



COUNTRY STRATEGY PAPER
BAHAMAS
2013 - 2017



PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK

TWO HUNDRED AND FIFTY-SIXTH MEETING OF THE BOARD OF DIRECTORS

TO BE HELD IN ST. LUCIA

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COUNTRY STRATEGY PAPER 2013-17 – THE COMMONWEALTH OF THE BAHAMAS

1. The attached Country Strategy Paper (CSP) outlines the Caribbean Development Bank's (CDB) partnership with the Commonwealth of The Bahamas (The Bahamas) and defines the parameters of the Bank's support over the period 2013-17. The Bahamas has historically been a net contributor to CDB and it is anticipated that this Strategy will lead the way in reversing that trend.
2. The objective of the Strategy is to help the country achieve its overriding development goal of faster, more inclusive and environmentally sustainable growth that is buttressed by macroeconomic stability and citizen security. The Strategy responds to the country's development priorities and is consistent with the Bank's strategic objectives of promoting broad-based economic growth and social development and enhancing environmental sustainability. The Strategy rests on two pillars - inclusive growth and development and climate change resilience and disaster risk reduction. To help promote inclusive growth and development, the Strategy is designed to deliver a programme of assistance to achieve the following outcomes: (i) improved access to, and quality of climate-resilient social and economic infrastructure; (ii) enhanced access to quality, and demand-driven post-secondary and tertiary education; (iii) increased social inclusion and citizen security; (iv) strengthened productive and managerial capacities of micro, small and medium-sized enterprises; and (v) improved public finances and planning. CDB's support to promote environmental sustainability will be mainstreamed throughout its interventions, particularly in the area of social and economic infrastructure with a view to achieving strengthened resilience to climate change and improved disaster risk management. Additionally, where appropriate, the design of specific interventions will embed gender equality components.
3. The CSP is informed by reviews and analyses of various sector and other analytical studies on The Bahamas, as well as discussions held during the preparation mission with the Cabinet of The Bahamas, other key Government officials, stakeholders in non-governmental organisations and the private sector, as well as development partners.

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CARIBBEAN DEVELOPMENT BANK

STAFF REPORT

COUNTRY STRATEGY PAPER 2013-17 - THE COMMONWEALTH OF THE BAHAMAS

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CURRENCY EQUIVALENT

Dollars (\$) throughout refer to Bahamian dollars (BHS) unless otherwise specified.

BHS1.00 = USD1:00

ABBREVIATIONS

€	-	Euro
%	-	per cent
BAIC	-	The Bahamas Agricultural Industrial Corporation
BDB	-	The Bahamas Development Bank
BGCSE	-	The Bahamas General Certificate of Secondary Education
BMCs	-	Borrowing Member Countries
BOB	-	Bank of The Bahamas
BSLC	-	The Bahamas Survey of Living Conditions
BTVI	-	The Bahamas Technical and Vocational Institute
bn	-	billion
CARTAC	-	Caribbean Regional Technical Assistance Centre
CBOs	-	Community-Based Organisations
CDB	-	Caribbean Development Bank
CG	-	Central Government
CMDGs	-	Caribbean Millennium Development Goals
COB	-	College of The Bahamas
CRA	-	Central Revenue Agency
CSP	-	Country Strategy Paper
CTCS	-	Caribbean Technological Consultancy Services
CTE	-	Career and Technology Education
DRM	-	Disaster Risk Management
EC	-	European Commission
ECD	-	Early Childhood Development
EGF	-	Education Guarantee Fund
ESDP	-	Education Sector Development Plan
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
GE	-	Gender Equality
GII	-	Gender Inequality Index
GLAT	-	Grade Level Achievement Test
HDI	-	Human Development Index
IDB	-	Inter-American Development Bank
IMF	-	International Monetary Fund
km ²	-	square kilometers
m	-	meter
MDGs	-	Millennium Development Goals
mn	-	million
MOEST	-	Ministry of Education, Science and Technology
MOF	-	Ministry of Finance
MSMEs	-	Micro, Small and Medium-sized Enterprises
MSS	-	Ministry of Social Services

