR and facilitate capacity through frequent hands-on technical support to the executing agencies</b></p> <ul style="list-style-type: none"> <li>Expedite the implementation of e-GP for the LLF project.</li> <li>The issue of the IsDB <b>debarment list must</b> be resolved, and the list be made available to PPR and operations staff or published on the IsDB website. This is now impacting operations as it is slowing down procurement processes.</li> </ul>	<p><b>Short to medium term</b></p>
<p><b>Action #4: Enhance the project monitoring system</b></p> <ul style="list-style-type: none"> <li>Develop and implement a monitoring tool, in addition to the PIASR, to monitor the progress of contracts (especially for civil works) that are at the critical stage; pilot the contracts under the Support to Development of Technical Teacher Training Institute Project (BGD0177).</li> <li>The OMS and other operations dashboards developed at HQ provide useful information for monitoring. This can be further developed to capture from the OMS all the key data/information required for the preparation of this report.</li> </ul>	<p><b>Short term</b></p>

Remedial actions	Time frame
<p><b>Action #5: Improve the approval trend</b></p> <ul style="list-style-type: none"> <li>• Achieve the 2023 AWP PKI of US\$413 million for the Regional Hub by processing the new Housing project and another project in Bangladesh and Maldives.</li> <li>• Develop and implement a resource mobilization strategy given the status of high exposure in Bangladesh.</li> </ul>	<p><b>Medium term</b></p>

ADB: Asian Development Bank; AIIB: Asian Infrastructure Investment Bank; AWP: annual work program; CUC: cumulative undisbursed commitment; e-GP: electronic government procurement; FCD: Financial Control and Dues Department; FPPA: Financial Policies Planning and Analytics; HQ: headquarters; JICA: Japan International Cooperation Agency; LDD: last date of disbursement; LLF: Lives and Livelihood Fund; NOL: no objection letter; OMS: operations management system; PIASR: project implementation and assessment support report; PIU: project implementing unit; PMU: project management unit; PPR: Public Procurement Regulation.





**TABLE 10. PROJECT-WISE ACTION PLAN TO RESOLVE KEY PERFORMANCE ISSUES RAISED DURING THE CPRN**

Code	Project	Approval date	Approval amount (US\$ millions)	Disbursed amount (US\$ millions)	Key performance issues	Actions required	Responsible entities	Deadline
<b>BGD0172</b>	Power Grid Expansion Project	22 Jan 2014	165	103	LDD extended to 31 Dec 2024. Disbursement is slow as a result of slow project implementation due to COVID-19, flooding in areas such as Sylhet, and right of way issues. There was also a change of consortium which took a long time to resolve in 2020/21	Follow up with EA to fulfill the disbursement target. EA processing a request for an extension of LDD for another 1 year	RH Dhaka, EA, MoF-ERD	31 Dec 2023
<b>BGD0173</b>	Rural Access Road Improvement in Sylhet Division Project	19 Oct 2014	30	22	LDD 30 June 2023. Delays encountered in contract signing due to rebid and scarcity of bidders. Completed work damaged by flood	Sort out financing issues for repairing damage caused by flood as requested by EA. Follow up with EA to fulfill disbursement targets and complete procurement	RH Dhaka, EA, MoF-ERD	31 Dec 2023
<b>BGD0177</b>	Support to Development of Technical Teacher Training Institute Project	7 Jun 2015	8.41	5.2	LDD has been extended to 30 Dec 2023. Three works contracts have been amended. Insufficient time to complete one goods package by LDD. (1) New request for LDD extension till June 2024; (2) Third Amendment of Audit Firms; (3) Amendment of Books contract	Cleared amendment of Work Packages 1, 2, 3 (1) EA requested for LDD extension up to June 2024; simulation of costing for extension is under review by Dues team. (2) Audit consultant amended the review under PPFM. (3) Amendment of Books is under review by OTL	RH Dhaka	ACTION DONE
<b>BGD0181</b>	Urban Water Supply and Sanitation in 23 Pourashava Project	04 Oct 2015	89.1	34	LDD extended to 14 Oct 2024. Many packages have to be completed	Follow up with EA to fulfill disbursement target and complete procurement	RH Dhaka, EA	Dec 2023

