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IDB GROUP COUNTRY STRATEGY
WITH
THE COMMONWEALTH OF THE BAHAMAS
(2018–2022)

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ACRONYMS

BPL	Bahamas Power and Light
CDB	Caribbean Development Bank
CDC	Country Development Challenges
C-FATF	Caribbean Financial Action Task Force
ECLAC	Economic Commission on Latin America and the Caribbean
FDI	Foreign direct investment
FY	Fiscal year
GDP	Gross domestic product
HDI	Human Development Index
ICT	Information and communications technology
ICZM	Integrated Coastal Zone Management
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LAPOP	Latin America Public Opinion Survey
MIF	Multilateral Investment Fund
NAD	Nassau Airport Development Company Limited
NSG	Nonsovereign guaranteed
OECD	Organisation for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PPP	Public-private partnership
PROTEqIN	PROductivity, TEchnology and INnovation Survey
SG	Sovereign guaranteed
SMEs	Small and medium-sized enterprises
SOE	State-owned enterprise
TC	Technical Cooperation
TFP	Total factor productivity
UNDP	United Nations Development Programme
URCA	Utilities Regulation and Competition Authority
VAT	Value-added tax
WSC	Water and Sewerage Corporation

IDB GROUP COUNTRY STRATEGY WITH THE COMMONWEALTH OF THE BAHAMAS
2018–2022

EXECUTIVE SUMMARY

Country Context: The Bahamas, a small open archipelagic economy dependent on its services sector, has continued to experience suboptimal growth rates and rising debt levels since the global financial crisis. Despite a relatively high ranking on the Human Development Index (HDI), The Bahamas has experienced low growth rates accompanied by negative trends in social indicators that are of concern. Low total factor productivity is a key obstacle to Bahamian prospects of achieving a higher, more inclusive growth trajectory.

The IDB Group in The Bahamas: The IDB's 2013–2017 Country Strategy with The Bahamas prioritized the following areas: (1) public finances and management; (2) citizen security and justice; (3) energy; (4) private sector development; and (5) coastal risk management and climate change adaptation. Five sovereign-guaranteed loan operations were approved for a total of US$148 million, as well as five non-sovereign-guaranteed operations for US$6.7 million. The Multilateral Investment Fund (MIF) approved five operations for a total of US$1.8 million.

Priority Areas: Under the 2018–2022 Country Strategy, the IDB Group[1] intends to work on three areas: (i) enhancing public sector effectiveness; (ii) supporting resilient infrastructure for growth; and (iii) fostering an enabling environment for private sector competitiveness. Cross-cutting issues of gender, data, and climate change and disaster risk management will be addressed through these priority areas. The proposed actions are aligned with the Bahamian Government's Vision 2040 Plan that supports the development of four societal pillars: (a) governance;(b) human capital; (c) sustainable environment, and (d) an inclusive economy.

Lending Framework: Approvals for the 2018–2022 period are projected at US$150 million. Sovereign-guaranteed disbursements are estimated at US$183 million, in addition to resources from private sector projects to be contributed via IDB Invest and the MIF.

Risks: The main risks to implementing the Country Strategy relate to (i) vulnerability to external shocks such as natural disasters, whereby fiscal capacity is already constrained from the lingering effects of the global financial crisis and the sudden impact of three major hurricanes between 2015 and 2017; and (ii) limited capacity of some executing agencies to manage investment operations.

[1] The IDB Group includes the Inter-American Development Bank, IDB Invest, and the Multilateral Investment Fund.

I. COUNTRY CONTEXT[2]

1.1 **The Bahamas, a small open archipelagic economy dependent on its services sector, has continued to experience suboptimal growth rates and rising debt levels since the global financial crisis.** Over the past decade, average real economic growth is estimated to have been 0.53 percent, and central government debt as a percentage of gross domestic product (GDP) increased steadily from 33 percent in FY2006/2007 to over 60 percent in FY2016/2017. Central Government deficits rose from 1 percent in 2006 to 5.9 percent by FY 2016/2017.[3] The principal driver of the country's economy, tourism, continues to experience subdued growth.[4] Growth in stopover arrivals is also being constrained in part by policy uncertainty within the United States,[5] The Bahamas' major source market.[6] International regulatory standards in the financial sector, the country's second major economic engine, have increased operational costs, impacted correspondent banking relationships, and now threaten the long-term performance of the offshore subsector.[7]

1.2 **Macro-economic analysis indicates important challenges for the country over the near and medium term.** The archipelago has continued to experience low growth rates, including for the two major growth drivers (tourism and the financial services sector). The tourism sector appears to be approaching maturity in its destination life cycle,[8] while the financial sector is challenged to maintain its compliance with rigorous international regulatory standards. Fiscal results[9] and national debt levels are deteriorating, and fiscal space is limited. Additionally, overstaffing and other operational losses of state-owned enterprises (SOEs) increase requirements for transfers[10] that amount to 7 percent of GDP or 33 percent of annual government spending. As a result of increases in the wage bill, post-hurricane cleanup and reconstruction spending, temporary tax relief, and disruptions in revenue collection, the central government fiscal deficit is estimated at 5.7 percent of GDP in FY2017 (ending in June 2017), up from 3.5 percent in FY2016. External competitiveness declines as the U.S. dollar, with which The Bahamas maintains a peg, appreciates. Foreign direct investment (FDI) has declined,[11]

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[2] This CS will be valid from the date of its approval by the Board of Executive Directors of the IDB and the Board of Executive Directors of the IIC through the final year of its coverage and within that year, through the last day of the month in which the CS was approved.
[3] The primary deficit rose from 1 percent in 2006 to 2.6 percent by FY 2016/2017 according to the International Monetary Fund, *World Economic Outlook,* April 2017.
[4] According to the World Travel and Tourism Council, The Bahamas was the 10th most tourism-dependent economy in the world in 2015. Tourism accounts directly and indirectly for 43.6 percent of GDP, 51.6 percent of total employment, and 61.5 percent of total exports. However, the country has been losing market share (-0.5 percent) in the Caribbean region in terms of international tourist arrivals since 2006.
[5] Such as the unwinding of the quantitative easing program in the United States, as well as new international travel security measures in that country.
[6] International Monetary Fund, *World Economic Outlook Economic Brief 2017.*
[7] Allan Wright, 2016, "De-Risking," IDB Policy Brief 257, Inter-American Development Bank.
[8] Compete Caribbean, *Private Sector Assessment Report, 2014.* Strong regional competition from newer entrants (such as Cuba), with competitively priced tourism and cultural products also pose a challenge to growth in the Bahamian tourism sector.
[9] The efficiency of the value-added tax, along with its statutory rate of 7.5 percent, mean that it will always provide around 6.8 percent of GDP in revenue as a tax on all domestic economic activity. This has been borne out in the two years that the tax has been in full force, and has allowed it to offset associated reductions in the less stable tourism and international trade taxes, resulting in revenue increasing from 16 percent of GDP in 2013 to 21 percent of GDP in 2016. Expenditures have risen by almost 10 percent of GDP within the last decade (now measured at 25 percent of GDP in 2016/2017), even with the existence of the Medium-term Fiscal Plan guideline to restrain expenditures below 23 percent of GDP.
[10] SOEs consist of some 35 government corporations and statutory agencies. Their liabilities account for almost 9 percent of GDP, with 7 percent related to operations and 2 percent to pensions (Central Bank of The Bahamas)
[11] FDI inflows for 2013–2017 represented on average 2.6 percent of GDP less than the previous average of 5 percent of GDP for the period from 2008–2012.

and international reserves remain below benchmark levels.[12] Pursuing a pro-growth path for the medium term will be a challenge, especially in an environment of declining fiscal space and weakened external competitiveness.

1.3 **Beyond the medium term, pension liabilities for which the government is directly responsible – including social security commitments, pensions, and public entity pensions – amount to 160 percent of GDP and are underfunded[13].** Fully funding these pensions would require increasing the social security payroll tax from 9.8 to 20.3 percent – a 107 percent increase.[14] Pension liabilities are also projected to increase faster as a percentage of GDP in The Bahamas compared to the United States by 2060, reaching 41.6 retired Bahamians per 100 workers (from a current 1:10 ratio) compared to 36.8 per 100 workers in the United States. [15]

1.4 **Despite its relatively high ranking on the Human Development Index (HDI),[16] low growth rates have led to negative trends in social indicators that are of concern.** Poverty rates, while still traditionally lower than regional comparators, increased from 9.3 to 12.8 percent from 2001–2013.[17] However, significant regional and demographic disparities exist regarding poverty, particularly with regard to the southern-most Family Islands (17.2 percent)[18] and among young people and children (18.4 percent).[19] Female-headed households record a higher poverty rate than those headed by men (9.7 percent and 7.9 percent, respectively). Furthermore, the archipelagic make-up of The Bahamas, with uneven population distribution and social and economic disparities among the islands, constrains the effective delivery of and access to quality educational and health services. This impacts the quantity and the quality of young graduates who enter the labor market with diplomas or certifications.[20] Unemployment levels remained between 14 and 16 percent for the five years prior to 2017, when it lowered to 9.9%. There are significant concerns regarding youth, whose jobless rate has persisted at around 30 percent over the decade.[21] According to the Labor Force Survey, female unemployment was higher than that for males in 2016 (14.5 percent and 11 percent, respectively).

1.5 **Low total factor productivity (TFP)[22] is a key obstacle to Bahamian prospects of achieving a higher, more inclusive growth trajectory.[23]** Negative productivity growth and declining contributions from labor and capital have reduced the economy's growth potential for

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[12] Measured at US$904 million at the end of December 2016 or approximately 2.2 months of imports of goods and services, below the international benchmark standard of three months.

[13] International Monetary Fund, "Article IV Consultation-Staff Report," July 2016

[14] International Monetary Fund, "Article IV Consultation—Staff Report," July 2016.

[15] The accounting firm KPMG also warned that public sector liability due to pensions will be unsustainable by 2032, and could trigger a fiscal crisis and large increases in the national debt beyond the already concerning elevated levels.

[16] The Bahamas HDI value (0.778) measures above the regional average for Latin America and the Caribbean (0.75), and within the high human development category, at- 50th out of 188 countries and territories.

[17] Data provided by the 2013 Household Expenditure Survey.

[18] Department of Statistics. See www.bahamas.gov.bs/statistics.

[19] Ibid.

[20] Data from the Bahamas General Certificate of Secondary Education examinations show that most students from public secondary schools are failing to acquire the minimum expected competencies, including those in the basic core disciplines of English and Math.

[21] The Bahamas Department of Statistics; and the International Monetary Fund, *World Economic Outlook,* April 2016.

[22] In the growth equation, technological innovation, or TFP, is a contributory component, and its increase is attributed to the enhanced utilization of production inputs with the existing stock of quality capital and labor. Through the application of widespread usage of product, process, and organizational innovation, the quality, timeliness, and accessibility of public sector services can be enhanced for the population at large and the many sectors that the government serves.

[23] International Monetary Fund, World Economic Outlook 2016 Database; and IMF Article IV Report 2016.

the past decade, as the archipelago has seen average growth levels fall below its regional neighbors.[24] TFP growth can be improved through targeted investment in technological innovative measures by both the public and private sectors. With a low fiscal multiplier,[25] Government efforts at improving productivity and growth-inducing policy measures will be challenged within an environment of declining fiscal space and weakened external competitiveness.

1.6 **Public sector governance and performance have struggled to foster an enabling environment for public and private sector coordination, innovation, and productivity.[26]** However, the government has not yet taken full advantage of the opportunities offered by new information and communication technology (ICT) to transform the public sector via organizational process and service improvements, or to make the relationship between government and citizens/business more efficient, transparent, and participatory.[27] Additionally, insufficient maintenance and upgrading of a vast, aging infrastructure portfolio across the archipelago (particularly air and shipping connectivity),[28] as well as inadequate public goods (such as the road network and transportation), hamper access to basic services, and increase the cost of doing business. Private sector investment and productivity are curtailed by the absence of a public-private partnership (PPP) policy and regulatory framework, legal protections for businesses and investors, and administrative and financial preconditions to promote and support both local entrepreneurship and international investment. Finally, owing to an elevated crime rate – the murder rate has doubled in the past 10 years[29] – security costs for the private sector have increased,[30] dampening sales and perceptions of safety, especially in the main areas of population concentration and economic activity.[31]

1.7 **Weak environmental planning processes, along with low elevation throughout The Bahamas, also make the economy susceptible to natural disasters and climate change.**[32] Urban planners are challenged to collect relevant data and develop sustainable

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[24]The Bahamas has a TFP change of approximately 1 percent against a list of leading Caribbean economies, where deteriorating potential growth has been influenced by weak TFP growth.

[25] Allan Wright, Shaiiede Kallichara, Niandu Mamingi, and Tracy Maynard, 2015, "Estimation of Fiscal Multipliers in a Small Open Economy: The Case of Barbados." Central Bank of Barbados Working Paper 15/15.

[26] Taking an average of the estimation for all six dimensions of the Worldwide Governance Indicators, The Bahamas has decreased its overall score by more than 25 percent.

[27] The Bahamas has lost some ground in recent years regarding both the e-Government Development Index and the e-Participation Index. The e-Government Development Index measures the three most important dimensions of e-government: scope and quality of online services (Online Service Index), status of the development of telecommunication infrastructure (Telecommunication Infrastructure Index), and inherent human capital (Human Capital Index). The e-Participation Index, on the other hand, measures the capacity of the government to use online services to facilitate the provision of information to citizens ("e-information sharing"), interaction with stakeholders ("e-consultation"), and engagement in decision-making processes ("e-decision making").

[28] There are approximately 28 government-owned Family Island airports and 140 public docks in The Bahamas. Many of them need upgrading to keep pace with international industry standards as well as growing demand.

[29] At 31.9 per 100,000 population in 2014, the Bahamian homicide rate is above the already-high regional average (16 per 100,000) and much higher than the global average (6.2 per 100,000). For more information, see the technical note Crime and Violence in The Bahamas (June 2016). Homicide was also the leading cause of death for both females and males ages 15-24. From 2007 to 2010, more than 1 out of 3 deaths due to homicides were of young adults between the ages of 20 and 29. Also of increasing concern are the high levels of violence toward and social acceptance of violence against women. Reported rapes have risen by 17 percent since 2004. Additionally, data obtained from the Americas Barometer 2014/2015 Latin America Public Opinion Survey (LAPOP) Survey show that nearly 23 percent of the Bahamas' population condoned violence against a wife who neglects her chores, and 24 percent condoned such violence in the case of an unfaithful wife.

[30] Some firms reporting losses of up to 5 percent of total GDP.

[31] IDB Crime and Violence Survey 2015 (www.caribbeaneconomics.org). Eighty six percent of all murders between 2009 and 2013 took place in New Providence.

[32] IDB and ECLAC, 2016, "Economic Impact Assessment of Hurricane Matthew."

climate-resilient infrastructure protecting the economic and social services near the coastline.[33] The passage of Hurricane Matthew in the final quarter of 2016 resulted in over US$438 million in damage and losses,[34] particularly affecting sections of the northern and central parts of the archipelago. Hurricane Joaquin impacted the southern-most islands exactly one year earlier, causing some US$100 million in damages and losses.[35] The increasing intensity of extreme weather events due to climate change will continue to present serious challenges to preserving human life, maintaining economic activity, and achieving fiscal and debt targets.[36] Moreover, in a tourism-based country like The Bahamas, building a more climate-resilient economy requires not only reducing the vulnerability of tourism support systems such as water management, transportation, food supply, and energy,[37] but also preserving natural attractions that are critical for the tourism industry.[38]

II. THE IDB GROUP PRESENCE IN THE BAHAMAS

A. Country Strategy and Portfolio

2.1 **The IDB's 2013–2017 Country Strategy with The Bahamas.** This Country Strategy (GN-2731) sought to support the Government of The Bahamas' (GoBH) efforts to ensure macroeconomic sustainability, social stability, and employment, as well as increase resilience to the negative effects of natural disasters and climate change. To that end, IDB Group support focused on the following priority areas: (1) public finances and management; (2) citizen security and justice; (3) energy; (4) private sector development; and (5) coastal risk management and adaptation to climate change. IDB Invest and Multilateral Investment Fund (MIF) participation envisaged alignment with the development and diversification of the private sector, as well as direct financing in alternative energy and energy efficiency.

2.2 The indicative financial envelope of the 2013–2017 Country Strategy was US$150 million (approximately US$30 million per year) in IDB public sector lending. Between November 2013 and December 2017, the Bank approved five sovereign-guaranteed investment loans totaling US$148 million (an average of US$29.6 million per year), reaching 98 percent of the total financing envelope. Sovereign-guaranteed lending is spread across four priority sectors and one dialogue area, specifically coastal risk management and climate change adaptation (24 percent), public finances and management (22 percent), private sector development (17 percent), citizen security and justice (13 percent), and transport (24 percent).[39] All sovereign-guaranteed lending during the Country Strategy period has been undergirded by extensive evidence-based preparatory technical work, which has facilitated loan preparation and

[33] Sea-level rise scenarios of 1 and 5 meters will effectively inundate 11 and 60 percent of the total land mass of the country, respectively.
[34] IDB and ECLAC, 2016, "Economic Impact Assessment of Hurricane Matthew."
[35] IDB and ECLAC, 2015, "Economic Impact Assessment of Hurricane Joaquin."
[36] Based on an IDB-led economic impact assessment of Hurricane Irma, a category 5 hurricane, which hit the southeastern and northwestern islands of The Bahamas in September 2017.
[37] World Meteorological Organization, 2014, Atlas *of Mortality and Economic Losses from Weather, Climate and Water Extremes (1970–2012).*
[38] United Nations International Strategy for Disaster Reduction, 2013, Small Island Developing States, Disaster Risk Management, Disaster Risk Reduction, Climate Change Adaptation and Tourism."
[39] No sovereign-guaranteed loan has been approved or is currently in the pipeline in the energy priority sector.

execution. To date, 15 technical cooperation operations amounting to approximately US$5.8 million have been approved, which has also contributed toward 2013–2017 Country Strategy objectives.[40] In terms of nonsovereign guaranteed operations, IDB Invest approved 5 operations for US$6.7 million in the areas of private sector development (14 percent) and energy (86 percent). The MIF also approved four non-reimbursable non-sovereign-guaranteed operations totaling US$1.8 million within the private sector development priority area, specifically targeting access to finance, as well as skills and market development of nature-based industries in the Family Islands.

2.3 **Active portfolio.**[41] The outstanding portfolio of sovereign-guaranteed operations consists of 11 operations totaling US$364.5 million, with an average age of 4.5 years.[42] This includes 10 investment operations for US$317.1 million, of which 50 percent (US$158.8 million) has yet to be disbursed. The distribution of the outstanding portfolio comprises Transport (35%), Disaster Risk Management and Climate Change (18%), Public Finances and Management (17%), Labour Markets (13%), Citizen Security and Justice (9%), Water and Sanitation (5%), and Trade (3%). IDB Invest currently has an active portfolio consisting of three operations, totaling an exposure of US$1.37 million, distributed in energy (86 percent), electrical and contracting services (11 percent), and health (3 percent). The MIF has an outstanding portfolio of US$1.5 million related to the development of nature-based industries, an initiative to expand access to finance for small and medium-sized enterprises (SMEs) through a digital platform.[43]

B. Principal Outcomes of the IDB's 2013–2017 Country Strategy with The Bahamas[44]

2.4 **Public Finances and Management.** Three high-profile technical cooperation operations delivered key contributions toward Country Strategy objectives. First, the *Conditions for a Sustainable Fiscal Balance in the Bahamas Technical Cooperation* (BH-T1022), inherited from the previous Country Strategy period, produced (i) several comprehensive diagnoses of property taxes, fiscal risks, public enterprises, and pensions among other areas; and (ii) a General Equilibrium Econometric Model that helped the government assess and predict the impact of the introduction of a value-added tax (VAT) on main economic variables. The general equilibrium modelling was a key tool for the Government in successfully rolling out the reform, which led to an increase in revenues to 20 percent of GDP in 2016 from 16 percent in 2014. The Bank's support contributed positively toward providing a streamlined framework for tax administration. Second, *the Strengthening Institutional Capacity in the Office of the Prime*

[40] These technical cooperation operations have focused on strengthening integrated public sector and environmental planning and management; enhancing efficiency in the security and justice system; collecting primary data to better understand labor market challenges and guide investment policy decision-making; supporting technical studies to upgrade the air transport sector and improve the sustainability of Nassau; providing post-disaster humanitarian assistance; and conducting feasibility assessments to develop integrated coastal zone management.
[41] See Annex IV. Data as of 31 December 2017.
[42] Note that two operations –the Social Safety Net Reform Program (BH-L1030) and Supplementary Financing for New Providence Transport Program (BH-L1027) – totaling US$69.1 million have been fully disbursed and are in the final stages of the closing process prior to formally exiting the portfolio.
[43] This amount does not include the $400,000 in MIF funding for a regional de-risking initiative currently under way, which includes The Bahamas as one of its beneficiary countries in the Caribbean region.
[44] As both the 2010**–**2014 and 2013**–**2017 Country Strategies were backloaded in sovereign-guaranteed approvals, execution results on sovereign-guaranteed loans primarily relate to the infrastructure portfolio of the former Country Strategy. For more information please view electronic link Portfolio Report

Minister Technical Cooperation (BH-T1034) assisted with the creation of the Economic Development and Planning Unit within the Office of the Prime Minister and also financed the country's first long-term economic development plan (Vision 2040). Third, the *Ecosystem Based Development of Andros Island Technical Cooperation* (BH-T1040) mainstreamed, for the first time, natural capital into the design of future development scenarios. The technical cooperation operation involved extensive consultations with local communities that ultimately determined their preferred future development strategy, then codified it in the Master Plan for the island. In terms of investment operations, the *Public Financial Management and Performance Monitoring* loan (BH-L1033) was only approved in late 2016, and therefore strategic outcomes are not yet available.

2.5 **Citizen Security and Justice.** Two TCs are positively contributing to CS objectives in the sector. The Office of Evaluation and Oversight (OVE) reported the following regarding of the *Pilot for a Swift Justice System in The Bahamas* (BH-T1037): "Since 2013, the Office of the Attorney General has made more progress on tackling the backlog of criminal cases than at any time in the prior two decades."[45] Significant improvements were noted in accelerating conviction rates (35 percent increase in three years), the number of cases disposed before the Supreme Court (97 percent increase), the time for presentation of Voluntary Bills of Indictments (an 80 percent time reduction), and conclusions of murder cases within one year (from none in 2012 to seven in 2015). Similarly, *the Design of a Community Reentry System for Former Offenders TC* (BH-T1046) is closely engaging the University of The Bahamas in working with relevant Government agencies to develop evidence-based, best-practice crime prevention policies tailored to the local context. Both projects contribute to strengthening the strategic planning capabilities of the criminal justice sector. In terms of loans, the *Citizen Security and Justice Program* (BH-L1035), which began to be implemented in the second half of 2016, has not been in operation long enough to deliver strategic outcomes.

2.6 **Energy.** Two IDB Invest projects approved during the Country Strategy are expected to reduce carbon dioxide emissions by 2,000 tons per year and generate a demonstrative effect so that other companies adopt renewable energy technologies.[46] Given the early stage of implementation, it is too early to assess results.

2.7 **Private Sector Development.** In the labor sector, *The* Bahamas *Labor Markets Study Technical Cooperation* (BH-T1021) and the *Advancing Skills and Employment TC* (BH-T1035) have laid the foundation for evidenced-based policy-making. The Wage and Productivity Survey queried employers in The Bahamas to identify the country's training and skills needs.[47] These findings have assisted in designing the loan for the *Skills for Current and Future Jobs Program* (BH-L1037), which was approved by parliament in March 2018. The program aims to improve the alignment of labor supply and demand.[48] MIF projects also prepared individuals in the Family Islands for self-employment in nature-based industries, such as bird-watching, fly-fishing, and sponging. These projects have developed certified training curricula and will result in over 300 local entrepreneurs being trained, certified, and organized to better provide services to domestic and export markets. Additionally, the MIF contributed to stimulating the microfinance industry by supporting a local pioneering microfinance institution with two

[45] IDB Office of Evaluation and Oversight, "IDB Country Program Evaluation: The Bahamas 2010–2017."
[46] Additionally, IDB Invest supported the expansion of two SMEs, with results mostly limited to growth of such companies.
[47] The Wage and Productivity Survey revealed difficulties in finding workers with the right set of skills, noting that the lack of job-specific skills is the most important recruitment obstacle (34 percent), followed by applicants' lack of experience (29 percent), and lack of soft skills (28 percent).
[48] The Skills for Current and Future Jobs program aims to work in three strategic industries: i) maritime, ii) medical services, and iii) IT/Telecom to develop apprenticeships curricula delivering industry-recognized certifications on key occupations in these industries for 1,350 beneficiaries.

initiatives. The first program supported the development of an inclusive credit methodology that allowed for expansion of product offerings to the small business environment. The program resulted in approximately 2,500 participants receiving personalized consumer education and 1,000 others accessing microcredit services. The second program aims to introduce factoring products and services to the SME finance market via a digital platform, and in so doing pilot the first technology-enabled financial solution in The Bahamas. The project will reach out to 600 SMEs, and target 200 seeking SMEs seeking financing for working capital.

2.8 **Coastal Risk Management and Climate Change Adaptation.** In addition to the above-mentioned *Ecosystem-Based Development of Andros Island TC* (BH-T1040), three additional TCs are contributing to the sector objective of improving capacity for coastal risk management. The *Feasibility Studies for an Integrated Coastal Zone Management (ICZM) TC* (BH-T1029; BH-T1038) produced a draft policy framework for ICZM, and developed a feasibility analysis of four key infrastructure at pilot sites that underpin the loan for the *Climate-Resilient Coastal Infrastructure and Management Program* (BH-L1043) approved in November 2017. This work complements the Bank's *Emerging and Sustainable Cities Initiative: Nassau* (BH-T1045), which ran a battery of multisectoral diagnostics, analyses, and stakeholder consultations with a view to developing a sustainable growth scenario of future urbanization of New Providence.

2.9 **Other.** In the water sector, physical equipment upgrades and technological efficiency measures introduced under the *WSC Support Program – New Providence Water Supply and Sanitation Systems Upgrade* (BH-L1028) contributed to reduce nonrevenue water losses by 60 percent. However, in the absence of tariff adjustments, and as a result of the increased costs associated with reverse osmosis water,[49] the financial performance of the Water and Sewerage Corporation (WSC) has yet to improve.[50] In the road transport subsector, investments under the *Supplementary Financing of the New Providence Transport Program* (BH-L1024) have improved the quality of road infrastructure and reduced transport costs for road users.[51] In addition, technical assistance is being provided to improve the functioning of the public bus transportation system. Regarding air transport, the *Air Transport Reform Program* (BH-L1027 & BH-L1040) has introduced legal and institutional reforms to establish new agencies to separate policy-making, technical regulation, and infrastructure operational functions in accordance with best practices in the aviation sector. In addition, a comprehensive strategy for Family Island Airport Optimization has been prepared. This work – along with extensive feasibility studies conducted under the *National Airlift Diversification Plan* (BH-T1044) – is opening the way for increased private participation in the aviation sector.[52] Regarding private sector development, the *Trade Sector Support Program* (BH-L1016), is supporting the modernization of logistics and trade facilitation through ICT infrastructure development of an electronic single window and through capacity strengthening at the Bahamas Customs Department.

[49] Water purchase amounts to more than 40 percent of WSC operational costs.

[50] Tariffs presently represent only 60 percent of the cost of service in New Providence, and only 30 percent in the Family Islands.

[51] Under the New Providence Transport Program, 26 kilometers of major roads were constructed and upgraded to specifications of the Florida Department of Transport. Transport costs for road users were reduced in terms of the volume/capacity ratio of the major road network as well as the annual number of crashes.

[52] Under the Sustainable Infrastructure Upgrade for the Family Island Airports Program (BH-T1048), the IDB will support the government of The Bahamas by conducting technical, institutional, regulatory, and financial due diligence so as to structure and implement a viable airport PPP mechanism. This will complement investments conducted under the US$35 million Airport Infrastructure Program (BH-L1041).

C. Lessons Learned

2.10 Several key lessons have been learned through implementation of the Country Strategy. First, the IDB Group should continue to support the Government in pursuing fiscal consolidation via a mix of instruments (knowledge products, and technical advisory and financial support).[53] Second, given the fiscal challenge to provide and maintain adequate public goods and services across the archipelago,[54] fostering greater coordination between sovereign-guaranteed and non-sovereign- guaranteed operations, including PPPs, will be important to attract private sector investment in infrastructure and other key areas. Third, given the unique challenges faced by the Family Islands, it is important for the IDB Group to continue public and private interventions to improve public sector effectiveness, generate sustainable economic activity, and alleviate poverty in those islands. Fourth, to improve local institutional capacity to execute development projects, the IDB Group will need to work with relevant partners, including local academic institutions, to provide ample training and capacity-building opportunities to public and private sector stakeholders and civil society. Furthermore, the identification of Project Executing Unit staff and their comprehensive orientation to project management principles and IDB policies and procedures prior to project initiation could reduce the relatively high level of administrative and financial costs typically incurred throughout the project execution cycle.[55] Fifth, project design, particularly in the area of infrastructure, must take into consideration existing local contexts and constraints to deliver complex projects on a standard five-year execution schedule. A longer initial execution period may be more realistic for complex projects. Additionally, robust institutional capacity assessment paired with more realistic project activity scheduling will highlight inherent country- and sector-specific risks, as well as the appropriate risk responses to facilitate well-managed project execution. Sixth, the continuous presence of sector specialists and operational analysts on the ground can also play a critical role in reducing the length and overall cost of execution.[56] Finally, the relatively low number of approved projects with SMEs as final beneficiaries, and their relatively low systemic impact in the past, suggest IDB Invest should consider other channels that could be more effective in improving the access of these enterprises to finance in The Bahamas. This could involve working through value chains while dissemination of knowledge and best practices among SME support ecosystems is being undertaken.

53 While technical assistance (such as the development of a general equilibrium econometric model) played a key role in supporting the reduction of the fiscal deficit, the limited scope of the IDB Group intervention was not sufficient to fully reverse fiscal trends and enable debt reduction.

54 As stated above, a key success of the WSC Support Program has been in the design of the management contract with the private sector entity to reduce non-revenue water (NRW). This arrangement created appropriate incentives for NRW reduction in both the provision and maintenance of infrastructure, while both containing the variability of public expenditure and improving the quality of service provision by WSC. This approach was also based upon lessons learned from the New Providence Transport Program in which only 40% of the road inventory of the Routine Road Maintenance Management System had been completed by the end of the first Supplementary Financing Program (1988/OC-BH) in 2012.

55 The average length of time for a Sovereign-Guaranteed loan between the date of approval by the IDB-IIC Board of Executive Directors, and date of loan eligibility (including receipt of legislative approval and completion of all conditions prior to first disbursement) is 9.6 months. This execution time delay, in addition to the pause in formal selection and training of personnel of the project executing unit before legislative approval, increases the length and overall cost of execution (also see footnote below).

56 According to a 2016 internal report by the Office of the Executive Auditor, the IDB's Country Office in The Bahamas has a lower ratio of sector specialists to loan and technical cooperation operations than the IDB average. The Caribbean Department as a whole has the highest cost per US$1 million disbursed, per US$1 million approved, and by loan in execution in comparison with the rest of the IDB. It is noted however that other metrics may be needed for small countries with high relevance and impact at the country level, such as in The Bahamas.

III. PRIORITY AREAS

3.1 **The IDB Group Country Strategy with The Bahamas 2018-2022.** Based on the lessons learned from the previous CS, the recommendations of the Office of Evaluation and Oversight (OVE) and the Country Development Challenges (CDC) findings, and in line with the dialogue with the Government, the IDB Group Country Strategy with The Bahamas 2018-2022 aims to support the country in achieving a sustainable path of higher growth in a fiscally prudent manner. The new CS would aim at supporting The Bahamas' efforts to improve TFP by encouraging innovation and efficiency, which will increase output levels and spur private-sector-led economic growth. Therefore, the new 2018–2022 Country Strategy will focus on (i) enhancing public sector effectiveness with an emphasis on strengthening public sector management, transparency, and integrity; (ii) supporting resilient infrastructure for growth, with a focus on air and maritime connectivity, urban planning and mobility, water, and energy; and (iii) fostering an enabling environment for private sector competitiveness, with an emphasis on improving the ease of doing business, innovation, and access to finance. The intervention sectors will be served by the existing portfolio, knowledge products, technical cooperation operations, advisory services, and new loan and guarantee operations. The complementary use of these instruments will make it possible to address the priority areas on a consistent and coordinated basis among the IDB, IDB Invest, and the MIF, taking advantage of synergies among the interventions. Cross-cutting considerations of data, gender, and climate resilience and disaster risk management will also be factored into all strategic partnership efforts.

3.2 The lines of intervention envisaged in this strategy are aligned with the Government's strategic vision outlined in the Vision 2040 Plan,[57] which aims for the development of four societal pillars: (i) enhancing governance by focusing on how the people and the country are managed;(ii) improving human capital through better education, skills training, health care, citizen security, and poverty and social safety nets; (iii) creating a sustainable environment; and (iv) developing an economic structure that is wealth-generating for all Bahamians. The reduction of gender gaps as well as improvements in data generation and management are cross-cutting themes in all four Vision 2040 pillars.

3.3 The IDB Group priority areas are aligned with the Institutional Strategy Update 2010–2020 (GN-2788-5)**,** in terms of objectives to strengthen institutional capacity and the rule of law, provide inclusive infrastructure and associated services, establish smart institutional frameworks including deeper financial markets, and insert firms into value chains. The priorities outlined here are also aligned with the priority segments of the 2018 IDB Invest Business Plan Update (CII/GA-77-4) and its update to support infrastructure development, strengthen capacity to support the corporate segment, and leverage resources through the financial system to support the priority areas as well as cross-cutting themes.[58]

A. Enhancing Public Sector Effectiveness

3.4 From the performance of utilities (which in the case of water and energy are provided by SOEs in The Bahamas) to the quality of regulation and the certainty of the legal framework, low public

[57] See www.vision2040bahamas.org/
[58] CII/GA-77-4, November 2017.

sector effectiveness and efficiency can affect the provision of quality services and private sector development, thereby reducing a country's competitiveness.[59]

3.5 **Public sector management.** Governance indicators for The Bahamas indicate a decline in public sector performance during the past decade. According to the World Governance Indicators,[60] government effectiveness in The Bahamas – which among other things captures perceptions of the quality of public services, the quality of the civil service, and the degree of that service's independence from political pressures – fell from the 84th to the 74th percentile between 2006 and 2016, with significant rates of decline in the regulatory quality, rule of law, and control of corruption.[61]

3.6 Several factors account for these trends. First, the fiscal framework remains challenged despite the commencement of major structural reforms[62] and the existence of the Medium-term Fiscal Plan's guideline to restrain expenditures[63] and debt levels. SOEs,[64] represent a significant portion of these expenditures, due to large workforces[65] and inefficiencies, as they require transfers equivalent to 3 percent of GDP to maintain their operational capacity. Second, information management across the public service shows limited levels of automation, with a large number of procedures and internal communications based on paper, outdated ICT infrastructure, and limited levels of interoperability among agencies and connectivity with the Family Islands.[66] The absence of an ICT institutional framework to manage digital government, an ICT Roadmap for public sector transformation, and sufficient investment in ICT-related projects (i) reduces the capacity for implementation of ICT policies and management of ICT projects; (ii) inhibits timely data-sharing, planning, coordination, and innovation across government activities; and (iii) distances the government from dynamic, responsive, and productive engagement with citizens and the business community, particularly in the Family

[59] Applying a methodology to quantify the impact of regulatory simplification initiatives in three countries (Belarus, Uzbekistan, and Ukraine), the International Finance Corporation estimated an aggregate cost savings of US$84 million for businesses in the focus countries because of regulatory simplification. A 1996 study, using data from 21 OECD economies for the period 1960–1990 to construct a measure of bureaucracy, showed there is a statistical correlation between inefficient government bureaucratic inefficiency and economic growth.

[60] DS. Kaufmann, A. Kray, and M. Mastruzzi, 2010, "Worldwide Governance Indicators;" and Dincer, N., and B. Eichengreen, 2014, "Central Bank Transparency and Independence: Updates and New Measures" International Journal of Central Banking, Vol 10, Number 1, p.189—253 N.

[61] Over the period 2006 to 2016, regulatory quality fell from the 81st to 63rd percentile; the rule of law declined from the 86th to 60th percentile; and control of corruption declined from the 90th to the 83rd percentile.

[62] Efforts are currently under way to centralize the functions of over 30 disparate revenue authorities and departments. However, many of the difficulties that existed prior to the establishment of a centralized revenue authority – such as long taxpayer waits, lack of tools for electronic filing and payment, difficulties in intra-revenue communication and human resources management, and poor enforcement or promotion of compliance – may still exist once centralization is completed.

[63] Public sector operation expenditures average between 20 percent (15-year average) and 23 percent of GDP (five-year average), but only account for 6 percent of gross value added in the economy. Current expenditures constitute 90 percent of this spending (~21 percent of GDP over the last five years) and capital expenditures constitute the remaining 10 percent. Within current expenditures, wages and salaries, and subsidies and transfers (primarily to SOEs) each make up about a third of the expenditures, equivalent to a little over 3 percent of GDP each. Goods and service expenditures are only 3.6 percent of GDP, while interest payments are less than 3 percent of GDP

[64] The Bahamas has 35 government corporations and statutory agencies that make up the set of SOEs. The two largest of these are the Bahamas Power and Light (BPL) and the Water and Sewerage Corporation (WSC), both of which depend on public expenditures due to their inefficient operations and structures.

[65] For example, the electricity utility company has 93 customers per employee compared to 175 in Grenada, 224 in Barbados, and 415 in Jamaica.

[66] The Bahamas has lost some ground in recent years regarding both the e-Government Development Index, and the e-Participation Index. See footnote 25 for a description on both indices.

Islands.[67] Finally, a relatively high incidence of "petty" corruption in the provision of public services jeopardizes public confidence in the rule of law.[68]

3.7 In this context, the IDB Group will support the government in (i) supporting fiscal consolidation efforts by increasing in the efficiency of SOEs; (ii) strengthening institutional capacity for digital government;[69] and (iii) strengthening the framework for integrity and transparency in the public sector.[70]

3.8 **Alignment.** The initiatives in this strategic area contribute to the following objectives of the Update to the Institutional Strategy 2010-2020 (GN-2788-5): strengthening the capacity of the state, and the cross-cutting areas of strengthening institutional capacity and gender and diversity.

B. Supporting Resilient Infrastructure for Growth

3.9 Interventions to increase infrastructure coverage, quality, capacity, climate resilience, and connectivity are key to enhancing access to services, reducing poverty and inequality, and/or improving the region's productivity.[71] With 30 inhabited islands over 100,000 square kilometers of ocean, it is critical that The Bahamas provide quality, cost-efficient, and climate-resilient infrastructure and logistics services in order to position the country to attain higher and inclusive economic growth. The archipelagic nation relies greatly on sea and air transport to connect its people and local economies. However, insufficient maintenance and upgrading of vast and aging infrastructure (particularly for air and maritime connectivity),[72] as well as inadequate public goods such as urban transport infrastructure, energy, and water and sanitation, hamper access to basic services and increase the cost of doing business.

3.10 Most of the country's infrastructure, including that of the tourism industry, lies in coastal areas. In a comparative analysis of 84 developing countries around the world regarding the impact of sea-level rise, The Bahamas is ranked highest in LAC in terms of land area (rural and urban), agriculture, GDP, and population affected under scenarios of one and two-meter sea-level rises.[73] The low-lying nature of the country is complicated by its land area being predominately located within the hurricane belt of the Caribbean. These aspects call for urgent investment to build resilient infrastructure to minimize the increasing impact of climate change.

3.11 Limited fiscal space and private sector financing challenges present difficulties to finance infrastructure gaps. As previously stated, declining fiscal space and mounting levels of debt

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[67] See "IDB 2017 Country Development Challenges." Many government branches, particularly in smaller Family Islands, lack the equipment and connectivity for digital government. These government branches continue to depend on centralized government offices in Nassau to provide critical and necessary government services. The unique geography and population displacement proves a clear case for the need to use ICT in offering government services to other islands in The Bahamas.

[68] According to the 2014 Vanderbilt University Latin America Public Opinion Survey (LAPOP), The Bahamas is 12th of 34 countries in the LAC region for corruption victimization, with 19.9 percent of interviewees reporting having been asked to pay a bribe over the previous year.

[69] This includes lines of intervention related to the cross-cutting theme of Climate Resilience and Disaster Risk Management, such as standardization of emergency protocols for digital storage, backup, and cybersecurity.

[70] Efforts to strengthen the government's institutional capacity to address crime and violence will take place under the US$20 million Citizen Security and Justice Program (BH-L1033), which is currently in execution.

[71] H. Esfahani and M. Ramírez, 2003, "Institutions, Infrastructure, and Economic Growth." *Journal of Development Economics* 70(2), 443–77.

[72] There are approximately 28 government-owned Family Island airports and 140 public docks in The Bahamas, and many of them need upgrading to keep pace with international industry standards as well as growing demand.

[73] Susmita Dasgupta, Benoit Laplante, Craig Meisner, David Wheeler, and Jianping Yan, 2007, "The Impact of Sea Level Rise on Developing Countries: A Comparative Analysis," World Bank Policy Research Working Paper No. 4136.

commitments limit the government's infrastructure spending options. Meanwhile, private sector participation in infrastructure is modest,[74] in part owing to the absence of an appropriate legal and regulatory framework for PPPs.[75]

3.12 **Air connectivity.** The Bahamas has 53 licensed airports, and air connectivity underpins the country's tourism sector and fuels the development of individual island economies.[76] Ongoing reforms to bring the aviation sector in line with international best practices – such as creating new agencies to separate policymaking, technical regulation, and infrastructure operation functions – are imperative to increasing capacity to safely manage traffic flows.[77] However, while Lynden Pindling International Airport in New Providence is a major hub for international arrivals by air,[78] the 28 government-owned Family Island airports servicing over 1 million passengers require a substantial investment to upgrade their infrastructure, equipment, and systems to comply with international aviation standards and meet future traffic demands.[79] Furthermore, in line with a 2014 IDB-funded airport optimization study,[80] and based on extensive feasibility analysis, the Government of The Bahamas has initiated the process of upgrading select Family Island Airports with potential for private participation.[81]

3.13 **Maritime connectivity.** The Bahamas is a small and open economy, and maritime connectivity is a key determinant of access to international markets. According to the World Bank's World Development Indicators, The Bahamas ranks second in the Caribbean for volume of container port traffic. The Nassau Container Port was assessed by a 2016 Caribbean Development Bank study to be the most productive port in a sample of 12 ports in the Caribbean.[82] Freeport Harbor in Grand Bahama has a unique value proposition in the Caribbean transshipment market because it services the U.S. east coast with non-U.S. flagged vessels following the Jones Act that restricts domestic moves between U.S. ports to U.S. flagged ships.[83] However, despite the approximately 140 public docks across The Bahamas, connectivity with the Family Islands is limited. The quality of maritime services is affected by poor conditions of the berthing infrastructure in the Family Islands. Some infrastructure is outdated while others need upgrading to keep pace with growing demand driven by housing and tourism development. Private sector

[74] Private participation in air and seaport infrastructure only occurs on the islands of New Providence and Grand Bahama.
[75] Some additional reasons for limited private participation in infrastructure are the following: (i) small market size and limited economies of scale often mean an investment cannot take place without substantial public sector involvement; and (ii) there is sub-optimal intermediation of financial resources from the financial system due to high risk aversion of banks (further dampened by high exposure to government debt), elevated levels of nonperforming loans, and the absence of sufficiently deep capital markets.
[76] While competition in domestic aviation market is limited to a few domestic airlines in the Bahamas, international aviation is more competitive and fractioned. Foreign carriers occupy a dominant position, accounting for 75 percent of the market share in terms of seat capacity, according to an IDB Transportation Division report in 2014.
[77] Some of these reforms coincide with the objectives of the Air Transport Reform Program (BH-L1027).
[78] The Lynden Pindling International Airport has been under concession to the Nassau Airport Development Company Limited (NAD) since 2007. In 2014 the airport served 3.3 million passengers. Under the 30-year concession, NAD is responsible for most of the airport's infrastructure and operations, including terminals, runways and taxiways, parking, and commercial development projects. As a private company, NAD is a completely self- sustaining commercial entity.
[79] In particular, Family Island airports require an investment of US$87 million to comply with International Civil Aviation Organization standards and an estimated US$54 million to help accommodate future traffic levels over the next 25 years according to transport supply needs.
[80] Stantec, 2014, "Comprehensive Strategy for Optimization of Family Island Airports."
[81] Under the US$35 million Airport Infrastructure Program (BH-L1041), airports in North Eleuthera, Exuma, Marsh Harbor, and Treasure Cay were selected for upgrades based on projected internal rate of return and net present value as a package.
[82] Caribbean Development Bank, 2015, "Transforming the Caribbean Port Services Industry: Toward the Efficiency Frontier." The analysis examines ports in Antigua, Bahamas, Barbados (Nassau), Belize, Dominica, Grenada, Guyana, St. Kitts, St. Lucia, St. Vincent, Suriname, and Trinidad.
[83] Freeport Harbor is the deepest harbor in the Caribbean (15.5 meters alongside) and can accommodate Post Panamax vessels. The annual handling capacity of this port is 1.5 Million TEU, according to a 2014 IDB Transportation Division report.

participation does not exist outside the two main ports mentioned, and user charges applied at docks in less developed island communities are heavily subsidized as a means of supporting the local population.

3.14 **Urban development and mobility.** Population growth models project that New Providence will grow by approximately 27 percent between 2015 and 2040.[84] Meanwhile, a 2015 IDB transportation statistics study[85] revealed that vehicular density (congestion) in New Providence is already over 397 vehicles per 1,000 persons, roughly 44 percent higher than its regional neighbors; and that there is neither an adequate and efficient public transportation system[86] nor a public-school bus system. With limited land space to expand the road network in New Providence, the development of urban transportation systems that serve the needs of locals and tourists necessitates multisectoral coordination with residential and public space planning to facilitate equal access to opportunities that take into account gender, income, age, and abilities, while also improving quality in the provision of urban services in Nassau.[87] The integration of urban development and mobility, for example through transit-oriented development, is necessary to support gains in productivity and competitiveness in the local economy, as well as a more sustainable growth pattern.[88]

3.15 **Energy.** Despite possessing ample renewable energy resources[89] and having in place an ambitious National Energy Policy[90] to increase renewable energy generation to 30 percent by 2030, The Bahamas ranks lowest in the region for renewable energy penetration.[91] Furthermore, as a consequence of old power generation infrastructure, The Bahamas suffers from a high fuel import bill (4 percent of GDP), high and volatile electricity prices,[92] and a large and financially challenged utility (Bahamas Power and Light – BPL) that experiences frequent

[84] See www.vision2040bahamas.org/.
[85] See https://publications.iadb.org/handle/11319/6885.
[86] The public transport system operates with little coordination, low quality standards, and limited accessibility. The system is not unified and encourages competition between independent jitney operators that do not consistently follow assigned routes, therefore increasing the system's unreliability, according to a 2014 IDB Transportation Division report.
[87] For example, multisectoral approaches with the energy, water, and connectivity sectors could include (i) efficient traffic management, carpooling, flexi-work hours, and tele-commuting; (ii) an efficient public/urban mass transit transport system, including encouraging bicycle and pedestrian pathways; (iii) deploying solar panels where cost-effective; (iv) piloting residential rain-water harvesting; (v) providing broadband and WiFi free access in public areas; and (vi) encouraging the introduction of hybrid and electric cars with a tax regime and import duties (including infrastructure for the use of biofuels).
[88] Including the reduction of greenhouse gas emissions.
[89] According to the country's 2013–2033 National Energy Policy, The Bahamas has good solar resource and PV power potential, with global horizontal irradiation averaging over 5 kWh/m2/day and expected PV electricity output of about 4.5 kWh/kWp/day. Wind data are being measured on Grand Bahama Island at seven sites. Some wind turbines have been installed on some cays, including Over Yonder Cay, and at the Cape Eleuthera Institute. Given the steep sea drop-offs of The Bahama Banks' (important for water temperature gradients), it is possible that most of the islands could be suitable for ocean thermal energy conversion technology, as would be seawater district cooling and deep-well reverse thermal conversion.
[90] The National Energy Policy states that by 2033 The Bahamas will have "a modern, diversified and efficient energy sector, providing Bahamians with affordable energy supplies and long-term energy security towards enhancing international competitiveness and sustainable prosperity." Priority areas seek to minimize the impact of crude oil prices, take advantage of renewable energy resources, and promote energy efficiency and conservation by all sectors of the society, thereby reducing the country's carbon footprint. In particular, the policy speaks to the leadership role the government must take in promoting sustainable energy via renewable energy and energy conservation and efficiency. Complementary policy commitments to this agenda are reflected in the Carbon War Room's "10 Island Challenge" and the country's Intended National Determined Contribution.
[91] The Bahamas is dependent on imported fossil fuels (fuel oil and diesel) to satisfy 99 percent of its energy demand.
[92] The 2014 PROTEqIN Enterprise Survey found that Bahamian firms experience an average of 2.2 outages per month, just below Jamaica (2.5) but above Barbados (1.1), Suriname (0.7), and Trinidad and Tobago (0.5). The average duration, measured in hours of a typical outage, was highest in Jamaica (1 hour and 30 minutes), Suriname (1 hour), The Bahamas (54 minutes), Barbados (36 minutes) and Trinidad and Tobago (30 minutes).

power outages[93] and elevated system losses.[94] Such power-generation shortcomings have been associated with a reduction in the likelihood of introducing innovation in Caribbean countries, particularly those that resort to self-generation as a coping mechanism by suggesting that firms allocate resources to self-generation that would otherwise be allocated to innovation.[95] Nonetheless, energy conservation and efficiency options remain underutilized in the public, commercial, and residential sectors. Additionally, recently established regulations by the International Maritime Organization that will limit sulphur in fuel oil used by ships by 2020 could result in potential benefits for The Bahamas should liquefied natural gas be introduced to the energy matrix.[96]

3.16 To begin to address these challenges and opportunities, the Electricity Act of 1956 was amended in March 2015 to allow for renewable energy self-generation, which allows for individuals to attach to the national grid. However, the option of grid-tied renewable systems remains pending. In January 2016, the Utilities Regulation and Competition Authority (URCA) effectively became the new independent regulator of the electricity sector, and institutional capacity-building for this new role is required.[97] In late 2017, BPL issued requests for proposals from local and international companies for short- and long-term generation, with intentions to issue additional Requests for Proposals to modernize the electricity sector with private participation. To realize the ample potential for cleaner and renewable energy, Requests for Proposals that lead to power purchase agreements will need to reflect technical and financial standards and obligations of the off-taker to provide investors with certainty regarding the return on their investments.

3.17 **Water and sanitation.** The Water and Sewerage Corporation estimates that it currently supplies 50 percent of overall potable water demand in The Bahamas. Despite significant achievements in recent years in reducing volumes of nonrevenue water, WSC services are still not financially and operationally viable,[98] thereby requiring large governmental transfers[99] and limiting available funds to aid other areas of public sector governance. Continued implementation of operational efficiency measures to provide sustainable services, as well as revenue-generating measures to reduce the fiscal burden – as outlined in the WSC Action

[93] Limited productivity and volatile oil prices have contributed to making Bahamian electricity tariffs among the highest among Caribbean economies. In 2012, due to high oil prices, the electricity tariffs were US$0.40/kWh for residential customers and US$0.44/kWh for hotel customers. Today tariffs are lower (US$0.27/kWh for retail and US$0.25/kWh for residential), mainly due to the reduction in oil prices (a more than 50 percent reduction).

[94] This seems low when compared to Guyana (32 percent in 2012) or Jamaica (26 percent in 2013) but high when compared to Suriname (8 percent in 2012), Barbados (6 percent in 2013), or Trinidad and Tobago (5 percent in 2012).

[95] M. Barron, 2017, "Firm Response to Erratic Power Supply, New Evidence from Caribbean Firms," in *Exploring Firm- Level Innovation and Productivity in Developing Countries*, edited by Sylvia Dohnert, Gustavo Crespi, and Alessandro Maffioli, Inter-American Development Bank.

[96] The International Maritime Organization has set a limit on sulphur in the fuel oil used by ships of 0.5 percent by mass, down from the current limit of 3.5 percent, that will become binding on 1 January 2020. Ships taking on fuel oil for use on board must obtain a bunker delivery note that states the sulphur content of the fuel oil supplied. Analysts expect the most shippers to opt for low sulphur fuel oil with the burden of investment failing on the refiners. An increasing number of ships are using natural gas as a fuel, since combustion leads to negligible Sulphur oxide emissions. The Bahamas could potentially benefit from this development with regards to maintenance/repairs and re-fueling of liquefied natural gas ships. With the enlarging of the Panama Canal opening a new trade route for liquefied natural gas between the Atlantic and the Pacific and this area now able to handle large gas carriers, there will surely be new demand for liquefied natural gas carrier ship repairs and maintenance.

[97] As the regulator, URCA is responsible for (i) setting up and implementing a regulatory framework; (ii) ensuring good quality service by the electricity supplier; and (iii) issuing regulatory measures, regulatory fees, and eventually set electricity tariffs.

[98] WSC staff costs are on the order of one-third of its operational expenses, and its employee per 1,000 connections is high with respect to its peers (regional average of 6.2 employees per 1,000 connections).

[99] According to the Central Bank of the Bahamas Monthly Economic and Financial Developments Report in June 2017. Transfers to WSC amounted to US$25 million in 2015 and US$40 million in 2014.

Plan[100] and the New Providence Wastewater Master Plan[101] – are imperative to improving service provision in the sector during the period. Wastewater facilities (sewer drains, pipes, and disposal facilities) are insufficient to service the country. The sewerage system only covers 14 percent of the population of New Providence and, according to the Wastewater Master Plan 2014, requires "emergency" rehabilitation.[102]

3.18 The IDB Group will prioritize resilient[103] infrastructure interventions that reduce the cost of doing business and spur productivity growth, attracting private sector investment, encouraging public-private synergies, and promoting sustainability. The IDB Group will support The Bahamas in (i) improving institutional capacity for public-private coordination;[104] (ii) upgrading climate-resilient air and seaport infrastructure, particularly in the Family Islands, as well as providing increased access to finance for private sector-led operation and maintenance of infrastructure assets and complementary logistics initiatives; (iii) integrating multisectoral solutions to urban planning and mobility in Nassau in order to improve service provision; (iv) strengthening the institutional capacity to regulate and modernize the energy sector; and (v) expanding water and wastewater treatment services that include conservation measures. Besides its participation in the aforementioned areas, IDB Invest will look to support water and energy-efficiency initiatives in the infrastructure and corporate sectors,[105] and ICT upgrades in infrastructure and the implementation of technological solutions that could bring significant benefits for the population, including financial inclusion and productivity upgrades in the corporate sector. Support for enhanced disaster risk management will continue to be provided via a combination of public and private sector IDB Group financing instruments and knowledge products.

3.19 **Alignment.** The proposed actions in this strategic area contribute to the objectives of the Update to the IDB Institutional Strategy 2010-2020 (GN-2788-5) to provide inclusive infrastructure and infrastructure services, and to address the economic and social impact of climate change adaptation, and mitigation. These initiatives contribute to the strategic priorities of the 2018 IDB Invest Business Plan Update (CII/GA-77-4), including infrastructure development and support for the cross-cutting area of environmental sustainability.

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[100] Operational activities (decrease non-revenue, progressively increase tariffs, improve staff efficiency, implement a customer win-back strategy now that New Providence benefits from 24/7 services and ensure adequate water quality and pressure) and structural activities (upgrade the legal and regulatory framework, develop multi-year performance agreement between the government of The Bahamas and the WSC, and progressively incorporate private sector, initially through outsourcing).

[101] In its conclusions and recommendations, the New Providence Wastewater Master Plan 2014 recognizes that "the lack of an expanded sewerage system remains one of the critical problems of the sensitive environment of New Providence. The present situation in which less than 20 percent of the population is connected to a sewerage system and the remainder using on lot waste water disposal systems presents a major potential environmental and health hazard. Of foremost concern is the contamination of the underground aquifer, a source of drinking water for 40 percent of the population."

[102] Studies prepared for the IDB WSC Support program report high levels of contamination of ground water by fecal coliform in New Providence, attributed to a fragmented and dispersed sewerage network, as well as poorly maintained treatment stations.

103 The IDB Group will utilize a mix of instruments – including from its pipeline and portfolio – to increase the resilience of the country's assets and for its management of natural disaster risks. Achieving this objective in The Bahamas will be also possible through 'The Accelerator, a multidonor collaboration supported by the IDB Group. The Accelerator is an entrepreneurial engine that catalyses and accelerates priority initiatives towards a "climate-smart" zone, delivering resilience, social development, and broad-based economic growth for the Caribbean.

[104] Improving coordination for PPPs could include strengthening the organizations/agencies that implement each function of the PPP cycle project, and improving the contract structure between the government and the concessionaire. The most successful projects in which the IDB Group has participated have built prerequisites first by providing enabling environment support (see OVE, 2017, "Evaluation of Public-Private Partnerships in Infrastructure").

[105] In this regard, the tourism sector presents important opportunities for intervention compared to the manufacturing and agriculture sectors.

C. Fostering an Enabling Environment for Private Sector Competitiveness

3.20 The Bahamian economy is based on a relatively stable investment environment, natural capital, liberal tax regulation, proximity to the United States, and trade openness.[106] The private sector in The Bahamas provides over 60 percent of employment, while government employs 22 percent, and 16 percent are self-employed.[107] The tourism and financial sectors dominate the economy, including tourism-related construction. Services (including tourism and financial services) generate 78.3 percent of GDP, manufacturing 19.8 percent, and agriculture 1.9 percent.[108] While this composition is not unique in Caribbean tourism-dependent economies, The Bahamas has the second-highest proportion of medium-sized firms in the Caribbean, with a relatively high proportion of firms having an export-oriented focus.[109] Female leadership in the private sector is also above regional averages, as one in three firms is managed by a woman (versus one in five in LAC), and nearly 60 percent of firms have ownership structure that include women – three times the LAC regional average. However, firm-level productivity in The Bahamas is on average 17 percent lower than the average Caribbean firm.[110] Private sector growth is constrained by limited propension to innovate and access to finance

3.21 **Innovation.** Private-sector-led growth will require innovation from both traditional and nontraditional sectors. Approximately 22 percent of firms are innovative in The Bahamas, 4 percent below the regional average of innovative firms.[111] However, there is in general less innovative behavior in the services sector than in manufacturing. The Bahamas has 6 percent more noninnovative firms than the Caribbean region, with 21 percent of firms not attempting to carry out some innovative activity within the past three years.[112] Approximately 36 percent of all innovators are in the food sector, with an additional 10 percent in chemicals and 10 percent in construction. However, even though few fims in the hotel, construction, or retail sectors are innovative, many of them are potentially innovative, which means that they have attempted to innovate but have encountered insurmountable barriers.[113] In effect, 28 percent of firms in the

[106] Capital gains, inheritance, and corporate or personal income taxes do not exist in The Bahamas. However, on 1 January 2015, the government levied a 7.5 percent VAT on most goods and services.
[107] Department of Statistics, Labor Force Survey, May 2016.
[108] World Bank, World Development Indicators. Data correspond to 2014.
[109] According to the 2014 PROTEqIN Enterprise Survey 44 percent of Bahamian firms are medium-sized, 36.2 percent are small (5-19 employees), and 19.73 percent are large (over 100 employees).
[110] I. Ruprah and R. Sierra, 2016, *An Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change,* Inter-American Development Bank.
[111] See *Exploring Firm- Level Innovation and Productivity in Developing Countries*, edited by Sylvia Dohnert, Gustavo Crespi, and Alessandro Maffioli, Inter-American Development Bank. Available at: https://publications.iadb.org/bitstream/handle/11319/8138/Exploring-Firm-Level-Innovation-and-Productivity-in-Developing-Countries-The-Perspective-of-Caribbean-Small-States.pdf?sequence=1&isAllowed=y.
[112] PROTEqIN 2014 Enterprise Survey (N=127). Innovators are those that have carried out innovation activities in the last three years and rank barriers to innovation as important. Potentially innovative firms are those that are willing to innovate but report experiencing barriers to innovations that have either stopped them from beginning innovation activities or have led to an unsuccessful conclusion of innovative activities. Noninnovative firms are those that do not carry out innovation activities and thus do not experience barriers to innovations. The methodology taken from Mohan et al., 2016, "Barriers to Innovation and Firm Productivity in the Caribbean," in *Exploring Firm- Level Innovation and Productivity in Developing Countries*, edited by Sylvia Dohnert, Gustavo Crespi, and Alessandro Maffioli, Inter-American Development Bank.
[113] Barriers to innovation in The Bahamas include (i) market failures; (ii) lack of access to finance in general, let alone for innovation purposes; (iii) weak linkages between firms; (iv) small domestic markets, which makes innovation less attractive, and weak market incentives for the emergence of new, innovative firms; (v) scarcity of complementary products, which creates greater uncertainty about

hotel sector, 20 percent of firms in construction, and 18 percent of firms in retail are potentially innovative, while in the rest of the Caribbean the percentage of firms described as potentially innovative is 59 percent.

3.22 **Access to finance.** Credit constraints as well as limited economic diversification and internal competition in important markets impede innovation, productivity, and international competitiveness. Private sector credit has declined in the last 10 years, while the lending rate has spiked since 2008, according to the Central bank of The Bahamas. The Bahamas ranks 139th out 190 countries and 23rd in LAC on the World Bank's "Ease of Getting Credit" indicator, given the absence of an established credit bureau and weak legal rights.[114] Less than one-fourth of companies undertaking investment projects in The Bahamas have been funded by private banks,[115] and access to credit is particularly harder for SMEs, which report rejection rates as high as 85 percent (higher than Barbados at 35 percent, Jamaica at 55 percent, and Suriname at 27 percent).[116] Additionally, women-owned businesses and firms with a large presence of women are often smaller, relatively younger, and have limited access to financing.[117] These barriers to finance are associated with the lack of competition in financial markets, banks' limited risk appetite, and information asymmetries between borrowers and banks. The loss of correspondent banking relations also affects cash management services, international wire transfers, draft clearing, and financial inclusion, which is worsening, particularly for the Family Islands (as a result of more stringent requirements to open new accounts at local banks).[118] Finally, more successful engagement in international trade is constrained by remaining customs inefficiencies and restricted by the lack of full membership in the World Trade Organization, limiting the opportunities to remove barriers to international trade, foreign investment, and protection of property rights.

3.23 **Business climate.** Unlocking private sector potential and innovation will require urgent business climate reforms that reduce the cost of doing business. The World Bank's 2018 *Doing Business Report* identifies several areas of regulatory inefficiency – including lengthy procedures with financial costs, as well as cumbersome processes for regulatory compliance – that negatively affect the ease of doing business and dampen productivity in The Bahamas. The

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the ability of firms to produce and market new goods or services; (vi) scarcity of specialized technicians and engineers who can help develop new products/services; and (vii) small firms with weak economies of scale.

[114] The World Bank's *Doing Business Report* assesses how well the credit information system and bankruptcy laws facilitate access to credit. The Bahamian economy has a score of 0.0 on the depth of credit information index and 6.0 on the strength of legal right index. A high score indicates more credit information (maximum score = 8.0) and stronger legal rights (maximum score = 12.0) for borrowers and lenders. The 0 scores indicate the lack of an established "credit bureau." Jamaica and Trinidad and Tobago have scores of 7.0 and 6.0 on the credit information index and 9.0 and 7.0 on legal rights, respectively.

[115] See the 2014 PROTEqIN Survey.

[116] According to the 2014 PROTEqIN Survey, which surveyed small to large firms. It may be possible that credit constraints for microenterprises are greater than what is reported here.

[117] As stated previously, women own 17 percent of small firms, 10.72 percent of medium-size firms, and 0 percent of large enterprises in The Bahamas, according to PROTEqIN 2014 data. The other Caribbean-6 countries (The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad & Tobago) report a higher proportion of large companies owned by women than The Bahamas. However, the rate of female management in The Bahamas is the average of the rest of the small economies of the world, pointing to obstacles other than lack of skills preventing the growth of companies owned by women that must be further researched to more precisely determine the causes of this phenomenon. One study found evidence of a gender gap in firms' access to credit using data from the FINGEN dataset, which was built through a questionnaire by the IDB as a follow-up to the World Bank's Enterprise Survey in Barbados, Jamaica, and Trinidad and Tobago See C. Piras, A. Presbitero, and R. Rabelloti, 2013, "Definitions Matter: Measuring Gender Gaps in Firms' Access to Credit," IDB Discussion Paper 314, Inter-American Development Bank.

[118] According to an August 2016 survey of 54 financial institutions by The Bahamas Central Bank, 14 of them (approximately 26 percent) have lost at least one correspondent banking relationship. Of the 13 Bahamas-based banks, six were stand-alone institutions and seven subsidiaries of parent banks, indicating that correspondent "de-risking" impacts are not confined just to the indigenous banks.

Bahamas ranked 121st out of 190 countries overall in 2017 on the report's ease of doing business index. Among the 32 LAC economies, The Bahamas is ranked 22nd, behind the Caribbean nations of Jamaica (6th), Trinidad and Tobago (12th), and Dominica (13th). In terms of some specific indicators, contract enforcement ranked 10th regionally, as the process normally takes almost 18 months (532 days) and generally costs 28.9 percent of the value of the submitted claim.[119] The Bahamas now ranks 27th regionally in obtaining electricity, taking upwards of 67 days, involving five different procedures, and costing 146 percent of income per capita for a business to obtain a permanent electricity connection for a newly constructed premise. Property registration requires up to seven procedures and an average of 122 days, with costs estimated at almost 5 percent of the property value. Globally, The Bahamas ranks 166th out of 190 countries, but 29th among LAC economies in this area. In 2016, the country made paying taxes less costly for companies by reducing the business license tax, but indicators suggest that much remains to be done make these processes smoother and swifter (Bahamians spend up to 233 hours per year paying their taxes).[120] The Bahamas still ranks 95th worldwide and 14th among LAC countries on the ease of paying taxes. Strong government-directed policies are needed to reduce these impediments to doing business.

3.24 IDB Group support to enhance the enabling environment for private sector competitiveness will prioritize interventions that leverage synergies among its institutions via: (i) investments and advisory services that promote innovation and innovative business practices in both traditional (e.g., sustainable tourism) and nontraditional sectors (e.g., agroindustry, blue economy, and manufacturing segments);[121] (ii) improvements in the conditions necessary to address information asymmetries, high business and trade transaction costs, and access to capital; and (iii) strengthening of the legal and regulatory environment to foster competitiveness among Bahamian firms. Complementarily, IDB Invest will specifically seek to encourage innovation and the expansion of access by micro, small, and medium-size enterprises to credit through value-chain mechanisms that could potentially address some of the barriers that limit their access, such as information asymmetries or high transaction costs. Given persistent challenges in achieving full compliance with the recommendations of the Caribbean Financial Action Task Force (C-FATF),[122] IDB Invest will seek mechanisms to complement C-FATF compliance efforts by supporting private-sector-based solutions, including via advisory services, in order to (i) improve control and compliance of anti-money laundering/combatting the financing of terrorism regulations by financial institutions, including strengthening "know your client" and "know your client's client" systems and procedures; (ii) sponsor financial institutions that adopt independent certifications on compliance readiness to promote new correspondent bank relationships; and (iii) encourage the implementation of electronic money solutions that could reduce reliance on cash-based transactions. IDB Invest will also give special attention to mechanisms to support women-owned and women-led businesses, aiming at narrowing the existing gender gaps in company growth and access to financial resources.

[119] See https://www.state.gov/j/drl/

[120] A lack of online services and e-filing/e-payment options and few public-facing offices contribute to the long time required to pay taxes. This has been exacerbated by the complexity of the VAT, despite an online payment system, dropping The Bahamas' "ease of paying taxes" ranking from 24th to 95th and increasing the time-to-pay from 58 to 233 hours. The Bahamas remains one of the easiest Caribbean countries in which to pay taxes, but this should primarily be understood as an indication of the work that the rest of the Caribbean must still undertake.

[121] IDB Invest interventions in the tourism industry in The Bahamas will adhere to three principles: (i) achieving an economic return incorporating estimates of externalities that affect social welfare; (ii) supporting social inclusion; and (iii) ensuring the conservation and resilience of natural and cultural capital, as well as the maintenance of ecosystem services that benefit tourism and other economic activities (Tourism Sector Framework document, July 2017).

3.25 **Alignment**. The initiatives in this strategic area contribute to the objective of the Update to the IDB Institutional Strategy 2010-2020 (GN-2788-5) to provide adequate knowledge and innovation ecosystems; foster inclusion in financial markets; insert firms into value chains; and address the cross-cutting area of gender and diversity. The priorities outlined here are also aligned with the priority segments of the 2018 IDB Invest Business Plan Update (CII/GA-77-4) to strengthen capacities to support the corporate segment, and leverage resources through the financial system to support the priority areas as well as cross-cutting themes.

D. Cross Cutting Issues

3.26 **Data.** Timely data collection and dissemination continues to pose challenges in The Bahamas and restricts evidence-based policymaking. Although The Bahamas is in the early stages of making concerted effort towards strengthening its National Statistical System and Department of Statistics,[123] there is significant room for more efficient generation of and access to data and information. The current Statistics Act of 1973 does not centralize authority for the coordination of data production or dissemination. Without such guidance and direction, there is no access to data on macro and micro variables at a higher frequency and at lower levels of disaggregation, particularly for the consolidated public sector, national accounts, and external sector. Additionally, little information exists to understand how The Bahamas compares to other LAC countries in terms of competitiveness and innovation, and the lack of systematic and regular data collection on key competitiveness as well as climate change and environmental indicators poses a continuing challenge to diagnosing and addressing weaknesses in the Bahamian public sector.[124] Furthermore, within public agencies and departments, there are instances where data have not yet been transferred from paper to electronic databases, and information related to gender is not often available. To increase the capacity of the National Statistical System, the IDB Group, on a cross-cutting basis, will seek to improve collection, dissemination, and availability of data across sectors to enhance decision-making.

3.27 **Gender.** Data inconsistencies and the absence of gender-disaggregated information make it difficult to develop public policies that reduce gender-based violence, as well as create equal incentives for increased productivity and empowerment. The World Health Organization's clinical and policy guidelines strongly recommend that health care settings provide systemic attention to violence against women.[125] It is important to define protocols and standards on data gathering and analysis as well as promote the use of surveys to measure gender-related issues. According to the World Economic Forum, the gender gap in earnings indicates that a woman in

[123] Under the Public Financial Management and Performance Monitoring Program (BH-L1033), the US$3 million component on national statistics will finance (i) development and implementation of a National Strategy for Statistical Development; (ii) the refinement of the new Statistics Act (now in draft); (iii) implementation of an institutional training program for both the Department of Statistics and the National Statistical System; (iv) development and implementation of new business processes; (v) strengthening of the current information system, further automating Department of Statistics staff workflow and communication as well as the entire process of collecting, processing, and disseminating information; and (vi) development of a multi-level awareness campaign.

[124] For example, the Open Budget Index, the Global Corruption Barometer, the Right to Information Index, and the World Economic Forum's competitiveness rankings, among others, do not include The Bahamas.

[125] Additionally, several studies have substantiated that greater attention has been paid to social and gender issues when more women are elected to legislatures. See S. Childs and M.L. Krook, "Critical Mass Theory and Women's Political Representation," 2008, *Political Studies* 56(3): 725–36.

The Bahamas earns 68 cents for every dollar earned by men in the same age group.[126] Additionally, women's representation in political decision-making positions in The Bahamas is lower than its regional neighbors.[127] However, statistical surveys and analysis to understand the root causes are not available. During the CS period, the IDB Group will pursue data collection and much-needed research on prevalence and determinants of gender parity gaps.

3.28 **Climate resilience and disaster risk management.** The vulnerable geography of The Bahamas within the hurricane belt, as well as its low-lying land masses, makes the country highly vulnerable to natural disasters and climate change impact.[128] Over the 1980–2010 period, there were 12 major storms and one flood, costing some US$2.5 billion, or 30 percent of overall GDP, according to an International Disaster Database report.[129] Within just the last three successive years (2015–2017), the country has been directly affected by two category 4 hurricanes and one category 5 hurricane, causing cumulative damage and losses of approximately US$673 million[130] – representing 26.7 percent of the damages and losses incurred during the entire 1980–2010 period. Given the spatial distribution of the storms, almost all islands in the archipelago – including the major population centers of New Providence and Grand Bahama – experienced at least one of these extreme weather events, compromising the availability and flexibility of resources for recovery and reconstruction efforts. Furthermore, while extensive mangrove and other coastal ecosystems reduce flooding, beach erosion, and other climate-related risks, the management of this natural capital is incipient and needs to be strengthened through improved monitoring, restoration and governance.

3.29 Given the frequency and magnitude of such weather events and the onset of climate change, the IDB Group will mainstream climate-resilience and disaster risk management throughout all priority areas of the Country Strategy. Among other measures, this includes (i) standardization of emergency protocols for digital storage, backup, and cybersecurity; (ii) preparation of contingent financial protection instruments for natural disasters[131] under the public sector effectiveness area; (iii) incorporation of science-based, climate-resilient measures to ensure the sustainability of infrastructure within the framework of integrated coastal zone management;[132] and (iv) institutional strengthening of sectorial authorities impacted by climate change and support for the modernization and implementation of the climate adaptation legal framework.

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[126] World Economic Forum, 2016, *The Global Gender Gap Report* – Country Profile of The Bahamas. The gender pay gap in The Bahamas is slightly greater than the gap in Barbados (67 cents), and significantly higher than in Trinidad and Tobago (55 cents), Chile (52 cents), and Suriname (45 cents).

[127] In 2016, Guyana, Jamaica, and Suriname – whose per capita income and other indices are significantly lower than those of The Bahamas – had elected more women in Parliament than The Bahamas. In 2015 and 2016, Bahamian women accounted for 13 percent of parliamentary representatives.

[128] According to the Center for Research on the Epidemiology of Disasters, from 1970 to 2016, The Bahamas experienced 18 major disasters such as hurricanes. Seven of these 18 major disasters (40 percent) occurred in the last 10 years, an indication of the accelerating rate of disasters. These events were usually accompanied by severe coastal erosion and flooding, often in densely populated areas where the buffering effect of coastal habitats has been lost. For example, according to IDB and ECLAC Economic Impact Assessments, Hurricane Joaquin (2015) passed through lightly populated southern islands, destroyed large segments of Long Island and four other islands, with total damage estimated at US$104.8 million, which amounted to more than 0.1 percent of GDP (IDB and ECLAC 2015). Hurricane Matthew (2016), the first hurricane since 1929 to directly strike both New Providence and Grand Bahama, which support the bulk of the country's population, caused an estimated US$438.6 million in losses and damage.

[129] See www.emdat.be.

[130] Economic Impact Assessments by the IDB and ECLAC of Hurricanes Joaquin (2015), Matthew (2016), and Irma (2017).

[131] In November 2017, the government of The Bahamas requested the preparation of an IDB Contingent Credit Facility for Natural Disasters.

[132] To be developed and implemented under the Climate Resilient Infrastructure and Management Program (BH-L1043), approved by the IDB Board of Executive Directors in November 2017.

E. Dialogue Areas

3.30 In addition to ongoing activities, the IDB Group will continue its dialogue with the Government of The Bahamas on enhancing human capital development – including education,[133] labor markets,[134] citizen security and justice, social protection and health[135] – as opportunities may arise to complement the work under way to boost labor productivity.

IV. PROJECTED LENDING FRAMEWORK

4.1 The projected demand scenario for sovereign guaranteed financing amounts to US$150 million for the 2018–2022 period, or an average of US$30 million per year. This represents a similar level of approval if compared with the previous Country Strategy period (2013–2017). During the strategy implementation period, the Bank will also explore contingent credit facility instruments to increase the financial protection of the country to respond to natural disasters. Net loan flows to The Bahamas will average US$8.6 million per year and total US$43.2 million. These approvals, together with the expected disbursements, would enable the Bank to achieve a 13 percent share of the country's external debt (3 percent of total public debt). Nonsovereign-guaranteed lending and technical assistance through IDB Invest and the MIF are expected to play a role in facilitating public-private synergies, stimulating private sector competitiveness, and catalyzing access to finance for emerging entrepreneurs, to enhance TFP and spur economic growth.

V. STRATEGY IMPLEMENTATION

5.1 **Portfolio performance.** To help consolidate the progress achieved during the previous CS period, the Bank will provide technical assistance to enhance execution readiness of investment operations upon entry into the portfolio. The IDB will also continue to conduct extensive training in project management, procurement, and financial administration for project executing units, as well as senior officials and heads of agencies involved in implementation. The Bank will maintain close strategic dialogue with Government to improve portfolio execution. Particularly with regard to projects at risk of suboptimal performance, the Country Office will increase the frequency of engagement with supervisory Ministries at the strategic and technical levels, and,

[133] In education, the main challenge ahead is to improve the quantity and the quality of young graduates who enter the labor market. Education access for ages 5 to16 is high, but there are serious challenges related to low enrollment rates in pre-primary education, dropout rates from secondary school, and poor learning outcomes. These challenges directly affect the skill level of the population in the labor market in a context in which poverty and unemployment have been increasing, especially among young people. Interventions that improve the access, quality, and relevance of secondary education are particularly important to improve the competitiveness of the economy as well as the economic outcomes of young workers.

[134] For example, the Labour Force Survey needs to be reviewed to address issues such as informality and the quality of jobs. There is also a need for more continuous information about the demands of employers. In that sense, the Wages and Productivity Survey conducted in 2012 should be continued in order to better understand the trends in employers' demands. Finally, there is a large gap in terms of the analysis of pension systems. There is a need to better understand the challenges that the different systems face in order to properly inform policy decisions

[135] Note that the government of The Bahamas has already been undertaking work of its own to improve public health delivery systems and has moved towards a national health insurance scheme with the support of international expert consultants. Additionally, the Pan-American Health Organization is providing technical assistance in the areas of improving maternal and child health as well as addressing noncommunicable diseases. Therefore, Bank support will be highly selective in this area given the ongoing work and the limited absorptive capacity in the public sector.

based on a risk-management approach, allocate necessary human and financial resources to resolve challenges.[136] Cross-cutting portfolio issues, including gender mainstreaming, will be addressed alongside senior levels of Government to implement effective solutions.[137]

5.2 **Country systems.** The IDB continues to use the country's budgetary and treasury systems for all loans, and to partially use the services of the Auditor General for external control. Currently, the use of budgetary and treasury systems is estimated at 100 percent and external control at 38 percent. During CS 2018-2022, the Bank will pursue increasing the use of the accounting and reporting system as well as support from the Office of the Auditor General to develop an action plan to increase the quality and efficiency of external auditing. With regards to procurement, the Bank requires the use of its own procurement policies (GN-2349-9 and GN-2350-9) for all national and international selection processes, along with the use of its standard bidding documents.

5.3 Increasing the use of country systems remains a priority during the proposed Country Strategy period. With support from the IDB, The Government of The Bahamas is taking steps to modernize its financial management and procurement systems through the Public Financial Management and Performance Monitoring Program (3340/OC-BH),[138] which among other objectives supports the implementation of a new Integrated Financial Management Information System and an e-procurement platform. These actions will bring an integrated solution for all fiduciary areas of government by developing a new business model to improve public financial management, including budget classification, formulation, and execution monitoring, a new chart of accounts and implementation of International Public Sector Accounting Standards as well as reporting tools. The modernization of the public procurement system will promote efficient market competition and enhance value for money by applying advanced procurement practices and regulations, which will increase transparency and operational efficiency. Table 1 summarizes the current and proposed use of fiduciary country systems.

Table 1. Current and Proposed Use of Fiduciary Systems in The Bahamas

Systems	Level of Use in Number of Projects (percent)	
	2017	2022
Budget	100%	100%
Treasury	100%	100%
Accounting and Reporting (*)	13%	100%

[136] This method has led to the Trade Sector Support Program coming out of problem status, and has accelerated its disbursement pace – 34 percent of total loan amount disbursed in the first five months of 2017 based upon prior achievement of milestones. The other problem project has seen only marginal improvements in performance, and therefore discussions with the new administration regarding next steps have commenced.

[137] Based upon discussion with senior government officials, as well as feedback from several Project Executing Units, whose procurement officers were initially unfamiliar with Bank procurement policies and best practices, the Bank both conducted trainings and contracted in 2016 a procurement coach to provide procedural advice to Project Executing Units on procurement activities. This enhanced support has improved planning tools and is partly responsible for the 100 percent achievement of the annual 2016 portfolio disbursement projection.

[138] US$33 million, to be implemented through 2021.

Table 1. Current and Proposed Use of Fiduciary Systems in The Bahamas		
Systems	**Level of Use in Number of Projects (percent)**	
	2017	**2022**
Internal Audit (*)	13%	13%
External Control (*)	38%	38%
Information Systems (*)	13%	100%
Individual Consultant (*)	13%	80%
Shopping (*)	13%	80%
NCB partial (*)	13%	80%

(*) Please note that the percentage influenced by PBL in 2017.

5.4 **Donor coordination.** Coordination with other multilateral and international agencies will continue during the new CS period. The Bank will continue to coordinate closely with the United Nations Economic Commission for Latin America and the Caribbean (UN ECLAC) and the United Nations Development Programme (UNDP) on post-disaster economic assessments as needed. Coordination with the Caribbean Development Bank will also be important to ensure the complementarity of interventions, particularly in the water and sanitation sector. In addition, the IDB will continue to coordinate with the International Monetary Fund in the areas of public finance and fiscal management, and will also maintain a dialogue with the U.S. Embassy in Nassau as well as with Caribbean-based representatives of certain bilateral aid agencies. The IDB Group will continue to explore co-financing opportunities to leverage resources from development partners, particularly those focused on climate change financing.

VI. RISKS

6.1 **Execution risk.** The strength of executing agencies in managing investment projects has been a key determinant of project success or failure. Therefore, during the design phase of projects, additional focus will be placed on assessing the institutional capacity of the executing agencies charged with implementation. Additionally, staff of Project Execution Units are usually only identified after parliamentary approval and the signing of investment loans. In many cases, selected Project Executing Unit staff are unfamiliar with Bank policies and procedures, and require significant support and training in results-based methodologies during the initial years of project execution. This can delay the performance of the Bank-financed projects as PEU staff ascend the learning curve. Therefore, the Bank will seek to mitigate this execution risk by engaging in early dialogue with the Government to identify qualified potential candidates, and assess and address their training needs within the first six months of execution. In addition, given the demand-based nature of the private sector opportunities that are influenced by market fluctuations, and the country's current productive capabilities, implementation of private sector operations may face obstacles that could hinder the IDB Group's support to private sector development. To mitigate this risk, IDB Invest will increase its focus on The Bahamas through the implementation of an action plan that will include placing specialized staff in the Country Office, as well as utilizing resources from a regional hub within the Caribbean.

6.2 **Macroeconomic risk.** Over the near and medium term, the pursuit of a pro-growth path will be a challenge especially in an environment of declining fiscal space and weakened external competitiveness. The archipelago has continued to experience low growth rates for the past decade, including for the two major growth drivers (the tourism and financial services sectors). Fiscal deficits and national debt levels are deteriorating and fiscal space is limited. The Bahamas' external competitiveness remains a challenge. Additionally, the tourism sector will need to rebalance the weight of stopover visitors in the overall mix of total visitors and the value-added contribution from tourism expenditure, while the financial sector is called to maintain its compliance with rigorous international regulatory standards. The Country Strategy will seek to mitigate some of these risks by reducing public sector inefficiencies that limit fiscal space and discourage private sector competitiveness and productivity.

6.3 **Natural disaster risk.** The Bahamas has suffered through the direct impact of three category 4 or higher storms in successive years between 2015 and 2017, causing cumulative damage and losses of approximately US$673 million. Its geographic location within the hurricane belt, coupled with the effects of climate change, increases the risk of future extreme weather events during the Country Strategy period. Implementation of Bank-financed investments in climate-resilient infrastructure and integrated coastal zone management will help improve both physical asset protection and the Government capacity to effectively plan and respond to natural disasters. Additionally, the Bank will explore the potential for contingent financing options for natural disasters that could provide additional financial flexibility and accelerate Government recovery and rehabilitation efforts in the event of extreme weather events.

ANNEX I: THE BAHAMAS: COUNTRY STRATEGY RESULTS MATRIX

Government's Priorities	IDB Strategic Areas	IDB Strategic Objectives	Expected Outcomes	Indicators	Baseline Values	Source
GOVERNANCE, COMPREHENSIVE INFORMATION, COMMUNICATIONS AND TECHNOLOGY STRATEGY	**1. Public Sector Effectiveness**	1.1 To support fiscal consolidation.	Reduction in subsidies and transfers to SOEs.	Subsidies and transfers to SOEs as a percent of GDP.	2.9 percent (2011)	Ministry of Finance.
		1.2 To strengthen institutional capacity for digital government.	Improved quality and responsiveness of public sector services using online platforms.	e-Government Development Index score.	0.5 (2016)	UN e-Government Survey
				e-Participation Index score.	0.3 (2016)	UN e-Government Survey
		1.3 To strengthen the framework for integrity and transparency in the public sector.	Increased perception of transparency within public services.	Corruption Perception Index.	66 (2016)	Transparency International
MODERN INFRASTRUCTURE, INTERCONNECTED TRANSPORT	**2. Resilient Infrastructure for Growth**	2.1 To improve institutional capacity for public-private coordination.	Enhanced capacity for coordination between public and private sectors.	Number of public and private agencies trained in public-private partnerships.	0 (2017)	Ministry of Finance
		2.2 To upgrade air and seaport infrastructure, particularly in the Family Islands.	Upgraded air and seaport in compliance with international standards.	Number of air and seaports/public docks upgraded.	0 (2017)	Ministry of Tourism and Aviation and Ministry of Transport and Local Government

