

benefits from the EU's Everything But Arms (EBA) initiative. With the graduation from the LDC category, Bangladesh is set to lose its EBA status. However, the EU has agreed to extend the EBA benefits for an additional three years after this graduation, allowing Bangladesh to continue enjoying duty-free access to the EU market until 2029. After 2029, Bangladesh may move to the Generalised Scheme of Preferences Plus (GSP+) scheme, which is less preferential. This shift is expected to significantly impact the export competitiveness of Bangladesh's Ready-Made Garment (RMG) products, a sector that accounts for about 83% of the country's export earnings, contributes approximately 11-12% to the Gross Domestic Product (GDP), and employs around 4.4 million workers, representing about 7% of the labour force. RMG workers receive low wages (the minimum wage is approx. EUR 107) and have limited protection against risks such as injury, death, and unemployment. These vulnerabilities can push households into poverty or prevent them from investing in their human or productive capital.

Moreover, Bangladesh is highly vulnerable to shocks and stresses. Although the country contributes less than 0.48% of global greenhouse gas emissions, the 2021 Global Climate Risk Index ranks it as the seventh worst-affected country by extreme weather events, with 90 million people currently living in areas with high climate exposure.

The COVID-19 pandemic increased urban poverty and worsened already volatile living conditions in low-income communities, particularly among most marginalised part of the population. In response, the GoB launched a BDT 1.21 trillion (EUR 11.8 billion) support package, including cash transfers, food assistance, and loans to sustain employment. While Bangladesh saw robust growth and increased exports during fiscal year 2021/22, the Russian war to Ukraine has since hurt the economy. Rising import prices and a stronger US dollar widened the current account deficit, leading to a sharp drop in foreign exchange reserves as the Bangladesh Bank intervened to support the taka. This disrupted Bangladesh's economic recovery from the pandemic.

In early 2023, to address macroeconomic instability, the Government agreed to an IMF reform programme, securing a loan of around USD 3.3 billion under the Extended Credit Facility/Extended Fund Facility and USD 1.4 billion under the Resilience and Sustainability Facility. Despite implementing reforms, challenges remain: foreign exchange reserves and tax collection are low, and inflation is high at around 10%, disproportionately affecting the most vulnerable.

The National Social Security Strategy (2015 – 2026) and its Action Plans – Action Plan 1 (July 2016 – June 2021) and Action Plan 2 (July 2021 – June 2026) - embed the country vision to establish an inclusive social protection system.

The proposed action supports the NSSS implementation, building on the Government's progress from 2021 to 2024 with EU budget support in social protection. Achievements include developing digital infrastructure for efficient social protection management, increasing MCBP beneficiaries and enhancing data sharing across IT systems, operationalizing the social assistance scheme for unemployed workers in the export sector, launching the EIS pilot, and gradually establishing a government-owned digital workers' database.

The action will benefit from the EU's leadership as the Development Partners (DPs) coordinator in the sector, ensuring aligned messages and actions. Additionally, the action will unfold over two years, coinciding with the preparation phase for the post-2026 NSSS. This timing offers a crucial opportunity for the EU and other DPs to help prepare the next strategy, participating in consultations, and advocating for the inclusion of key elements, such as a clear framework for social security, to advance the expansion of the social protection floor. Moreover, the action will likely serve as a stepping stone to provide further support to the sector, ensuring the EU's long-term commitment to social protection and consolidating the results of our previous and ongoing support.

The intervention aligns with the New European Consensus on Development (2017), reaffirming the EU's commitment to inclusive social protection, and the Communication on Social Protection in EU Development Cooperation (2012) and related Council Conclusions, which advocate for nationally owned social protection systems. It also reflects the EU Action Plan on Nutrition, emphasizing the role of social protection programmes in combating malnutrition. The action primarily contributes to SDG 1 (no poverty) and promotes progress towards SDGs 2 (zero hunger), 5 (gender equality), 8 (decent work for all), 10 (reduced inequalities), and indirectly 13 (climate action).

Additionally, the action aligns with the EU's Multi-Annual Indicative Programme for Bangladesh 2021-2027 (under human capital development), supports the EU's global policy on undernutrition, and contributes to the objectives of the Bangladesh Sustainability Compact and the Decent Work Agenda.

## 2.2 Problem Analysis

Short problem analysis: