



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 18-Feb-2021 | Report No: PIDA31302



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Bahamas, The	P175490	The Bahamas COVID-19 Response and Recovery DPF (P175490)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	06-May-2021	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
The Commonwealth of The Bahamas	Ministry of Finance		

Proposed Development Objective(s)

The development objective of this operation is to support COVID-19 relief and lay the foundation for resilient economic recovery in The Bahamas.

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

The Bahamas is a small island economy that has recorded years of successive economic growth since its IBRD graduation in 1989 but continues to display high macroeconomic and fiscal vulnerabilities. The Bahamas is a chain of over 700 islands and keys in the North Atlantic Ocean. It has a population of 389,482, most of it urban and with two-thirds living on New Providence Island where Nassau, the capital, is located. As of 2019, The Bahamas' GNI per capita stood at US\$31,780. The Bahamas is a high-income service economy heavily dependent on tourism and financial services. Its GDP has risen steadily over the past four decades from US\$3.1 billion in 1990 to US\$13.4 billion in 2019. Nevertheless, poverty measured at the national poverty line was around 13 percent, and unemployment was almost 10 percent before the COVID-19 crisis started. As a small island country, it lacks economies of scale, is highly dependent on tourism, and is vulnerable to natural disasters like hurricanes. The Bahamas remains one of the most tourism dependent countries in the world. This sector has been particularly hard hit by COVID-19 both in terms of revenue and employment since about half of the labor force works directly or indirectly in tourism. The economy also includes significant financial services.

The COVID-19 pandemic comes on the heels of the devastation from Hurricane Dorian. In September 2019, the Category 5 Hurricane Dorian, the strongest storm in The Bahamas' history, caused widespread socio-economic damages and severe losses to livelihoods in two major centers of economic activity—the islands of Abaco and Grand Bahama. Recovery from these impacts placed an extraordinary burden on public finances at a time when the government, having enacted the fiscal responsibility law in November 2019, was achieving its targets to reduce the fiscal deficit to GDP and debt to more sustainable levels. A Damage and Loss Assessment (DaLA) on the four primary sectors (social, infrastructure, productive and environment) on the affected islands estimated the cost of damages at US\$2.5 billion² (20 percent of GDP). Economic growth slowed down to 1.2 percent in 2019 compared to 3.0 percent in 2018.

The COVID-19 pandemic halted tourism and resulted in a deep reduction in economic activity. It is estimated that the pandemic led to a GDP contraction of 16.2 percent in 2020. In response, the government announced various support measures totaling US\$121.7m (1 percent of GDP). As of February 12, 2021, The Bahamas had 8,311 confirmed COVID-19 cases, with 178 deaths (2,134 cases and 45 deaths per 100,000 of population), making the country among the hardest hit in the Caribbean. The most significant impact has been on the tourism sector, as a result of a major fall in external demand. The cessation of activity in key economic sectors due to COVID-19 has resulted in a dramatic increase in unemployment. Initial estimates show that the incidence of job losses has been more prevalent among low-income households. Private consumption fell significantly. Poverty is estimated to have increased in 2020 with people temporarily falling into poverty due to the pandemic. With opening of the economy, reduction of lockdowns and the resumption of travel, real GDP is expected to grow at 4.8 percent in 2021-23. Poverty rates are expected to gradually decline over the medium-term with the recovery of economic activity. However, downside risks remain related to the continued uncertainties surrounding the containment of the pandemic and pace of recovery of the global tourism market. The post-hurricane reconstruction activity is expected to regain momentum and boost growth over the medium-term.

Relationship to CPF

The Bahamas is an IBRD graduate, and as such does not have a Country Partnership Framework with the World Bank. Access to IBRD financing is therefore on an exceptional basis to respond to the COVID-19 crisis. The proposed



Development Policy Financing (DPF) would support the Government's COVID-19 response and facilitation of economic recovery in line with the World Bank's approach to providing support to countries as they tackle the unprecedented socio-economic vulnerabilities caused by the COVID-19 pandemic. The proposed operation is also aligned with the Bank's climate change policy commitments and is supporting the country's overall resilience to climate-related shocks.

C. Proposed Development Objective(s)

The development objective of this operation is to support COVID-19 relief and lay the foundation for resilient economic recovery in The Bahamas.

Key Results

This operation is expected to enhance social protection for the poor and vulnerable and to improve the health response to COVID-19. It also aims to improve the institutional mechanisms that underpin financial stability and the business environment, strengthen the governance and institutional framework for public financial management and debt sustainability, improve fiscal sustainability and better climate change management and disaster management. Key results include expanding access to food, social and health assistance to beneficiaries, the approval and implementation of critical pieces of laws, regulations, strategies, and policies facilitating economic recovery and resilience.

D. Project Description

The proposed operation is aligned with stated government strategic objectives of fostering: (i) a robust economy; (ii) well planned and durable infrastructure; and (iii) strengthened institutional systems. The proposed operation aims to support The Bahamas in its response to and recovery from COVID-19 crisis by: (i) saving lives; (ii) protecting poor and vulnerable people; (iii) ensuring sustainable business growth and job creation; and (iv) strengthening policies, institutions and investments to rebuild better. This is consistent with the World Bank's strategic approach outlined in "Saving Lives, Scaling-up Impact and Getting Back on Track: World Bank Group COVID-19 Crisis Response Approach Paper."¹ This is arranged around three mutually reinforcing pillars to support COVID-19 relief and lay the foundation for resilient recovery. These pillars are:

Pillar 1, "Enhancing COVID-19 relief and resilience," which includes the provision of unemployment assistance and extended unemployment benefits, expanded food assistance provision for the affected, and the development of a policy on prioritization of the population groups for COVID-19 vaccination.

