

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BAHAMAS

BOOSTING RESILIENT AND INCLUSIVE GROWTH IN THE BAHAMAS

(BH-L1050)

PROJECT PROFILE

This document was prepared by the project team consisting of: Claudia Stevenson (IFD/CTI), Team Leader, Gerard Alleng (CSD/CCS), Alternate Team Leader, Matteo Grazzi, Rafael Anta, Edwin Goni, Sylvia Dohnert, Pauline Henriquez, Yohana Gonzalez (IFD/CTI), Laura Giles Álvarez, Natalie Bethel, Timyka Davis (CCB/CBH); Navita Anganu (IFD/CMF), Steve Collins (VPS/ESG); Maria Paula Gerardino (SPD/SDV); Nalda Morales; Ana Gabriela Paz (VPC/FMP) y Maria Sofia Greco (LEG/SGO).

Under the Access to Information Policy, this document is subject to Public Disclosure.

PROJECT PROFILE

THE COMMONWEALTH OF THE BAHAMAS

I. BASIC DATA

Project Name:	Boosting Resilient and Inclusive Growth in the Bahamas		
Project Number:	BH-L1050		
Project Team:	Claudia Stevenson (IFD/CTI), Team Leader, Gerard Alleng (CSD/CCS), Alternate Team Leader, Matteo Grazzi, Rafael Anta, Edwin Goni, Sylvia Dohnert, Pauline Henriquez, Yohana Gonzalez (IFD/CTI), Laura Giles Álvarez, Natalie Bethel, Timyka Davis (CCB/CBH); Navita Anganu (IFD/CMF), Steve Collins (VPS/ESG); Maria Paula Gerardino (SPD/SDV); Nalda Morales; Ana Gabriela Paz (VPC/FMP) y Maria Sofia Greco (LEG/SGO).		
Borrower:	The Commonwealth of the Bahamas		
Executing Agency:	Ministry of Finance		
Financial Plan:	IDB (OC):	US\$	100.000.000
	Total:	US\$	100.000.000
Safeguards:	Policies Triggered:	OP-102 y OP-703 (B.13)	
	Classification:	Not required	

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **The Bahamas is an open, undiversified economy that has experienced stagnating growth over the past decades.** It is reliant on imports, which averaged 40 percent of GDP over the past 5 years, of which a third are food and fuel.¹ Average real GDP growth has fallen over the past thirty years, reaching 0.8 percent in 2019. A declining trend in total factor productivity (TFP) has contributed to lowering potential output ([see Link](#)).² The country has experienced widening fiscal deficits in the past two decades (from -1.6 percent of GDP 2000-2009 to -3.8 percent of GDP 2010-2019) and a growing debt-to-GDP ratio (which increased at 6.4 percent between 2000 and 2019 in average)³.
- 2.2 **The Bahamian economy is experiencing its second major economic shock in the past twelve months.** Hurricane Dorian, which hit the Bahamas in 2019, resulted in an estimated US\$3.4 billion (27 percent of GDP) in damages and losses.⁴ The estimated 2020 real GDP growth rate fell to -0.6 percent and the fiscal balance to -6 percent of GDP for 2020. With the second shock of COVID-19, the country is experiencing a sudden stop in air tourism arrivals, a halt on cruise ships arrivals and the closing of airports and ports since March 2020. Estimates show that a 75 percent loss in tourism activity between April and December could lead

¹ WEO 2019 and [Central Bank of The Bahamas](#).

² WEO and WDI data 1990-2019.

³ IMF WEO 2020.

⁴ Ibid.

to 26.2 percent loss in GDP in 2020, relative to pre-COVID19.⁵ In the medium term, economic stagnation in key markets, as well as supply chain disruptions, will likely have further negative externalities on the economy.⁶ Lower tourism receipts and FDI will also have negative effects on the level of reserves, which reached \$1.7 billion at the end of 2019.⁷ Keeping an adequate level of reserves is key to maintain the exchange rate peg (1USD=1BHD).

