

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

THE BAHAMAS

**CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH
EMERGENCIES. REFORMULATION PROPOSAL OF LOAN BH-O0003**

(BH-O0009)

PROJECT PROFILE

Fernando de Olloqui (IFD/CMF), Team Leader; Cristina Villalba (IFD/CMF), Alternate Team Leader; Juan José Durante, Hongrui Zhang, Andrea Teran, Annabella Gaggero and Adriana Lozano (IFD/CMF); Hori Tsuneki, (CSD/RND); Ricardo Perez Cuevas, Ana Bernal and Nicollette Henry (SCL/SPH); Hugo Us (SCL/GDI); Javier Jiménez (LEG/SGO); José Luis Saboin (CCB/CBH); and Nalda Morales (VPC/FMP).

PROJECT PROFILE

THE BAHAMAS

I. BASIC DATA

Project Name:	Contingent Loan for Natural Disaster and Public Health Emergencies. Reformulation Proposal of Loan BH-O0003.		
Project Number:	BH-O0009		
Project Team:	Fernando de Olloqui (IFD/CMF), Team Leader; Cristina Villalba (IFD/CMF), Alternate Team Leader; Juan José Durante, Hongrui Zhang, Andrea Teran, Annabella Gaggero and Adriana Lozano (IFD/CMF); Hori Tsuneki, (CSD/RND); Ricardo Perez Cuevas, Ana Bernal and Nicollette Henry (SCL/SPH); Hugo Us (SCL/GDI); Javier Jiménez (LEG/SGO); José Luis Saboin (CCB/CBH); and Nalda Morales (VPC/FMP).		
Borrower:	Commonwealth of The Bahamas		
Executing Agency:	Ministry of Finance		
Financial Plan:	Original (Modality I)	US\$	100,000,000
	Available:	US\$	20,000,000
	Replenishment:	US\$	80,000,000 ¹
	Increase (Modality II)	US\$	100,000,000
	Total IDB (OC):	US\$	200,000,000
Safeguards:	Classification:	Not required	

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and Justification

- 2.1 **Background and rationale for the reformulation.** On June 27, 2018, the Bank's Board of Executive Directors approved a Contingent Loan for Natural Disaster Emergencies under the Contingent Credit Facility for Natural Disaster Emergencies (CCF) for The Bahamas in the amount of US\$100 million. CCF loans contribute to improving the financial management of natural disaster risks by increasing the availability of stable, cost-efficient and rapidly accessible contingent financing to cover extraordinary public expenditures aimed at assisting the population affected by disaster emergencies. The Bahamas CCF currently provides parametric coverage for hurricanes. The Bank activated the coverage provided by [BH-O0003](#) on August 13, 2019, and is in force.
- 2.2 There has been one eligible event in the period since the coverage began, in response to Hurricane Dorian in September 2019 (¶2.5). The government

¹ The replenishment of these funds is being processed as a separate request for [BH-O0003](#).

requested three separate disbursements for a total of US\$80,000,000 to attend the humanitarian crisis.²