Code	Project	Approval date	Approval amount (US\$ millions)	Disbursed amount (US\$ millions)	Key performance issues	Actions required	Responsible entities	Deadline
<b>BGD1003</b>	400 MW Ashuganj East Power Plant Efficiency Improvement	13 Feb 2016	85	79	The project is physically completed, but the final closure in OMS is pending due to the audit report from EA which may take more time as FAPAD will conduct it later	Closing initiated and waiting for confirmation of Project Statement and Final Audit Report; letter shared with EA and given time up to June 2023	RH Dhaka, MoF-ERD	DONE. Action completed
<b>BGD1004</b>	Rangpur Division Agriculture and Rural Development Project	25 Sep 2016	33.2	15.8	Slow disbursement	Withdrawal application for replenishment (US\$2 million) of special account is under progress by EA in Q2	EA	DONE. Action completed
<b>BGD1007</b>	Rural and Peri-Urban Housing Finance Project	2 Jul 2017	108	108	Project physical and financial closure; SA closure	Closure of all operations initiated; SA closure initiated which is now under PFM	RH Dhaka	Dec 2023
<b>BGD1066</b>	LLF 10 Town CWIS	25 Sep 2021	56	0.6	Slow in the contract process	Follow up with EA to speed up procurement and disbursement. Shortlist clearance awaiting the resolution of the debarment issue by HQ	RH Dhaka, MoF, PMU	Continuous
<b>BGD 1074</b>	SPRP R2 – Line of Financing for SMEs	30 Dec 2020	47	7.4	Auditor recruitment in progress	EA submitted an RFP for audit which is under review	RH Dhaka	Dec 2023



Code	Project	Approval date	Approval amount (US\$ millions)	Disbursed amount (US\$ millions)	Key performance issues	Actions required	Responsible entities	Deadline
BGD1038	Reverse Linkage Project between Bangladesh and Türkiye for the Capacity Development of Cotton Board of Bangladesh on Improving Cotton Varieties	26 Jul 2018	0.324	0.18	Implementation plan and budget revised for COVID-19 in 2021 and 2022. On hold due to earthquake in 2023. The project is to be closed by Dec 2023	To hold virtual expert consultation with technical partners to discuss the next training held on 11 Apr 2023 and Turkish experts will visit Bangladesh on 14–20 May 2023	RH Dhaka	ACTION DONE

CPRN: country portfolio review note; CWIS: Citywide Inclusive Sanitation; EA: executing agency; ERD: Economic Relations Department; FAPAD: Foreign Aided Project Audit Directory; GFR: government final report; HQ: headquarters; LDD: last date of disbursement; LLF: Lives and Livelihood Fund; MoF: Ministry of Finance; MW: Megawatt; OMS: operations management system; OTL: operations team leader; PCR: project completion report; PFM: public financial management; PMU: project management unit; PPFM: procurement and public financial management; Q2: second quarter; RFP: request for proposal; RH: Regional Hub; SA: special account; SMEs: small and medium-sized enterprises; SPRP: Strategic Preparedness and Response Program.



## ANNEX 2. MCPS RESULTS FRAMEWORK

This Results Framework is an indicative list of indicators from the Eighth Five Year Plan FY2021–FY2025 of the Government of Bangladesh that IsDBG will contribute to. All interventions anticipated over the MCPS time frame will be aligned with the IsDBG Strategic Realignment

2023–2025, the Sustainable Development Goals (SDGs) and Bangladesh’s National Priorities. Specific indicators of the IsDB’s Results-Based Management Framework (RBMF) will be aligned at the project level with the higher-level national results indicators in the MCPS.

**TABLE 11. RESULTS FRAMEWORK**

Outcome	Outcome-level indicators: Key results indicators at the country level that MCPS contributes to	Means of verification	Assumptions
<b>MCPS PILLAR 1: SUSTAINABLE INFRASTRUCTURE FOR DRIVING INDUSTRY</b>			
<b>Objective 1.1: Support energy supply, efficiency, sustainability and renewable energy sources (SDGs 7.1.1, 7.1.2, 7.2.1)</b>			
<b>Ensured universal access, affordability and reliability of energy for all citizens</b>	<p><i>Access to electricity (% of households)</i> Baseline: 100% (2023) Target: 100% (2025)</p> <p><i>Per capita generation of electricity (kWh)</i> Baseline: 632 (2023) Target: 720 (2025)</p> <p><i>Share of renewable energy (including hydro) in total electricity generation (%)</i> Baseline: 7% (2023) Target: 10% (2025)</p> <p><i>Proportion of population with primary reliance on clean fuels and technology</i> Baseline: 25% (2023) Target: 30% (2025)</p> <p><i>Electricity installed generation capacity (MW)</i> Baseline: 28,000 (2023) Target: 30,000 (2027)</p>	FYP; Power Division; Bangladesh Bureau of Statistics	(i) No shift in government policy for the energy sector during the MCPS period; (ii) continued funding from other development partners (World Bank, ADB, JICA, EIB, AIIB) in the energy sector; (iii) required revenue mobilization takes place to make the economy capable of continued fuel import
<b>Objective 1.2: Rehabilitation of roads and bridges, and building regional transport connectivity (SDG 9)</b>			
<b>Indicative financing package to be reviewed annually based on headroom, risk, availability of ready projects in the pipeline and the country’s willingness to borrow</b>	<p><i>Share of highway road network in good and fair condition (% of the network)</i> Baseline: 90% (2023) Target: 95% (2025)</p> <p><i>Upazila, union and village road network in good and fair condition</i> Baseline: 52% (2023) Target: 57% (2025)</p> <p><i>Proportion of the rural population living within 2 km of an all-season road</i> Baseline: 88% (2023) Target: 90% (2025)</p> <p><i>Length of targeted four-lane road (km)</i> Baseline: 150 (2023) Target: 200 (2025)</p>	FYP; Roads and Highways Division; Bangladesh Bureau of Statistics	(i) Continued funding from other development partners (ADB, JICA, AIIB) in the transport sector; (ii) required revenue mobilization takes place to make the economy capable of continued spending on transport sector improvement; (iii) sufficient operations and maintenance budget in place for the transport sector

Outcome	Outcome-level indicators: Key results indicators at the country level that MCPS contributes to	Means of verification	Assumptions
<b>Objective 1.3: Affordable access to ICT and enhanced digital literacy (SDGs 4.a.1, 17.8.1)</b>			
<b>Enhanced ICT use, learning and entrepreneurship</b>	<p><i>Proportion of schools, including madrasah, with access to the Internet for educational purposes</i> Baseline: 90% (2023) Target: 100% (2025)</p> <p><i>Proportion of schools, including madrasah, with access to computers for educational purposes, by gender</i> Baseline: 90% (2023) Target: 100% (2025)</p> <p><i>Internet users per 100 population</i> Baseline: 80 (2023) Target: 90 (2025)</p> <p><i>Digital literacy training or TVET for women and youth</i> Baseline: TBD Target: TBD</p> <p><i>Supported tech-based businesses for women and youth (numbers)</i> Baseline: TBD Target: TBD</p>	FYP; IsDB project data	(i) No shift in government policy for the ICT sector during the MCPS period; (ii) schools, including <i>madrasah</i> and TVET institutions, continue to prioritize ICT-focused education and training
<b>Objective 1.4: Coastal protection and enhancement of irrigation systems (SDG 14.5.1)</b>			
<b>Improved livelihoods in the coastal zones</b>	<p><i>Coverage of protected areas in relation to marine areas</i> Baseline: 4.73% (2021) Target: 7.94% (2025)</p>	FYP; Department of Fisheries	Required government budget allocated for coastal zones
<b>Objective 1.5: Construction and expansion of safely managed drinking water and sanitation systems (SDGs 6.1.1, 6.2.1)</b>			
<b>Ensured availability of safely managed drinking water and sanitation services for all</b>	<p><i>Proportion of population using safely managed drinking water services</i> Baseline: 59% (2023) Target: 75% (2025)</p> <p><i>Proportion of the population using safely managed sanitation services with effective fecal sludge and waste water management</i> Baseline: 31% (2023) Target: 50% (2027)</p>	FYP; Bangladesh Bureau of Statistics	(i) Required government budget allocated for water and waste water management services; (ii) continued funding from other development partners (World Bank, ADB, JICA, EIB, AIIB, AFD) in urban services
<b>Objective 1.6: Construction and expansion of integrated solid waste management systems (SDG 11.6.1)</b>			
<b>Improved living conditions through service improvements for integrated solid waste management</b>	<p><i>Percentage of urban solid waste regularly collected and managed</i> Baseline: 70.2% (2023) Target: 75% (2025)</p>	FYP; Local Government Division	Required government budget allocated and continued funding from other development partners (World Bank, ADB, JICA, EIB, AIIB) for solid waste management systems