Rationale for intervention and main challenges to be addressed

- 2.3 **Low productivity, innovation and economic concentration.** The Bahamas has a high concentration of economic activities, mostly in the service sectors, tourism, financial and real estate, which accounted for 37 percent of GDP in 2018.⁸ It is also geographically concentrated in the island of New Providence, which accounted for approximately $\frac{3}{4}$ of the country's economic activity over the past 5 years.⁹
- 2.4 The Bahamas' Exclusive Economic Zone covers 260,000 square miles, of which 5% is land and 95% is sea¹⁰, representing the largest development space for the country.¹¹ This marine environment, with its biodiversity, has potential for economic diversification through the Blue Economy. The Blue Economy is defined as the simultaneous promotion of economic growth, environmental sustainability, and strengthening of oceans ecosystems by optimizing the value and exploitation of marine resources. In the Bahamas, Blue Economy encompasses traditional areas (fisheries, maritime transport and coastal tourism)¹². Although there are no distinct procedures to measure the size of the Blue Economy¹³, is estimated that the Bahamas is one of the largest fish exporters in the Caribbean and contributes to 1% of the world freight shipping¹⁴.
- 2.5 Thus, fostering the Blue Economy enables diversification into emerging ocean-based activities, including marine aquaculture, safety, biotechnology, and renewable energy, among others. Realizing the economic potential of the Blue Economy requires science, technology and innovation, needed to discover the full value of ecosystems and marine genetic resources and transform those discoveries into high value products and services.¹⁵
- 2.6 The Bahamas has committed to a healthy marine environment by creating a network of Marine Protected Areas (MPA) and an expansion plan from 10 to 20%. The effective management of MPAs is critical for the optimal use of marine resources¹⁶, critical to ensure the environmental sustainability of blue economy

⁵ [COVID-19: Tourism-Based Shock Scenarios for Caribbean Countries.](#)

⁶ WEO 2019 and Central Bank of The Bahamas.

⁷ Ibid.

⁸ Ibid.

⁹ GDP is concentrated in New Providence (74%) , Grand Bahama (10.9%) and Abaco (4.6%). [Impact of Hurricane Dorian in the Bahamas, a View from the Sky.](#)

¹⁰ Convention on Biological Diversity.

¹¹ Roberts, J. 2014.

¹² Coastal Tourism contributed to 27.7% of GDP in 2018 (CDB, 2020. Measuring the Blue Economy.

¹³ Caribbean waters generated US\$407 billion in 2012. Toward a Blue Economy: World Bank. 2016.

¹⁴ Caribbean Development Bank.2018. Financing the Blue Economy.

¹⁵ OECD.2019. Rethinking Innovation for a Sustainable Ocean Economy.

¹⁶ Bahamas Protected White Paper.

activities. In this regard, the current legal and institutional framework needs to be strengthened to achieve this potential.