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MWUD	-	Ministry of Works and Urban Development
NGOs	-	Non-Governmental Organisations
NRW	-	Non-Revenue Water
NTC	-	National Training Centre
OCR	-	Ordinary Capital Resources
PACE	-	Providing Access to Continuing Education
RMF	-	Results Monitoring Framework
RMMS	-	Road Maintenance and Management System
SLR	-	Sea Level Rise
SMEs	-	Small and Medium-sized Enterprises
sq. mi.	-	square miles
TA	-	Technical Assistance
TBD	-	To be determined
TVET	-	Technical and Vocational Education and Training
US	-	United States
USD	-	United States dollars
VAT	-	Value-Added Tax
WSC	-	Water and Sewage Corporation

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MAP OF THE COMMONWEALTH OF THE BAHAMAS

COUNTRY DATA: THE COMMONWEALTH OF THE BAHAMAS

	2008	2009	2010	2011	2012
PER CAPITA GDP (current market prices; \$)	25,365	24,082	23,637	23,388	24,002
GROSS DOMESTIC PRODUCT (GDP)					
GDP at Current Market Prices (\$mn)	8,593.6	8,245.8	8,199.6	8,211.7	8,435.9
Sectoral distribution of constant GDP (%)					
Agriculture	2.2	2.4	2.5	2.6	2.7
Mining & Quarrying	1.3	1.5	1.7	1.7	1.8
Manufacturing	3.6	3.6	3.9	3.8	3.7
Utilities	2.2	2.3	2.3	2.1	2.1
Construction	6.9	6.6	7.3	7.3	7.3
Transport & Communication	7.1	7.9	6.8	6.5	6.6
Hotels & Restaurants	14.8	14.9	15.0	15.8	16.4
Wholesale & Retail Trade	10.6	11.0	11.9	12.8	13.2
Financial & Business Services	30.0	29.0	29.3	29.0	28.7
Government Services	9.2	10.0	10.3	10.1	10.5
Other Services	18.0	15.9	15.3	15.2	14.3
Less Imputed Service Charge	5.9	5.1	6.3	6.9	7.3
GDP at Current Factor Cost (\$mn)	7,982.0	7,744.0	7,771.0	7,788.0	8,040.0
GDP at constant 2006 Prices (\$mn)	7,893.0	7,509.4	7,522.8	7,645.4	7,836.6
Annual rate of growth in GDP (%)	(2.3)	(4.9)	0.2	1.6	2.5
MONEY AND PRICES (\$mn)					
Consumer prices (av. annual % change)	4.7	2.0	1.3	3.2	2.0
Money supply (M1; annual % change)	(1.7)	0.3	4.0	6.6	8.7
Total domestic credit(net)	7,882.7	8,000.0	8,417.1	8,509.0	8,655.5
Private sector (net)	6,513.4	6,571.7	6,556.1	6,629.5	6,612.7
Public sector (net)	1,369.3	1,428.3	1,861.0	1,879.5	2,042.8
Estimated Tourism Expenditure (USDmn)	2,501.0	2,014.2	...	...	...
CENTRAL GOVERNMENT FINANCES (\$mn)					
Current Revenues	1,424.1	1,324.1	1,302.5	1,432.9	1,427.2
Current Grants	0.0	0.0	0.0	0.0	0.0
Current Expenditures	1,344.0	1,422.7	1,395.9	1,524.5	1,547.3
Current Account Surplus/ (Deficit)	80.1	(98.6)	(93.4)	(91.6)	(120.1)
Capital Revenue and Grants	0.5	0.1	0.6	0.8	19.5
Capital Expenditure and Net Lending	230.9	262.9	246.2	279.1	347.7
Overall Surplus/ (Deficit)	(150.3)	(361.4)	(339.0)	(369.9)	(448.3)
BALANCE OF PAYMENTS (USDmn)					
Merchandise Exports (f.o.b)	955.8	710.7	702.4	833.5	...
Merchandise Imports (c.i.f)	3,199.0	2,535.3	2,590.6	2,964.8	...
Trade balance	(2,243.2)	(1,824.6)	(1,888.2)	(2,131.3)	...
Net Balance on services account	1,488.3	1,154.8	1,312.5	1,313.8	...
Income (net)	(77.8)	(152.2)	(234.8)	(236.0)	...
Transfers (net)	(39.0)	13.5	(2.6)	(36.2)	...
Current Account Balance	(871.7)	(808.5)	(813.1)	(1,089.7)	...
Capital and Financial Account	1,212.2	1,114.6	1,141.4	952.1	...
Net errors and omissions	(231.8)	(53.1)	(283.7)	162.0	...
Overall Balance	108.7	253.0	44.6	24.4	...
Change in Reserves () = Increase	(108.7)	(253.0)	(44.6)	(24.4)	...
TOTAL PUBLIC DEBT (Sudden)					
Total public debt	4,073.0	5,048.9	5,642.7	5,808.4	6,849.7
Domestic debt outstanding	3,213.1	3,909.4	4,285.0	4,355.3	4,986.7
Long term	...	...	...	...	...
Short term	...	...	...	...	...
External debt outstanding	859.9	1,139.5	1,357.7	1,453.1	1,863.0
Debt Service	108.1	618.4	237.7	186.0	187.2
Amortisation	68.2	577.0	170.7	122.2	104.9
Interest Payments	39.9	41.4	67.0	63.8	82.3
External debt service as % of exports of goods and services	2.8	20.2	7.4	5.3	...
Total debt service as % of current revenue	...	...	...	...	...
AVERAGE EXCHANGE RATE					
Dollar(s) per US dollar	1.00	1.00	1.00	1.00	1.00