Outcome	Outcome-level indicators: Key results indicators at the country level that MCPS contributes to	Means of verification	Assumptions
<b>MCPS PILLAR 2: ENHANCING FUTURE COMPETITIVENESS</b>			
<b>Objective 2.1: Support farm mechanization, climate-smart agriculture, agricultural value chain and nutritional security (SDG 2)</b>			
<b>Achieved food security and promoted modern and sustainable agriculture</b>	<p><i>Agricultural sector GDP growth rate (%)</i> Baseline: 4.1% (2023) Target: 3.9% (2025)</p> <p><i>Prevalence of moderate or severe food insecurity in the population, based on the Food Insecurity Experience Scale (FIES)</i> Baseline: 26% (moderate); 8% (severe) (2023) Target: 24.2% (moderate); 6% (severe) (2025)</p> <p><i>Area of land under improved environmental/nature management</i> Baseline: TBD (2023) Target: TBD (2026)</p>	FYP; Bangladesh Bureau of Statistics; Department of Agriculture Extension	(i) Modern technology to be utilized in agriculture; (ii) adverse impact of climate change is well managed; (iii) government support services for the agricultural sector continues
<b>Objective 2.2: Enhance education and teacher training, and TVET for women and youth (SDG 4)</b>			
<b>Improved access to and quality of education and skills</b>	<p><i>Completion rate (primary education, lower-secondary education, upper-secondary education)</i> Baseline: 90%, 66.53%, 83.08% (2023) Target: 92%, 70%, 85% (2025)</p> <p><i>Proportion of teachers with the minimum required qualifications (lower secondary, upper secondary)</i> Baseline: 79.38%, 76.34% (2023) Target: 85%, 80% (2025)</p> <p><i>Proportion of schools with access to (a) electricity; (b) Internet for pedagogical purposes; (c) computers for pedagogical purposes; (d) infrastructure and materials for students with disabilities; (e) basic drinking water; (f) single-sex basic sanitation facilities; and (g) basic hand-washing facilities</i> Baseline: Primary: (a) 94%; (b) 90%; (c) 90%; (d) 75%; (e) 99%; (f) 86%; (g) 77%; Secondary: (a) 97.08%; (b) 42.08%; (c) 77.97%; (d) 23.31%; (e) 98.06%; (f) 69.74%; (g) 45.31% (2023) Target: Primary: (a) 100%; (b) 100%; (c) 100%; (d) 80%; (e) 95%; (f) 85%; (g) 100%; Secondary: (a) 100%; (b) 50%; (c) 100%; (d) 80%; (e) 100%; (f) 100%; (g) 70% (2025)</p>	FYP; BANBEIS	Required government budget allocated for schools, improved education, teacher training, and skills development of women and youth