Pillar 2, "Strengthening financial stability and the business environment," which includes the expansion of the coverage of the deposit insurance scheme and the strengthening of the bank resolution and crisis management framework. It also includes the strengthening of the Central Bank's relationship with the Government, its ability to execute the lender of last resort function and to support the expansion of innovative digital financial services and increased financial inclusion.

Pillar 3, "Improving fiscal sustainability and resilience" supports adoption of the enhanced legislation on public financial

¹ <http://documents1.worldbank.org/curated/en/136631594937150795/pdf/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track.pdf>



management, rationalization of state-owned enterprises (SOEs), and adoption of the legislation enhancing debt sustainability.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance (MOF) will be responsible for coordinating actions by other relevant ministries and agencies and review of progress in program's implementation. These include the Ministry of Disaster Preparedness, Central Bank of The Bahamas, Department of Inland Revenue, Department of Social Services, Customs Division, and National Emergency Management Agency. This is in line with the arrangements under the current program of the Government supported by other development partners, including the International Monetary Fund and Inter-American Development Bank.

Monitoring and evaluation (M&E) of the reform program will be undertaken jointly by the Government and World Bank teams. The World Bank has discussed the importance of the monitoring and evaluation process, including stocktaking exercises with the relevant institutions and stakeholders to ensure practical and useful feedback to policymakers. Result indicators have been specifically selected to reflect available data sources in The Bahamas. These build on lessons learned from earlier policy-based lending operations that recommend the use of simple and manageable results frameworks using available secondary sources of data. The results framework agreed to by the Government and the Bank will be used as a monitoring tool by both the Government and the World Bank.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The poverty and social impact of the policies supported by The Bahamas COVID-19 Response and Recovery DPF is expected to be positive or neutral in the short run and positive in the medium and long term. The poverty and social impact analysis (PSIA) for the operation focuses on the potential impact of the prior actions on poverty, income distribution, employment, informality and productivity, government transparency and accountability, and gender. The quantitative analysis relies on official data and a review of the academic literature. Overall, the set of policy and institutional actions supported by this DPF aim to mitigate the crisis's impacts and support economic reactivation with broad social benefits in the medium and long run. Policies in Pillar 1 are expected to positively impact poverty and inequality in the short and medium term. The extension of unemployment benefits is critical to protecting workers at risk in the tourism sector, where women are the largest share. The expansion of food and other social assistance through different programs will help cushion the negative, compound impacts from Hurricane Dorian and the COVID-19 pandemic in the short run. The phased distribution of the COVID-19 vaccine will protect vulnerable populations in the early phases of vaccination. Under Pillar 2, policies aimed at strengthening financial stability and the business environment may have favorable redistributive effects in the medium and long term by strengthening the institutions and laying the foundation for inclusive and resilient growth. Several measures supported under this Pillar, the expansion of deposit insurance coverage to credit unions and permitting non-bank financial institutions to serve as payment service providers, could protect the vulnerable middle class and increase financial inclusion of vulnerable groups, such as female-headed households, who are particularly restricted from access to the financial sector. Finally, policy and institutional actions supported under Pillar 3—improving fiscal sustainability and resilience—may have neutral or positive impacts on poverty and inequality in the short term, but positive effects are expected in the medium and long term.



Environmental, Forests, and Other Natural Resource Aspects

The policy and institutional actions supported by this operation are not expected to have significant negative effects on the environment, forests, or natural resources. Neither of them is expected to result in significant land use changes or construction that would result in pollution, degradation, or other negative environmental impacts. Instead, the focus of this DPF is on enhancing social protection, providing resources to vulnerable populations, and enhancing response capacity to natural hazards and climate change, which will increase these populations' resilience to climate-related risks. The policy and institutional actions supported under Pillar 1 are assessed as environmentally neutral, likely to have a beneficial impact in terms of public health and or assessed as having insignificant impact on the environment. The policy and institutional actions supported under Pillar 2 are not likely to have significant effects on The Bahamas' environment, forests or natural resources. All policy and institutional actions supported under Pillar 3 are environmentally neutral and therefore assessed as not having any significant impact on the environment, forests, or natural resources.

Despite waste management challenges due to economies of scale, transport, and other reasons, The Bahamas has adequate institutional frameworks, waste management infrastructure, and service providers in place to manage any waste generated through the policy and institutional actions supported under this operation. For medical waste management, there is a range of private sector service providers currently managing biomedical waste, with one landfill currently certified by the Pan American Health Organization (PAHO/WHO) as a Hazard Waste site, capable of managing the volumes of medical waste generated under the National COVID Vaccination Program. The proposed operation has the potential to generate hazardous and non-hazardous waste, but The Bahamas, through its Ministry of Environment and Housing and Department of Environmental Health Services, has regulations and infrastructure in place to manage hazardous and non-hazardous waste.

G. Risks and Mitigation

The risk associated with the proposed operation is Moderate. Areas of concern include high macroeconomic risk, substantial other risks related to COVID-19, and moderate governance, fiduciary and environmental risks. The Government has committed to the implementation of measures to reduce fiscal risk and to improve macroeconomic stability. However, high macroeconomic risks arise from the impact of the pandemic and from the uncertain speed and depth of the recovery of not only The Bahamas but other major economies which it relies on for tourism. The materialization of macroeconomic and other COVID-19 related risks could compromise the achievement of the objectives of the proposed operation. The policy program of the proposed operation supports several mitigation measures of the Government. The risk that the reforms supported under the program will pose negative unintended consequences is considered low.



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APPROVAL

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Approved By

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