- 2.3 In response to the COVID-19 pandemic, in May 2020, the Bank approved a new expansion of the CCF to include public health risks under Modality II (GN-2999-4). In this context, due to the country's high exposure and vulnerability to public health events (¶2.5), the government requested the Bank to reformulate the contingent loan [BH-O0003](#) to increase the total loan amount by an additional US\$100 million, corresponding to the limit established for Modality II, to a total of US\$200 million, and incorporate coverage for public health risks.
- 2.4 The purpose of this document is to present the proposal to reformulate the contingent loan [BH-O0003](#) to expand the coverage of the loan by: (i) increasing the loan amount of US\$100 million under Modality II; and (ii) including new covered hazards (epidemics and pandemics). With the reformulation proposal, the country would continue to strengthen financial management of natural disaster risks and increase its financial resilience to public health events as well.
- 2.5 **Vulnerability to natural disasters and climate change.** The Commonwealth of The Bahamas is highly exposed to natural hazards. The archipelago consists of 30 inhabited islands, 661 cays and more than 2,000 islets dispersed over 668,600 km² of maritime territory. The most severe and impactful hazards experienced are hurricanes. In the past 50 years, 20 hurricanes have hit the territory of The Bahamas.³ In the last five years, three major, Category 5, hurricanes⁴ have made passage through the country: (i) Hurricane Matthew (2016) which greatly impacted the country's major population centers in New Providence and Grand Bahama, as well as the district of North Andros, causing damage and losses of US\$519 million;⁵ (ii) Hurricane Irma (2017) that affected the provision of basic services in Grand Bahama and which caused damage in Ragged Island, Acklins, Inagua and Bimini, with an estimated total damage and losses of US\$118 million;⁶ and (iii) Hurricane Dorian (2019) that affected approximately 29,472 persons in Abaco and Grand Bahama who suffered interruptions in basic services like telecommunications, electricity and water and caused an estimated damage and losses of close to US\$3.2 billion.⁷ Total damage from disasters in The Bahamas from 2002 to 2022 (over US\$6.7 billion) is equivalent to more than 50% of the country's economy in 2021.
- 2.6 Disaster risk in the country is considered high due mainly to socioeconomic factors, such as the location of communities and infrastructure, mostly in coastal areas. These trends are likely to worsen because of climate change. With most of its territory a few meters above mean sea level, The Bahamas is highly vulnerable to sea level rise and storm surge associated with increasing intensity of extreme

² The government has requested a replenishment of this amount to reestablish a maximum coverage of \$100 million and will be processed in parallel to the proposed reformulation (¶2.4).

³ National Oceanic and Atmospheric Administration (NOAA) Historical Hurricane Tracks and Bahamas Department of Meteorology.

⁴ Major hurricanes refer to events with intensity of at least Category 3 in the Saffir-Simpson scale.

⁵ [Assessment of the Effects and Impacts of Hurricane Matthew](#). IDB, Economic Commission for Latin America and the Caribbean (ECLAC, 2017).

⁶ [Assessment of the Effects and Impacts of Hurricane Irma](#). IDB, ECLAC (2017).

⁷ [Assessment of the Effects and Impacts of Hurricane Dorian](#). IDB, ECLAC (2019).

weather events due to the impacts of climate change.⁸ Likely impacts include coastal flooding and erosion, mangrove retreat, decreased seagrass bed productivity, and saltwater intrusion into existing small lenses of fresh groundwater.⁹ A study conducted by the IDB indicates that the probable flood exposed area in Nassau will expand 8% by 2050 due to the increasing precipitation caused by climate change.¹⁰

- 2.7 **Gender and disasters.** Disasters tend to have a disproportionate impact in more vulnerable populations, and women in particular,¹¹ who have limited mechanisms to face these events specially in developing countries.¹² Women and girls are more exposed to situations of gender violence when natural catastrophes require displacement of population.¹³



- 2.9 **Macroeconomic context.** While the country was undergoing reconstruction activities from Hurricane Dorian, the COVID-19 pandemic emerged in early 2020, bringing to a halt the tourism and construction sectors and causing a major shock to the economy, with real Gross Domestic Product (GDP) falling by almost 24% in 2020 and unemployment peaking at around 26%. The rebound in tourism receipts and construction activity led to a significant economic recovery, with GDP

⁸ [The Bahamas: Intended Nationally Determined Contributions \(INDC\)](#) under the United Nations Framework Convention on Climate Change (UNFCCC).

⁹ "CARIBSAVE Climate Change Risk Atlas - The Bahamas." Murray Simpson et al. (Barbados: Department of International Development, Australia's Aid Program and The CARIBSAVE Partnership, 2012).

¹⁰ Environmental Resources Management. "Consulting Engagement 2 - Hazards and Risks: Sustainable Nassau Action Plan" IDB, 2016.

¹¹ Making Disaster Risk Reduction Gender-Sensitive. United Nations Office for Disaster Risk Reduction (UNDRR), 2009.

¹² The Legacy of Natural Disasters: The Intergenerational Impact of 100 Years of Disaster in Latin America. Caruso (2017).

¹³ Rapid Gender Analysis Latin America and the Caribbean – The Bahamas / Hurricane Dorian. CARE, 2019.