Government's Priorities	IDB Strategic Areas	IDB Strategic Objectives	Expected Outcomes	Indicators	Baseline Values	Source
				Number of air and seaports with private participation.	4 (2017)	Ministry of Tourism and Aviation and Ministry of Transport and Local Government
		2.3 To integrate multi-sectoral solutions to urban development and mobility in Nassau.	Increase the use of public mass transit.	Percentage of trips in New Providence made using public transport and nonmotorized transport.	15 percent (2010)	Ministry of Public Works
		2.4 To strengthen the institutional capacity to regulate and modernize the energy sector.	Integrated monitoring and evaluation of regulation.	Number of agencies trained in renewable energy and energy efficiency regulations.	0 (2017)	Utilities Regulation and Competition Authority
			Increased contribution of clean energy sources such as photovoltaics and liquefied natural gas.	Number of installed megawatt contribution from clean energy sources.	0 (2017)	Ministry of the Environment and Housing
		2.5 To expand water and wastewater services.	Increased water and wastewater service coverage by the Water and Sewerage Corporation (WSC).	Percentage of WSC supply of potable water.	50 percent (2017)	Water & Sewerage Corporation
				Percentage of WSC wastewater provision in New Providence.	14 percent (2017)	Water & Sewerage Corporation
COMPETITIVE BUSINESS ENVIRONMENT	**3. Enabling Environment for Private Sector Development**	3.1 To promote innovation and innovative practices in traditional (e.g., sustainable tourism) and nontraditional sectors (e.g., agroindustry, blue economy, and manufacturing)	Increased presence of innovation and innovative activities in the private sector.	Percentage of innovative firms.	22 percent (2014)	PROTEqIN 2014 Enterprise Survey
		3.2 To address information asymmetries, high transaction costs, and access to capital.	Improved business climate, innovation, and access to finance (by micro, small, and medium-size enterprises).	Depth of credit score.	0 (2018)	World Bank, Doing Business Indicators
		3.3 To rationalize Government regulations that hinder business registration, operation, and dispute resolution.		Number of hours per year spent paying taxes.	233 (2018)	World Bank, Doing Business Indicators
				Number of days to start a business.	21 (2018)	World Bank, Doing Business Indicators

Government's Priorities	IDB Strategic Areas	IDB Strategic Objectives	Expected Outcomes	Indicators	Baseline Values	Source
				Number of days to register a property.	122 (2018)	World Bank, Doing Business Indicators
	Country Systems	Increase the use of The Bahamas fiduciary systems	Increase the use of the accounting and reporting public financial management subsystem.	Use of accounting and reporting subsystem in IDB-financed operations.	13 percent (2017)	IDB annual measure of % of sovereign guaranteed portfolio (based on number of loans) using the Accounting and Reporting PFM subsystem
			Increase the use of the Procurement National System.	Use of information system.	13 percent (2017)	IDB annual measure of the percentage of the sovereign-guaranteed portfolio (based on number of loans) using the information system
				Use of individual consulting subsystem.	13 percent (2017)	IDB annual measure of the percentage of the sovereign-guaranteed portfolio (based on number of loans) using the individual consulting subsystem
				Use of Shopping subsystem.	13 percent (2017)	IDB annual measure of the percentage of the sovereign-guaranteed portfolio (based on number of loans) using the shopping subsystem

Government's Priorities	IDB Strategic Areas	IDB Strategic Objectives	Expected Outcomes	Indicators	Baseline Values	Source
				Use of partial national competitive bidding.	13 percent (2017)	IDB annual measure of the percentage of the sovereign-guaranteed portfolio (based on number of loans) using partial national competitive bidding

ANNEX II: INDICATIVE LENDING FRAMEWORK

Net Flow of IDB Convertible Currencies

(In millions of U.S. dollars)

	2011	2012	2013	2014	2015	2016	2017e	2018	2019	2020	2021	2022	Average 2018-2022	Total 2018-2022
Approvals	**0.0**	**89.0**	**0.0**	**33.0**	**20.0**	**25.0**	**70.0**	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**	**30.0**	**150**
a. Loan Disbursements	**57.0**	**61.9**	**49.4**	**30.4**	**11.0**	**18.6**	**13.6**	**25**	**45**	**45**	**28**	**40**	**36.6**	**183**
…PBL disbursements	15.0	0	0	0	0	0	0	0	0	0	0	0	**0.0**	**0**
b. Repayments principal	9.4	11.7	14.0	14.2	16.6	16.4	23.5	24.5	26.8	29.3	29.2	30	**28.0**	**139.8**
c. Net Loan Flow (a-b)	**47.6**	**50.2**	**35.4**	**16.2**	**-5.6**	**2.2**	**-9.9**	**0.5**	**18.2**	**15.7**	**-1.2**	**10.0**	**8.6**	**43.2**
d. Subscriptions & Contributions	0.3	0.9	1.0	0.8	0	0	0	0	0	0	0	0	**0.0**	**0**
e. Interests & Charges	5.7	6.5	6.8	6.7	6.6	8.5	8.4	8.5	8.8	8.8	8.5	8.5	**8.6**	**43.1**
f. Net Cash Flow(c-d-e)	**41.6**	**42.8**	**27.6**	**8.7**	**-12.2**	**-6.3**	**-18.3**	**-8.0**	**9.4**	**6.9**	**-9.7**	**1.5**	**0.0**	**0.1**
IDB Debt	**177**	**227.2**	**262.6**	**278.8**	**273.2**	**275.4**	**265.5**	**266.0**	**284.2**	**299.9**	**298.7**	**308.7**		
IDB Debt/Multilateral Debt	89%	87%	86%	91%	93%	99%	97%	97%	98%	97%	96%	98%		
IDB Debt/Public External Debt	15%	16%	17%	14%	13%	13%	12%	12%	13%	13%	12%	13%		
IDB Debt/GDP	2%	2%	2%	3%	2%	2%	2%	2%	3%	3%	3%	3%		

ANNEX III: SELECTED ECONOMIC AND SOCIAL INDICATORS FOR THE BAHAMAS, 2013–2018

Social and Demographic Indicators (most recent year)

GDP (US$ millions), 2015	10,203	Adult literacy	95.6
Per capita GDP (2015, US$)	28,030	Poverty rate (percent), 2014	12.8
Life expectancy at birth in years (2015)	75.6	Population (thousands), 2015	364
Rank on the UNDP Development Index (2014)	58	Unemployment rate (April 2017)	9.9

Economic Indicators

	2013	2014	2015	2016	2017p	2018p
	(Annual percentage change, unless otherwise indicated)					
Real Sector						
Real GDP (% change)	-0.6	-1.2	-3.1	0.2	1.8	2.5
Nominal GDP (% change)	-0.4	1.6	3.7	0.2	4.7	4.2
Inflation (end of period)	1.0	0.2	2.0	0.8	2.4	2.2
Unemployment	15.8	14.6	13.4	12.2	10	9.7
	(In percent of GDP, unless otherwise stated)					
External Sector						
Exports of goods and services	34.9	33.7	30.4	30.3	39	40.2
Imports of goods and services	44.8	48.7	37.1	38.4	52.4	49.4
FDI Foreign direct investment	3.5	2.3	0.7	0.7	3.2	4.2
Current account balance	-13.5	-17.4	-10.7	-10.0	-17.8	-14
Gross International Reserves (US$M)	742	788	812	904	960	982
In months of next year's imports	1.8	2.2	2.2	2.2	2.4	2.5

Central Government Operations	**2011/2012**	**2012/2013**	**2013/2014**	**2014/2015**	**2015/2016**	**2016/2017p**
Revenue and grants	13.4	12.6	13.3	15.1	17.1	21.2
Total expenditure	17.6	17.7	17.8	18.9	19.8	26.8
Overall balance	-4.2	-5.1	-4.5	-3.8	-2.7	-5.6
Primary balance	-2.4	-3.2	-2.4	-1.7	-0.3	-2.6
Memorandum items:						
National debt (in millions of $B)	3,907.0	4,689.0	5,160.0	5,637.0	5,974.0	6,482.0
In percent of GDP (including contingent liabilities)	36.4	43.9	47.6	50.2	53.0	57.6
Nominal GDP (in millions of B$)	10,720.5	10,677.2	10,843.8	11,240.0	11,261.8	11,261.8

Sources: International Monetary Fund, *World Economic Outlook* and Article IV Report; Central Bank of The Bahamas; and the Department of Statistics (2012–2016).

ANNEX IV: COUNTRY STRATEGY DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Programme Evaluation."

COUNTRY STRATEGY: The Bahamas, 2018–2022

STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the Government's development plans and priorities.

EFFECTIVENESS

Measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build-up of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the **priority area's** specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the **main factors** or causes contributing to the specific constraints and challenges	100%
- That provide corresponding **policy recommendations**	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

* The Results Matrix is composed of indicators that are meaningful to, and capture progress toward, the expected results. The expect results stem from the strategic objectives.

ANNEX V: MANAGEMENT'S RESPONSE TO COUNTRY PROGRAM EVALUATION: THE BAHAMAS, 2010–2017

OVE Recommendation	Management Response
Recommendation 1: Explore with the Bahamian authorities the possibility of providing broader and deeper support for tax policy and administration and public expenditure management, using a strategic mix of Bank instruments.	**Agree** **Management's Proposed Actions:** As part of its ongoing dialogue with the current authorities, Management has discussed and will continue to discuss fiscal matters, with an emphasis on the need to continue pursuing fiscal consolidation. An existing Sovereign Guaranteed (SG) loan (Public Financial Management, BH-L1035) and an upcoming knowledge product (Fiscal Workshop, Regional Policy Dialogue scheduled for 4-5 December 2017 in Nassau) provide additional opportunities to reinforce this message. It is noted, however, that the Government is receiving advice from the International Monetary Fund (IMF) on fiscal matters. For example, CARTAC – the regional IMF body – recently provided technical assistance to revise the data series for The Bahamas' GDP covering the years 2012 to 2016. The IDB Group's dialogue on fiscal matters will continue, alongside any technical assistance and support from the IMF.
Recommendation 2: Foster greater SG-NSG) coordination in energy and transport, including in strengthening regulatory frameworks and attracting private sector investments.	**Agree** **Management's Proposed Actions:** Management will continue to foster greater SG-NSG coordination in energy and transport, including through PPPs, to continue to attract private sector investment in these and other key areas. However, we considered that it is important to differentiate continued engagement aimed at strengthening regulatory frameworks and the performance of relevant public entities in the energy and transport sectors, and the sustained efforts for greater SG-NSG coordination in general. We would like to highlight that private-public synergies and coordination are very relevant in all sectors (e.g., in PPPs) and are in fact occurring. A concrete example is the Airport Infrastructure Program (BH-L1041) to improve and expand the airports in the Family Islands, which was designed allowing for public-private interventions.

OVE Recommendation	Management Response
	In addition, the IDB is in the process of reviewing its current package of financial instruments. IDB Invest is working on an action plan to increase operations in small or island countries, which operationalizes the Busan Resolution in terms of ensuring "an increase in total lending for Caribbean countries and for other countries that have benefited less from non-sovereign guaranteed operations by the end of the capitalization," through a series of innovative financial and non-financial products.
Recommendation 3: Engage in an in-depth dialogue with the Government to help diagnose the factors underlying the country's weak institutional capacity and define an action plan to strengthen it.	**Agree** **Management's Proposed Actions:** As part of its ongoing dialogue with the current authorities, Management has discussed and will continue to discuss institutional capacity constraints focusing on execution challenges and their underlying causes. The current administration is aware of the cost of protracted project implementation, and appears committed to prioritize more expeditious execution. Management will explore the possibility of agreeing with the Government's specific actions to strengthen the existing, limited institutional capacity. Management will also continue to provide ample training and capacity-building opportunities to public and private sector stakeholders, civil society, and academia. In addition, SPD has developed a new and more comprehensive tool to assess institutional capacity, called the PACI (Platform to Assess Institutional Capacity. The platform will be piloted in 25 projects in 2018 and eventually rolled out and used for all new projects going forward. This new tool improves upon the Bank's older tool given that it analyzes not only fiduciary capacity and risks, but also other operational issues and risks, including the legal framework, governance, and the institutional environment; human resources management; and project management. This comprehensive assessment will better inform project preparation in order to design more relevant and appropriate programs as well as identify

OVE Recommendation	Management Response
	specific areas for strengthening institutional capacity.
Recommendation 4: Explore with the Bahamian authorities the possibility of focusing some work on the Family Islands, given their greater poverty and unique challenges.	**Agree**
	Management's Proposed Actions: Management will continue its efforts to focus some of the IDBG work in the Family Islands, in consultation with the Bahamian authorities. Some public and private sector interventions (loans and technical cooperation operations in the portfolio or pipeline, or recently closed) benefit selected Family Islands, including Andros, Grand Bahama, Eleuthera, San Salvador, Long Island, Great Inagua, Exumas and Abaco. Management agrees on the need to continue these efforts given the unique challenges faced by the Family Islands.