- 2.7 **Business Climate.** Bahamian firms face challenges with competitiveness. Only 19.73% of firms are large (over 100 employees), and only 6.7% of large firms, 16% of medium-sized firms and 12.7% of small firms export. Firms experience low productivity (17% lower than the Caribbean average), low complexity (industries are not connected), and insufficient innovation (only 22% of the firms innovate)¹⁷. These challenges were exacerbated with the COVID-19 pandemic that affected the resilience of MSMEs. The informal economy is estimated about 20-30% of the economy¹⁸, many MSMEs are excluded from ongoing support programs.
- 2.8 The Bahamas ranked 119 out of 190 in the Doing Business Report 2020, at the average of the Caribbean, but below Jamaica (71) and Trinidad and Tobago (105). The Bahamas ranks 105th in relation to Starting A Business; 91st regarding Dealing with Construction Permits; 132nd regarding Protecting Minority Investors; and 144th regarding Getting Credit. The Delivery Unit included Business Climate as a priority, supporting actions to improve in the areas of registering a new business and protecting minority investors.
- 2.9 **Environmental Vulnerability.** Over the last 30 years, The Bahamas suffered various natural disasters and annual average damages, at 1.4 percent of GDP, are higher than the Caribbean average of 1.2 percent.¹⁹ The Bahamas is made up of approximately 700 islands and cays, spread around 100,000 square miles with 98% of its population located within three meters above sea level²⁰, making its population and economic activities vulnerable to the impacts of sea level rise and storm surge.²¹ In addition, there was no dedicated institution to address in a comprehensive manner the social and environmental issues and the governance and finance framework for environmental protection and resilient growth.
- 2.10 In this regard, a comprehensive program that tackles issues for improving business climate, economic diversification with a focus on the Blue economy under a strengthened institutional framework that incorporates the environmental dimension will support the Bahamas in building resilient, environmentally sustainable growth.
- 2.11 **Country Context.** The Bahamas National Development Plan: Vision 2040²², includes economic diversification as a priority goal for resilient growth, including the sustainable development of new sectors (including the Blue Economy, through the enhancement of fisheries and maritime industry), and increase in employment for young people in blue jobs and greater protection of coastal and maritime ecosystems. Thus, the Government has been undertaking a set of reforms geared at promoting resilience, economic diversification and improvement of the business

¹⁷ PROTEqIN (2014).

¹⁸ Amos, Peter (2017). Estimating the Size of the Informal Economy on the Caribbean.

¹⁹ IMF. Strengthening Natural Disaster Resilience (2019).

²⁰ GOB, 2014. Second National Communication Report UNFCCC.

²¹ Dasgupta et al, 2009. The impact of sea level rise on developing countries.

²² [Vision2040](#).

climate, under a framework of environmental sustainability. With the COVID-19 Pandemic and the effects of recent natural disasters, actions to improve economic and environmental resilience under a strengthened institutional framework have become an urgent priority for the Government.²³

- 2.12 **Institutional Aspects.** Several institutions are involved in resilient sustainable growth: the Office of the Prime Minister (Delivery Unit), the Ministry of Finance (Small Business Development Center - SBDC and the Bahamas Development Bank), the Ministry of Agriculture and Fisheries (Department of Marine Resources and the Bahamas Agriculture and Marine Science Institute), the Ministry of the Environment (Bahamas Environment, Science & Technology Commission), Ministry of Transport and Local Affairs (Bahamas Maritime Authority), and public private organizations (Bahamas National Trust). Even though coordination mechanisms exist for economic diversification, the coordination of institutions in Blue Economy needs to be strengthened.
- 2.13 **Complementarity with other Operations.** This operation complements Government Digital Transformation to Strengthen Competitiveness (4549/OC-BH) as it tackles business climate and Accelerate Bahamas (ATN/ME-17694-BH) as it complements resilience activities in MSMEs, Climate Resilient Coastal management (4363/OC-BH) as it supports Maritime Protected Areas (MPAs). Also complements Blue Economy initiatives such as Unleashing New Avenues for Growth by tackling opportunities in the Blue Economy (ATN/OC-17047-RG), (ii) Support for Economic Diversification in the Bahamas (ATN/CO-16734-BH, ATN/OC-16732-BH, ATN/OC-16733-BH), (iii) Regional Public Procurement Program to Advance Innovation and Private Sector Development in the Caribbean (ATN/OC-17031-RG); the Sustainable Islands Initiative (ATN/MC-16236-RG, ATN/OC-16237-RG), the Strategic Roadmap for the Blue Economy in Barbados (ATN/CO-17589-BA), and the Blue Tech Challenge carried out by BID Invest and Compete Caribbean ([see Link](#)).
- 2.14 **Objective and Components.** The objective of the operation is to promote resilient, inclusive, environmentally sustainable economic growth in the Bahamas through (i) promoting science, innovation and economic diversification of the productive sector within a framework of environmental sustainability; (ii) strengthening and modernizing the business climate; and (iii) modernizing the institutional framework for environmentally sustainable growth.
- 2.15 **Component 1. Macroeconomic Sustainability.** The objective of this component is the maintenance of an appropriate Macroeconomic Policy Framework congruent with the Program's objectives and in accordance with the provisions of the Policy Letter.
- 2.16 **Component 2. Promoting Science, Innovation and Economic Diversification of the Productive Sector.** This component addresses the gaps in economic diversification, institutional coordination, a dedicated policy for Blue Economy and legal framework for proper management of marine resources for science and innovation by: (i) approval of the Action Plan for Economic Diversification for the Blue Economy, including gender perspectives; (ii) drafting instructions for the