¹⁴ [WHO Health Emergency Dashboard COVID-19](#).

¹⁵ Dengue Fever: An Emerging Infectious Disease in The Bahamas. International Journal of Bahamian Studies, 2011.

¹⁶ Chikungunya Outbreak in the Bahamas: Epidemiology and Surveillance in 2014. Bahamas Ministry of Health, 2016.

¹⁷ Assessment of the effects and impacts of the COVID-19 pandemic in the Bahamas, ECLAC and IDB.

¹⁸ Access to Information Policy, document GN-1831-28, paragraph 4.1, subsection i and 4.1, subsection g: "Country specific information". The Bank will not disclose information that is contained within country-specific documents and has been identified in writing by countries as confidential.

growth around 14% in 2021 and 10.9 in 2022.¹⁹ While the collapse in revenues that followed the pandemic, combined with the government's swift response measures pushed the fiscal deficit up to 13.7% of GDP in fiscal years 2020/21 and public debt rose steeply to over 100% of GDP by end-2021,²⁰ with the economic recovery, the deficit was cut to 5.7% of GDP for FY2021/22 and the debt to GDP ratio declined to 92% at the end of that fiscal year presenting a stronger economy. The country's vulnerability to natural disasters (¶2.5), as evidenced recently by the economic effects of Hurricane Dorian, and its current macroeconomic environment, highlight the importance of implementing measures that can help increase The Bahamas' economic and fiscal resilience to disaster risk.

- 2.10 **Natural disaster risks management.** Recognizing that a robust Disaster Risk Management (DRM) governance framework requires the existence of legal, institutional and budgetary conditions that facilitate the implementation of an effective DRM policy, the Government of The Bahamas, through the Cabinet, authorized in February 2022 the Prime Minister and Minister of Finance, in collaboration with the Disaster Management Unit and the Office of the Attorney-general and Ministry of Legal Affairs (OAG) to draft legislation aimed at developing, promoting and implementing an approach to DRM that is holistic, comprehensive, integrated and proactive in lessening the socio-economic and environmental impacts of disasters including climate change. The new Disaster Risk Management Act (DRM Act) was approved and enacted in December 2022. It provides a modern legal, institutional, and budgetary framework for the implementation of a comprehensive DRM policy. Moreover, this DRM Act covers all four priority actions of the Sendai Framework for Disaster Reduction 2015-2030.
- 2.11 **Public health risks management.** In collaboration with the Pan American Health Organization (PAHO), the Ministry of Health and Wellness (MOHW) prepared the COVID-19 Preparedness and Response Plan,²¹ aligned with the World Health Organization (WHO) guidelines.²² Also, as part of its health response to the pandemic, the MOHW launched an Emergency Operation Centre. Additionally, the MOHW expanded its capacity to perform COVID-19 tests in public and private health facilities. It implemented policies and protocols for COVID testing, clinical classification, management of health workers exposed to the virus, patients' assessment and triage, and management in community clinics.²³
- 2.12 **Financial risk management.** Aside from this contingent credit facility ([BH-O0003](#)), The Bahamas has access to a regional fund, the Emergency Assistance Fund of the Caribbean Disaster Emergency response Agency (CDEMA), for financing disaster response. The Emergency Relief Guarantee Fund Act grants powers to the ministry responsible for disaster preparedness to grant a guarantee for loans aimed at repairing or replacing property and businesses damaged by disasters. In addition, the DRA Act of 2019 provides for the designation of special economic recovery zones after a disaster and empowers the Ministry of Finance to declare

¹⁹ IMF WEO database, April 2023 edition.

²⁰ IMF 2022 Article IV Consultation (May 2022).

²¹ National Surveillance Unit Novel Coronavirus Preparedness and Response Plan. MOHW, February 5th, 2020.

²² COVID-19 Strategic Preparedness and Response Plan (SPRP). Operational Planning Guidelines to Support Country Preparedness and Response. WHO, February 2020.