Outcome	Outcome-level indicators: Key results indicators at the country level that MCPS contributes to	Means of verification	Assumptions
<b>Objective 2.3: Building health centers, improving health services and managing environmental risks for diseases (SDG 3)</b>			
<b>Improved access to and quality of health services</b>	<p><i>Maternal mortality ratio (per 100,000 live births)</i> Baseline: 120 (2023) Target: 100 (2025)</p> <p><i>Under-5 mortality rate (per 1,000 live births)</i> Baseline: 27.4 (2023) Target: 27.0 (2025)</p> <p><i>Life expectancy at birth (years)</i> Baseline: 73.51 (2023) Target: 74.0 (2025)</p> <p><i>Number of new maternal, newborn and child facilities built</i> Baseline: TBD Target: TBD</p>	FYP; Bangladesh Bureau of Statistics; IsDB project data	(i) Required government budget allocated for improved health systems; (ii) improved governance in the health sector; (iii) support from other development partners (World Bank, ADB, WHO, UNICEF, Canada, DFAT, USAID, JICA) enhanced
<b>CROSS-CUTTING PILLARS</b>			
<b>Objective 3.1: Support for climate change mitigation and adaptation (SDGs 13, 14, 15)</b>			
<b>Ensured sustainable environment and disaster management</b>	<p><i>CO<sub>2</sub> emissions (tons per capita)</i> Baseline: 0.91 (2011) Target: 1.38 (2025)</p> <p><i>Number of usable cyclone shelters</i> Baseline: 4,447 (2023) Target: 4,847 (2025)</p> <p><i>Number of buildings with disaster-resilient habitats and community assets</i> Baseline: 290,000 (2023) Target: 380,000 (2025)</p>	FYP; Bangladesh Bureau of Statistics; Department of Disaster Management	Continued strong commitment by the government and other development partners (World Bank, ADB, Canada, JICA, USAID) to tackle climate change
<b>Objective 3.2: Empowering women and youth for the transition to a smart nation (SDGs 5, 8.6.1, 10)</b>			
<b>Reduced gender inequality and all women and youth empowered</b>	<p><i>Proportion of women in managerial positions</i> Baseline: 21% (2023) Target: 23% (2025)</p> <p><i>Ratio of girls to boys in tertiary education</i> Baseline: 0.88 (2023) Target: 1.0 (2025)</p> <p><i>Percentage of women teachers at (a) primary, (b) secondary, (c) tertiary education establishments</i> Baseline: 68%, 32%, 29% (2023) Target: 70%, 35%, 30% (2025)</p> <p><i>Proportion of youth (aged 15–24 years) not in education, employment or training</i> Baseline: 26.8% (2019) Target: 12% (2025)</p>	FYP; Bangladesh Bureau of Statistics	(i) Firm government position on women's empowerment through promoting more girls' education, employing women teachers in educational institutions and employment of youth; (ii) women and youth receive better skills required for the job market

Outcome	Outcome-level indicators: Key results indicators at the country level that MCPS contributes to	Means of verification	Assumptions
<b>Objective 3.3: Capacity-building and tapping reverse linkage/regional integration opportunities (SDGs 4, 16, 17)</b>			
<b>1: National entity established to promote South–South and triangular cooperation</b> <b>2: Mapping of resource centers (multi-sectoral) developed</b> <b>3: Bangladesh’s expertise in rice production shared with other Member Countries</b>	<i>Number of national entities established</i> Baseline: 0 (2023) Target: 1 (2025)  <i>Number of mappings of resource centers</i> Baseline: 0 (2023) Target: 1 (2025)  <i>Number of Member Countries receiving reverse linkage knowledge on rice production</i> Baseline: 0 (2023) Target: 2 (2025)  <i>Number of NGOs/CBOs/CSOs benefitting from capacity development by 2026</i> Baseline: TBD (2023) Target: TBD (2026)	FYP; Bangladesh Bureau of Statistics; Department of Agriculture Extension	The government agrees to establish national entities
<b>Objective 3.4: Enhance financial markets deepening and access to finance, and explore modalities such as green sukuk (SDG 8)</b>			
<b>Improved access to finance including Islamic finance</b>	<i>Private-sector credit growth (% change)</i> Baseline: 14.33% (2023) Target: 14.18% (2027)  <i>Number of MSMEs receiving line of finance</i> Baseline: TBD (2023) Target: TBD (2025)  <i>Amount of line finance provided (US\$ millions)</i> Baseline: TBD (2023) Target: TBD (2025)	FYP; Bangladesh Bureau of Statistics; Bangladesh Bank	(i) Banks remain resilient to any internal or external shocks; (ii) MSMEs continue to receive priority from banks; (iii) supportive private-sector enabling environment
<b>ADDITIONAL OBJECTIVE REQUESTED BY THE GOVERNMENT OF BANGLADESH: CONSTRUCTING SOCIAL AND AFFORDABLE HOUSING (SDG 11)</b>			
<b>Improved access to social and affordable housing</b>	<i>Proportion of urban population living in slums, informal settlements or inadequate housing</i> Baseline: 28.2% (2023) Target: 25% (2025)  <i>Number of buildings with disaster-resilient habitats and community assets</i> Baseline: 290,000 (2023) Target: 380,000 (2025)	FYP; Population and Housing Census; Department of Disaster Management	(i) Demand for social and affordable housing in place; (ii) affordable house prices in place