Data for 2012 are provisional.

COUNTRY DATA: THE COMMONWEALTH OF THE BAHAMAS**TOTAL PUBLIC DEBT (USDmn)**

Total public debt	4,073.0	5,048.9	5,642.7	5,808.4	6,849.7
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Debt Service	108.1	618.4	237.7	186.0	187.2
Amortisation	68.2	577.0	170.7	122.2	104.9
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External debt service as % of exports of goods and services	2.8	20.2	7.4	5.3	...
Total debt service as % of current revenue

AVERAGE EXCHANGE RATE

Dollar(s) per US dollar	1.00	1.00	1.00	1.00	1.00
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POPULATION

Mid-Year Population ('000)	338.8	342.4	346.9	351.1	351.5
Population Growth Rate (%)	1.4	1.1	1.3	1.2	0.1
Crude Birth Rate	16.2	14.0	13.8	...	...
Crude Death Rate	5.5	5.7	6.0	...	...
Infant Mortality Rate	17.9	17.6	16.1	...	...

EDUCATION

Net School Enrollment Ratio (%)	...	...	...	...	...
Primary	98.7	96.9	97.5	...	...
Secondary	85.5	84.9	85.3	...	...
Pupil-Teacher Ratio	16.0	13.0	14.0	...	...
Primary	15.8	13.0	14.1	...	...
Secondary	12.7	12.3	12.1	...	...

LABOUR FORCE

Unemployment Rate (%)	8.7	14.2	13.7	15.9	14.0
Male	7.7	14.4	...	...	...
Female	9.7	14.0	...	...	...
Participation Rate (%)	74.0	74.0	74.0	...	...
Male	79.0	79.0	79.0	...	...
Female	69.0	69.0	69.0	...	...

Data for 2012 are provisional.

	1970	1980	1990	2000	2011
INDICATORS OF HUMAN DEVELOPMENT					
HEALTH AND EDUCATION					
Life Expectancy at Birth (years)	...	66.6	68.9	69.2	75.0
Male	64.0	64.9	68.3	64.9	72.0
Female	69.3	72.5	75.3	73.6	79.0
Dependency Ratio	0.9	0.7	0.6	...	...
Male	0.9	0.8	0.6	...	...
Female	0.9	0.7	0.6	...	...
Human Development Index					0.794
HOUSING AND ENVIRONMENT					
Households with piped water (%)	...	77.5	88.0	...	...
Households with access to flush toilets (%)	...	74.5	...	...	...
Households with electricity (%)	...	87.9	95.0	...	...