²³ MOHW of The Bahamas. Policy and Protocol for the Identification and Management of Suspected COVID-19 Patients in Community Health Facilities. April 2020.

tax exemptions or concessions in such zones with the purpose of encouraging the economic recovery in the areas affected by disasters. Finally, The Bahamas has contracted a parametric insurance policy with the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

- 2.13 **Strategic alignment of the operation.** The project is consistent with the Second Update of the Institutional Strategy (AB-3190-2) and aligns with the development challenge of Social Inclusion and Equality, by benefiting a greater number of people, particularly those in vulnerable conditions, through an increase in ex ante financial coverage for emergencies due to natural disasters and public health. The project is also aligned with the cross-cutting areas of: (i) Climate Change, as part of the climate change adaptation strategy; (ii) Gender Equality, by promoting actions conducive to incorporating the gender perspective in the country's disaster risk management through activities included in the Comprehensive Disaster Risk Management Plan (CDRMP), as well as the preparation of a gender action plan; and (ii) Institutional Capacity and Rule of Law, as it will contribute to improving the country's capacity to manage public resources, increasing the amount of ex ante contingent financing and strengthening the management of contingent fiscal liabilities.
- 2.14 The operation is aligned with the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12), by contributing to the indicators: (i) beneficiaries of enhanced disaster and climate change resilience, by increasing the population that has greater resilience to natural disasters, epidemics and pandemics by benefiting from the ex-ante financial coverage provided by the loan; and (ii) countries with strengthened tax and expenditure policy and management, through greater country capacity to manage public resources and contingent fiscal liabilities. The operation is also aligned with the Bank's Disaster Risk Management Policy (GN-2354-5), the Climate Change Sector Framework Document (GN-2835-8), and the Health Sector Framework Document (GN-2735-12), contributing to improving the country's financial management of climate, disaster, and public health risks. The operation is aligned with the IDB Group's Country Strategy with the Commonwealth of The Bahamas 2018–2022 (GN-2920-1), which manifests that the IDB will mainstream climate-resilience and disaster risk management throughout all priority areas of the Country Strategy.²⁴

B. Objectives and coverage modalities

- 2.15 **Objectives and expected results.** The general objective of the reformulated project is to contribute to alleviating the impact that a severe or catastrophic natural disaster or public health event could have on the country's public finances. The specific objective is to improve the financial management of natural disaster risks and public health by increasing stable, cost-efficient and fast-access contingent financing to cover extraordinary public expenses aimed at the attention of the population affected by emergencies due to natural disasters and public health.
- 2.16 The main expected results of the operation are improved financial management of the country's risk by increasing stable and efficient contingent financing to cover

²⁴ The transition period of the Country Strategy (CS) with The Bahamas 2018-2022 (GN-2920-3) was extended until May 31st, 2024.

extraordinary public expenditures during emergencies caused by natural disasters or public health events.

- 2.17 **Beneficiaries.** The potential beneficiaries are the entire population of the country, in general, and the affected population receiving emergency assistance under the proposed coverage, in particular.
- 2.18 **Modalities and coverage.** The reformulated operation will consist of a Bank Investment Loan, to be granted under the CCF (GN-2999-9), for up to US\$200 million, of which up to US\$100 million will be used under Modality I for natural disasters (parametric coverage) and up to US\$100 million under Modality II for public health events (non-parameterized risks). The amount of the coverage under Modality I was calculated according to the exposure, vulnerability, and historical impact of natural disasters on The Bahamas, while for Modality II the maximum amount is proposed based on the effects of COVID-19.
- 2.19 Under Modality I, the parametric coverage will continue to be only for hurricanes. Under Modality II for public health risks, future epidemics and pandemics (including future outbreaks by the SARS-CoV2 virus, but excluding the COVID-19 outbreak), resulting in a national declaration of public health emergency, will be eligible. The conditions to determine eligibility of events will be described in the Operating Regulations (OR).
- 2.20 **Eligibility conditions.** To receive financing through the CCF for natural disasters, the country must have a CDRMP satisfactory to the Bank, which is determined by having significant progress in all the indicators agreed with the government on a yearly basis. All items in the current CDRMP are included in the mandate instruments of the new DRM Act, which became effective in December 2022 by the Government of The Bahamas. This indicates that the [BH-O0003](#) CDRMP is being satisfactorily implemented through the efforts of the Government of The Bahamas. The Bank is working with the government to agree on the new goals of the CDRMP for the period of 5 years from the entry into force of this reformulation project, which will include gender considerations, and will consider the goals established under the program [5743/OC-BH](#) "Strengthening Disaster Risk Management Governance in The Bahamas", approved in April 2023 for US\$160 million, fully disbursed in May 2023. For public health coverage, the country must be up to date with the progress report to WHO regarding compliance with the International Health Regulations. As reported in the WHO SPAR platform, The Bahamas complies with this requirement.²⁵
- 2.21 **Execution mechanism.** The borrower, through the Ministry of Finance (MOF), shall be the Executing Agency (EA). A coordination and execution mechanism will be established in the project's OR to allow the flow of funds to the implementing agencies. In this regard, the new DRM Act created a new organization, the Disaster Risk Management Authority (DRMA), to implement this policy and to coordinate with all relevant public agencies. The loan will have a disbursement availability period of five years from the effective date of the loan modification