ADB: Asian Development Bank; AFD: Agence française de développement; AIIB: Asian Infrastructure Investment Bank; BANBEIS: Bangladesh Bureau of Education and Information Statistics; CBO: community-based organization; CO2: carbon dioxide; CSO: civil society organization; DFAT: Department of Foreign Affairs and Trade; EIB: European Investment Bank; FYP: Eighth Five-Year Plan; GDP: gross domestic product; ICT: information and communications technology; JICA: Japan International Cooperation Agency; kWh: kilowatt hours; MSMEs: micro-, small and medium-sized enterprises; MW: Megawatts; NGO: non-governmental organization; SDG: Sustainable Development Goal; TBD: to be determined; TVET: technical and vocational education and training; USAID: United States Agency for International Development; WHO: World Health Organization.

# ANNEX 3. DEVELOPMENT PARTNERS MATRIX

**TABLE 12.** DEVELOPMENT PARTNERS MATRIX

Development partner	Agriculture & food security	Transport	Energy	Urban infrastructure & services	Education and skills	Health	Climate & disaster risk	Private sector & SMEs	Financial sector development	COVID-19 responses	Governance	Gender and youth	Regional cooperation	Social protection	ICT	Support to Rohingya refugees
<b>Multilateral institutions and the United Nations system</b>																
Asian Development Bank (ADB)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓
Asian Infrastructure Investment Bank (AIIB)		✓	✓	✓					✓	✓			✓	✓		
European Investment Bank (EIB)		✓	✓	✓		✓				✓						
Food and Agriculture Organization of the United Nations (FAO)	✓															
International Fund for Agricultural Development (IFAD)	✓							✓				✓				
International Labour Organization (ILO)								✓						✓		
IsDB Group	✓		✓	✓				✓	✓	✓		✓				✓
United Nations Development Programme (UNDP)					✓					✓		✓		✓	✓	✓
UNICEF						✓				✓						✓
UN Women											✓	✓		✓		
World Food Programme (WFP)	✓													✓		
World Health Organization (WHO)						✓				✓						
World Bank Group (WBG)	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓



Development partner	Agriculture & food security	Transport	Energy	Urban infrastructure & services	Education and skills	Health	Climate & disaster risk	Private sector & SMEs	Financial sector development	COVID-19 responses	Governance	Gender and youth	Regional cooperation	Social protection	ICT	Support to Rohingya refugees
<b>Bilateral partnerships</b>																
Canada					✓	✓	✓					✓		✓		
China		✓						✓	✓							
Department of Foreign Affairs and Trade, Australia (DFAT)					✓	✓				✓				✓		
European Union (EU)					✓						✓			✓		
India		✓	✓						✓				✓			
Japan International Cooperation Agency (JICA)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓			
German investment and development bank (KfW)			✓													
Korea International Cooperation Agency (KOICA)		✓			✓	✓				✓					✓	
Russia			✓													
United States Agency for International Development (USAID)	✓				✓	✓	✓			✓	✓	✓		✓		✓

ICT: information and communications technology; SMEs: small and medium-sized enterprises.

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