Environmental strategy or action plan (year prepared):

Source(s): Central Bank of The Bahamas, Department of Statistics Bahamas, The World Bank

... not available

Data as at March 25, 2013

EXECUTIVE SUMMARY

This Country Strategy Paper (CSP) covers the period 2013-17. It sets out the strategic direction for the Caribbean Development Bank's (CDB's) assistance with The Commonwealth of The Bahamas (The Bahamas) over the Strategy period and defines the parameters of the Bank's support. The overriding aim of the Strategy is to support the country's advancement as a progressively stable and vibrant economy, as well as an increasingly safe society with enhanced opportunities for productive employment and improved living standards. An indicative programme of assistance is proposed to help the country achieve faster, more inclusive and environmentally sustainable development that is buttressed by macroeconomic stability and citizen security. The Country Strategy responds to The Bahamas' development priorities and is aligned with the Bank's strategic objectives of fostering inclusive social development and promoting broad-based economic growth, as well as environmental sustainability.

Country Context

2. The pace of development in the archipelagic state has intensified since independence in 1973 underpinned mainly by tourism and financial services which, combined, account for around 80 per cent (%) of the economy. Stable institutions and sound economic policies have contributed to the country's economic progress. The Bahamas' relatively undiversified economic base is highly vulnerable to external shocks, particularly (but not exclusively) those emanating from the United States (US) – the country's largest trading partner and source market for tourism and investment. Social indicators are broadly positive. There is universal access to education and health and gender imbalances are not pronounced. However, despite having one of the highest per capita income levels in the Caribbean, inequality is high. Moreover, while on aggregate, poverty is not entrenched, there are pockets, especially in the Family Islands. Infrastructure gaps exist, resilience to climate change needs to be strengthened and citizen security requires consolidation.

Development Priorities

3. The Bahamas' most pressing development issues are: (i) upgrading social and economic infrastructure; (ii) reducing the constraints on access to quality education and training; (iii) increasing social inclusion and enhancing citizen security; (iv) boosting competitiveness of the private sector, especially small and medium-sized enterprises (SMEs); (v) improving public finances and planning; and (vi) strengthening resilience to climate change and disaster risk management (DRM).

Caribbean Development Bank in the Commonwealth of The Bahamas and Lessons Learnt

4. The Bank's involvement in The Bahamas has been on a relatively limited scale. The small portfolio can be explained, in part, by challenges associated with procurement as well as uncompetitive cost of funds, particularly in the early 2000s. Approvals over the period 1970-2012 totalled \$64.1 million (mn), which represented 1.6% of total approvals to CDB's Borrowing Member Countries (BMCs). CDB's lending has mainly been in the area of economic infrastructure. The Bahamas has been a net contributor to CDB's operations. Lessons from previous CDB-supported projects and wider lessons show that a coherent medium-term planning framework is critical to improve the pace of project execution and underpin development policies more broadly.

Country Strategy – 2013-17: Pillars and Expected Outcomes

5. The Bank's support will focus on areas that have been identified as critical priorities for the country. Special emphasis will be placed on the Family Islands to narrow opportunity gaps that hinder a more even development of the country as a whole. Accordingly, the Strategy rests on two

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pillars: inclusive growth and development and climate change resilience and disaster risk reduction. To help promote inclusive growth and development, the Strategy is designed to deliver a programme of assistance to achieve the following outcomes: (i) improved access to, and quality of climate-resilient social and economic infrastructure; (ii) enhanced access to quality, and demand-driven post-secondary and tertiary education; (iii) increased social inclusion and citizen security; (iv) strengthened productive and managerial capacities of micro, small and medium-sized enterprises (MSMEs); and (v) improved public finances and planning. CDB's support to promote environmental sustainability will be mainstreamed throughout its interventions, particularly in the area of social and economic infrastructure, with a view to achieving strengthened resilience to climate change and improved DRM. Additionally, in an effort to support gender equality (GE), the design of specific interventions where appropriate will embed GE components. The Strategy is framed within the following context: high-level policy dialogue with The Bahamas' key policymakers and development stakeholders; The Bahamas' financial/fiscal capabilities; and development partners' activities in the country.