²⁵ For more information on The Bahamas compliance with the International Health Regulations, see [SPAR platform](#).

agreement, extendable at the request of the country and with the agreement of the Bank for up to five additional years.

- 2.22 **Eligible expenditures.** Resources disbursed from the Contingent Loan may only be used by the Borrower to finance extraordinary public expenditures incurred during emergencies caused by eligible events. Eligible expenditures shall fulfill the requirements set according to documents GN-2502-3 (paragraph 1.7.b), GN-2502-7 (paragraph 4.20.c), and GN-2999-9 (paragraph 4.20.c). The Bank will recognize the eligible expenditures incurred and paid by the borrower for 180 calendar days following the date on which the disaster occurred, which can be extended, if formally requested by the Borrower and at discretion of the Bank, for up to 90 days, for a total of 270 days.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 The Bank has approved 17 CCF loans in the region, disbursing a total of US\$433 million to date. The relevance and effectiveness of the instrument have been verified and endorsed by the Office of Evaluation and Oversight (OVE). At the same time, lessons learned of other CCF operations have been incorporated into the preparation and implementation of new operations, as well as this reformulation, highlighting the strengthening of intersectoral coordination. Furthermore, to ensure that the lessons learned during Dorian's response are adequately implemented, the OR have been updated. This new version included provisions to: (i) establish a dedicated executing unit in the MOF in charge of the coordination of the execution of the project; (ii) strengthen the inter-agency coordination mechanism between the MOF and the different sector agencies with responsibility in the identification, planning and execution of prioritized expenditures; and (iii) the requirement to hire a Reasonable Assurance Engagement Firm, which needs to be hired within 45 days after the first loan disbursement to concurrently perform the review of the expenses financed by the loan and improve the collection and availability of information on the expenditures incurred and paid.
- 3.2 The Bank has strengthened DRM in The Bahamas. As stated in ¶2.21, the Bank approved [5743/OC-BH](#), to improve the country's governance for disaster risk management. The program's implementation and evaluation are supported by [ATN/JF-19520-BH](#) "Support policy reform in comprehensive disaster risk management" approved for US\$250,000 in September 2022, for operational support and currently with 19.17% of execution. Another program, [4363/OC-BH](#) "Climate Resilient Coastal Management and Infrastructure Program", for \$35 million approved in 2017 and 16.13% of execution to the date, aims to build coastal resilience to climate risks through sustainable coastal protection infrastructure, including nature-based infrastructure, and the institutional strengthening required to implement integrated coastal zone management. The country is also supported with [ATN/JF-17982-BH](#) ("Institutional Capacity Strengthening for a More Resilient Bahamas"), approved in 2020 for client support, for US\$600,000 and currently in execution, that aims to strengthen the institutional capacity of government agencies to achieve climate risk resilient socio-economic activities, primarily through sharing good international practices.