²³ [Access accelerator.](#)

Biological Diversity and Conservation Bill; (iv) commissioning of the preparation of the Policy on management of Maritime Activities; and (v) creation of the Interdepartmental Maritime Coordination group. The second operation will implement the priority areas of Blue Economy, the operation of the Maritime Coordination group and the proper management of marine resources for science and innovation through new legislation.

- 2.17 **Component 3. Strengthening and Modernizing the Business Climate.** This component addresses the gaps of limited resiliency of MSMES and inadequate business climate by: (i) Strengthening the Business Climate by promoting resiliency in MSME's by: (a) launching a continuity program for COVID-19 relief; (b) launching a program for business licensing and registration; (c) launching a program for MSME inclusion; (ii) modernizing the business climate by (a) increased protection for minority stakeholders (Amendment of the Companies Act and Amendment of the Securities Act); and (b) streamlining the process of obtaining a business license. The program for COVID-19 will support business resilience and will be expanded in the second operation on building digital skills in MSMEs. The second operation will also support the regulations required for implementing the included legislation and the further actions for facilitating business registration.
- 2.18 **Component 4. Modernizing the institutional framework for environmentally sustainable growth.** This component will address the gaps of lack of a consolidated legal and institutional framework for environmentally sustainable growth by: (i) strengthening the framework for environmentally sustainable growth by (a) the proclamation of the Environmental Protection Act; (b) the approval of the Ministry of the Environment Bill and (c) tabling in Parliament of the Public Procurement Bill; and (ii) strengthening the institutions for environmentally sustainable growth: (a) tabling in Parliament of Procedures for Environmental Impact Assessment; (b) enactment of the Environmental Planning and Protection Act; (c) Amendment of the Bahamas National Trust Bill (d) Strengthening the system for managing protected areas. The second operation will support the implementation of the legislation.
- 2.19 **Beneficiaries and results.** The potential beneficiaries are: (i) firms that operate in marine activities that will benefit from the Blue Economy; (ii) MSMEs with increased resilience and (ii) firms with a reduced cost of doing business. Expected results include increased environmentally sustainable economic growth and enhanced productivity and increase in resiliency.
- 2.20 **Strategic Alignment.** The program is aligned with the second update of the Institutional Strategy: Development Solutions that Reignite Growth and Improve Lives (AB-3190-2), in the development challenges of productivity and innovation as it promotes SMES productivity and innovation; and with the cross-cutting development areas of: (i) Climate Change and Environmental sustainability, as the activities for economic growth are embedded into environmental sustainability; and (ii) institutions and the rule of law, as the institutions in charge of economic diversification and environmental protection will be strengthened. It is aligned with the strategic objectives of the IDB Group Country Strategy with the Commonwealth of the Bahamas 2018/2022 (GN29202, CII/GN-367-2), by improving the environment for private sector competitiveness and supporting the climate adaptation legal framework. It will contribute to the IDB Group Corporate Results

Framework 2020-2023 (GN-2727-12) output indicators: enterprises provided with technical assistance and beneficiaries of enhanced disaster and climate change resilience. The program is consistent with the Innovation, Science and the Technology Sector Framework Document (GN-2791-8), the Environment and Biodiversity Sector Framework Document (GN2827-8) and the Climate Change Sector Framework Document (GN-2835-8).