Resource Envelope

6. An indicative resource envelope of \$188.1 mn has been proposed to support the Strategy. Given the need to address the imperatives of fiscal consolidation and debt reduction over the medium term, the Government has prioritised proposed interventions into first, second and third tiers. Utilisation of the resource envelope is envisioned under three scenarios based on different assumptions about the country's fiscal outturns over the medium term. The proposed programme will be delivered through a mix of direct financing and technical assistance (TA) that complements other development partners' support.

Results Monitoring

7. Programme accomplishments and sector outcomes will be monitored within a Results Monitoring Framework (RMF), which will identify the development objectives, sector outcomes to which the interventions are expected to contribute and the performance indicators against which the results of the interventions will be measured. A mid-term review will be undertaken in 2015 to assess progress towards meeting expected outcomes and review the resource envelope. An end of Strategy review will also be undertaken. The Strategy is designed with flexibility to allow for any adjustment in the indicative programme based on the findings of the mid-term review. Monitoring will be done by both the Bank and the country's authorities.

Risks and Mitigating Actions

8. The main risks that may affect the execution of the Country Strategy are: (i) weak public finances and the slow global recovery may be protracted (macroeconomic risk); (ii) insufficient institutional and human capabilities to effectively implement the strategy (implementation capacity risk); (iii) insufficient buy-in for the proposed programme from all stakeholders (country ownership risk); and (iv) natural hazards (exogenous risk). The Bank has identified measures to help mitigate these risks, including: policy advice and support; engagement of development partners; wide stakeholder consultations; and quick response to address the socioeconomic effects of natural hazards.

INDICATIVE RESULTS MONITORING FRAMEWORK

Country Objectives (Development Priorities)	Key Sector Challenges	Expected Sector Outcomes	Outcome Indicators	Caribbean Development Bank's Proposed Interventions	Risks and Mitigation
PILLAR 1: INCLUSIVE GROWTH AND DEVELOPMENT (Aligned with the Bank's Strategic Objective of Promoting Economic Growth and Inclusive Development)					
Physical infrastructure upgrade to support economic growth and development.	<ul style="list-style-type: none"> • Aged infrastructure. • Low coverage of infrastructure on Family Islands. • High cost (construction and maintenance) of replicating infrastructure across Family Islands. • Vulnerability of infrastructure to damage from natural hazards and the effects of climate change. • Inadequate policies and institutional arrangements. • Limited planning and implementation capacity. • Inadequate coverage of piped water. 	<ul style="list-style-type: none"> • Improved access to and quality of, climate-resilient social and economic infrastructure. 	<p>Targets (By 2017):</p> <ul style="list-style-type: none"> • 50% reduction in days per year that roads in target areas are impassable due to damage or flood conditions relative to the 2012 baseline of: (Glass Window Bridge -3 days Cat Island Road – 3 days Exuma Main Road – 3 days). • 33% increase in container handling capacity of Great Exuma Port to 60 containers per week from 45 per week in 2013. • Increase in coverage of piped water to homes in the Long Island target area by 30%, to 1,480 persons from 1,130 persons in 2013. 	<ul style="list-style-type: none"> • Cat Island Road Improvement Project. • Glass Window Bridge Project. • Exuma By-pass Road Project. • Great Exuma Commercial Port Project. • Nassau Port Breakwater Rehabilitation Project. • Arawak Cay Container Port Access Improvement Project. • Long Island Water Sector Enhancement Project. 	<p>Risks:</p> <ul style="list-style-type: none"> • Natural hazards. • Implementation capacity constraints. • Weak monitoring and evaluation capacity. <p>Mitigation:</p> <ul style="list-style-type: none"> • Quick response from CDB and other development partners will help to address the socioeconomic effects of natural hazards. • Donor support, coupled with that of consultants and experts will strengthen human and institutional capacities. • Enhanced supervision of project/programme activities by CDB staff. • Capacity-building Programme for public works officials developed.