- 3.3 The Bank has been supporting the country to strengthen the delivery of health services through: (i) program [5179/OC-BH](#), approved in 2020 for US\$20 million with 77% execution, that supports the country's response to the COVID-19 pandemic, strengthening essential public health functions such as case detection and monitoring, vaccines, and digitalization of epidemiological surveillance; (ii) loan [5296/OC-BH](#), approved in 2021 for US\$40 million and execution of 24.97%, which aims to reduce the fragmentation of the healthcare sector, enhance infrastructure, introduce digital health technology on a wide scale within the MOHW and update care processes for patients with non-communicable diseases; (iii) Technical Cooperation (TC) [ATN/OC-18693-BH](#), approved in 2021 for US\$300,000 for operational support and 87.03% of execution, is funding the development of services for victims of domestic violence, design criteria for the PHC clinics to be climate-resilient and adaptable to respond to public health emergencies, and a gap analysis of digital health normative instruments; and (iv) TC [ATN/OC-19552-BH](#) and [ATN/OC-19553-BH](#), both approved under the same program and amount of US\$500,000 in 2022 for client support, with 15.51% of execution, that are funding the capacity strengthening of the country for disaster risk management and health risk management.
- 3.4 Finally, the Bank's Country Office in The Bahamas established the Preparedness, Recovery and Reconstruction Team (P2RCT), supported by the TC "Capacity Strengthening, Technical Support and Knowledge Transfer of Disaster Risk Management and Health Risk Management in The Bahamas ([ATN/OC-19552-BH](#), [ATN/OC-19553-BH](#)), as a pilot, in response to the impact of Dorian and later COVID-19, to support the execution of the Disaster and Health Risks Management activities of the Bank in The Bahamas, including programs, technical cooperation and knowledge products.

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1. Operations under the CCF are exempt of the Bank's Environmental and Social Policy Framework (GN-2965-23).
- 4.1 Regarding fiduciary aspects, the operation will be adjusted to the specific requirements and procedures for fiduciary control established for the CCF (GN-2999-9), supplemented by the Financial Management Guide for IDB-financed projects (OP-273-12).

V. RESOURCES AND TIMETABLE

- 5.1 It is estimated that a budget of US\$70,000 will be required for the preparation of this operation. The distribution of the Proposal for Operation Development (POD) for the Quality and Risk Review (QRR) is scheduled for September 7th, 2023, and the consideration of the Loan Proposal by the Bank's Board of Executive Directors is scheduled for December 13th, 2023.

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INDEX OF COMPLETED AND PROPOSED SECTOR WORK

	Description	Status
[1]	Assessment of the Effects and Impacts of Hurricane Matthew . IDB, ECLAC (2017).	Published
[2]	Assessment of the Effects and Impacts of Hurricane Irma . IDB, ECLAC (2017).	Published
[3]	Assessment of the Effects and Impacts of Hurricane Dorian . IDB, ECLAC (2019).	Published
[4]	CARIBSAVE Climate Change Risk Atlas - The Bahamas. Murray Simpson et al., Barbados: Department of International Development, Australia's Aid Program and The CARIBSAVE Partnership (2012).	Published
[5]	Environmental Resources Management. "Consulting Engagement 2 - Hazards and Risks: Sustainable Nassau Action Plan" IDB (2016).	Published
[6]	Making Disaster Risk Reduction Gender-Sensitive. United Nations Office for Disaster Risk Reduction (UNDRR, 2009).	Published
[7]	The Legacy of Natural Disasters: The Intergenerational Impact of 100 Years of Disaster in Latin America. Caruso (2017).	Published
[8]	Rapid Gender Analysis Latin America and the Caribbean – The Bahamas / Hurricane Dorian. CARE, 2019.	Published
[9]	IMF 2022 Article IV Consultation (May 2022).	Published
[10]	National Surveillance Unit Novel Coronavirus Preparedness and Response Plan. MOHW (February 5th, 2020).	Published
[11]	COVID-19 Strategic Preparedness and Response Plan (SPRP). Operational Planning Guidelines to Support Country Preparedness and Response. WHO (February 2020).	Published
[12]	Policy and Protocol for the Identification and Management of Suspected COVID-19 Patients in Community Health Facilities. MOHW of The Bahamas (April 2020).	Published

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