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **Technical Issues.** This loan, in double booking with CSD/CCS, will be structured under a programmatic modality with two individual operations, according to the Policy-based Loans Guidelines for Preparation and Implementation (CS-3633-2). The amount of the first operation is US\$100 Million from ordinary capital. The tentative timing of the approval of the second operation is October 2021. The PBP is the appropriate policy-based loan instrument for the program as it will support the medium-term policies that promote resilient, environmentally sustainable growth and adapts to the changing policy needs of a dynamic environment.
- 3.2 **Sector Knowledge.** Evidence from other experiences in the region show that to stimulate an environmentally sustainable growth and optimal use of the Blue Economy resources an integrated governance approach and the use of science and technology are needed, ([see Link](#)). Experience from similar programs in the Bank²⁴ show the importance to link economic growth with environmental resilience in small island states and the need for coordination mechanisms as well as a long-term vision. For example, in the Caribbean, Grenada has introduced the concept of blue economy as one of the pillars of their long-term development vision in 2014, with the objective of blue growth and sustainability and boosting inclusive growth and job creation.

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 **Environmental Safeguards.** According to Directive B.13 of the Environmental and Safeguards Compliance Policy (OP-703), this Program does not require ex-ante impact classification. This operation supports the definition of policies, norms, management instruments and other institutional strengthening actions for which no significant direct effects on the environment and natural resources are expected.

V. OTHER ISSUES

- 5.1. **Risks.** The program risks include: (i) high vulnerability to external shocks might affect the macroeconomic stability; and (ii) delays in implementation caused by the restrictions imposed by COVID-19. These medium level risks will be mitigated by introducing elements toward economic and environmental resilience in the program and a close monitoring of the macroeconomic conditions.

²⁴ Barbados Sustainable Development Program (4987/OC-BA).

- 5.2. **Coordination Mechanisms.** Due to the different stakeholders involved in the Program, and the activities currently being carried in the area of the Blue Economy by several public and private stakeholders, the MOF will create and spearhead a steering committee in charge of coordination.

VI. RESOURCES AND TIMETABLE

- 5.1 The following timeline is expected: Distribution of the Proposal for Operation Development (POD) to the Quality and Risk Review (QRR) is expected on June 2, 2020, approval by the Operations Policy Committee (OPC) on July 8, 2020; and presentation to the Board of Directors on August 5, 2020. The resources needed for project preparation are estimated of US\$92,000. Time needed for project preparation will be 1.34 FTEs.

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Safeguard Policy Filter Report

Operation Information

Operation		
BH-L1050 Boosting Resilient and Inclusive Growth in The Bahamas		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
BAHAMAS	BH-MF - MINISTRY OF FINANCE	
Organizational Unit	IDB Sector/Subsector	
Competitiveness, Technology and Innovation Division	BUSINESS CLIMATE AND COMPETITIVENESS	
Team Leader	ESG Primary Team Member	
CLAUDIA STEVENSON		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$100,000,000	0.000 %
Assessment Date	Author	
9 Apr 2020	YBGONZALEZ Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	29 Apr 2020	
QRR (Estimated)	10 Jun 2020	
Board Approval (Estimated)	5 Aug 2020	
Safeguard Performance Rating		
Rationale		



Safeguard Policy Filter Report

Potential Safeguard Policy Items

[No potential issues identified]

Safeguard Policy Items Identified

[B.1 Bank Policies \(Access to Information Policy± OP-102\)](#)

The Bank will make the relevant project documents available to the public.

[B.2 Country Laws and Regulations](#)

The operation is expected to be in compliance with laws and regulations of the country regarding specific women's rights, the environment, gender and indigenous peoples (including national obligations established under ratified multilateral environmental agreements).

[B.7 Supervision and Compliance](#)

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

[B.13. Noninvestment Lending and Flexible Lending Instruments](#)

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

Additional Comments

this operation does not require any type of environmental or social classification. The operation does not finance any type of infrastructure work and the policy changes contemplated in the operation have no negative environmental or social impacts.

ENVIRONMENTAL AND SOCIAL SAFEGUARDS STRATEGY

- 1.1 The objective of the operation is to promote resilient, inclusive, environmentally sustainable economic growth in the Bahamas through (i) promoting science, innovation and economic diversification of the productive sector within a framework of environmental sustainability; (ii) strengthening and modernizing the business climate; and (iii) modernizing the institutional framework for environmentally sustainable growth.
- 1.2 In accordance with Directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208 and OP-703) this operation does not require any type of environmental or social classification. The operation does not finance any type of infrastructure work and the policy changes contemplated in the operation have no negative environmental or social impacts.

INDEX FOR COMPLETED AND PROPOSED SECTOR WORK

Issues	Description	Expected Dates	References & hyperlinks to Technical files
Country Strategies	Vision 2040 National Development Plan of the Bahamas	2016	Vision 2040 Bahamas
	National Maritime Policy	2015	National Maritime Policy
	Prime Minister Delivery Unit Annual Report May 2018-May 2019	2019	http://pmdu.gov.bs/
Technical options and design	An Engine for Growth? The Caribbean Private Sector Needs more than an Oil Change. IDB Technical Note. Ruprah and Melgarejo. 2016	2016	An engine for growth? Caribbean Private sector needs and Oil-Change
	Exploring Firm Level Innovation and Productivity in Developing Countries. 2016. Dohnert, Crespi and Maffioli.	2017	https://publications.iadb.org/handle/11319/8138
	The New Imperative for Innovation. Policy Perspectives for Latin America and the Caribbean. 2016	2016	https://publications.iadb.org/handle/11319/7417
	Road Mapping and Strategy for Blue Economy - Support for Economic Diversification in the Bahamas		In process

Issues	Description	Expected Dates	References & hyperlinks to Technical files
	Prospective Studies on Global Industrial and Technological Trends in the Blue Economy and Policies to Promote Growth in the Caribbean		In process
	Review of existing legislation		In process
IDB Strategies	Update to the Institutional Strategy 2010-2020, Partnering with Latin America and the Caribbean to Improve Lives	2015	Update Institutional Strategy
	Bahamas Country Strategy 2018-2022	2018	Bahamas Country Strategy
	Innovation, Science and Technology Sector Framework Document	2017	https://www.iadb.org/en/sector/science-and-technology/sector-framework
Economics Documents	Estimates of Hurricane Dorian loss and damages	2018	ECLAC (UN Economic Commission for Latin America and the Caribbean). 2019. Assessment of the Effects and Impacts of Hurricane Dorian in The Bahamas. Washington D.C.: Inter - American Development Bank, World Health Organization, Pan American Health Organization.
	GDP estimates using luminosity	2020	Zegarra, S., Schmid, J., Palomino, L., & Seminario, B. 2020. Impact of Hurricane Dorian in The Bahamas: A View from the Sky. Washington DC: Inter-American Development Bank. Available at: https://publications.iadb.org/en/impact-hurricane-dorian-bahamas-view-sky
	Measuring the Blue Economy. Caribbean Development Bank 2020	2019	Measuring the Blue Economy: The System of National Accounts and Use of Blue Economy Satellite Accounts

Use the Index matrix to provide a brief explanation of the status of the analysis and resolution of issues for project viability, executability and risk management. If no issues, or adequately handled, the “description” column would indicate that is so and the expected dates and references/ hyperlinks would be blank – and be expected to remain so as the Index is refined through the POD and PAL.

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