Country Objectives (Development Priorities)	Key Sector Challenges	Expected Sector Outcomes	Outcome Indicators	Caribbean Development Bank's Proposed Interventions	Risks and Mitigation
PILLAR 1: INCLUSIVE GROWTH AND DEVELOPMENT (Aligned with the Bank's Strategic Objective of Promoting Economic Growth and Inclusive Development)					
<p>Educational improvement to support economic growth and development.</p>	<ul style="list-style-type: none"> • Limited access to quality post-secondary and tertiary education opportunities. • Inadequate access to and quality of education for students at risk including those with special education needs. • Inadequate structured teacher professional development. • Limited access to demand-driven Career and Technology Education (CTE) programmes. • Inadequate access to tertiary education financing especially by students from poor households. • Weak governance of the Education Guarantee Fund (EGF). • Inadequate capacity for sector planning and management. 	<ul style="list-style-type: none"> • Enhanced access to quality and demand-driven post-secondary and tertiary education. <p><u>Intermediate Outcomes:</u></p> <ul style="list-style-type: none"> • <i>Improved student learning outcomes in basic education.</i> • <i>Enhanced access to tertiary education financing.</i> • <i>Improved performance of EGF.</i> • <i>Enhanced capacity for sector planning and management.</i> 	<p><u>Targets (By 2017):</u></p> <ul style="list-style-type: none"> • Degree student enrolment (Full-time equivalent) at College of The Bahamas (COB) increase by at least 10% relative to the 2012 baseline enrolment of 3106. • 80% increase in the number of trainees completing post-secondary CTE programmes annually, relative to the baseline average of 800 in 2011. • Overall 70% pass in The Bahamas General Certificate for Secondary Education (BGCSE) examinations and 42% pass for males, relative to the baseline of 66% and 38%, respectively in 2011. • 60% and 45% pass in Grade Level Achievement Test for English and Mathematics (GLAT) (Grade 6) respectively, relative to baseline of 55% and 13%, respectively, in 2011. • At least 3% of students accessing post-secondary and tertiary education programmes utilise student loan financing, relative to the baseline of 0% in 2012. • Level of delinquency reduced to 20% from 70% in 2012. • Education Sector Development Plan (ESDP) implemented beginning 2015. Baseline: Draft ESDP in 2012. 	<ul style="list-style-type: none"> • Institutional strengthening of COB and expanded facilities. • Project to improve institutional framework for CTE, expand programmes at The Bahamas Technical and Vocational Institute (BTVI) and establish National Training Centre (NTC). • Establishment of a Professional Development Programme for teachers and principals. • TA for Early Screening and Intervention programme for primary schools and at-risk students in basic education. • Student Loan Programme, including institutional strengthening of the Education Loan programme. • TA for finalisation of the ESDP and capacity building for the Ministry's Planning Unit. 	<p>Risks:</p> <ul style="list-style-type: none"> • Implementation capacity constraints. • Inadequate inter-agency coordination and collaboration particularly for CTE. • Ineffective management of student loan programme. <p>Mitigation:</p> <ul style="list-style-type: none"> • Donor support, coupled with that of consultants and experts will strengthen human and institutional capacities. • Enhanced supervision of project/programme activities by CDB staff. • Emphasis on proper functioning of institutional arrangements for skills development. • Appropriately qualified consulting firm engaged to manage governance reforms of EGF.

Country Objectives (Development Priorities)	Key Sector Challenges	Expected Sector Outcomes	Outcome Indicators	Caribbean Development Bank's Proposed Interventions	Risks and Mitigation
PILLAR 1: INCLUSIVE GROWTH AND DEVELOPMENT (Aligned with the Bank's Strategic Objective of Promoting Economic Growth and Inclusive Development)					
Citizen security and social inclusion, (particularly focussing on youths at risk) to support economic growth and development.	<ul style="list-style-type: none"> High number of youths at risk. Low institutional capacity of local non-governmental (NGOs) and community-based organisations (CBOs) to support youth development. Inadequate public sector strategic framework to manage and support youth development activities. Inadequate infrastructure (institutional and physical) to support youths-at-risk and community development programmes. 	<ul style="list-style-type: none"> Increased positive long-term life changes of targeted youths. Improved institutional and physical infrastructure to support community development and youth-at-risk programmes. 	<p>Targets (By 2017):</p> <ul style="list-style-type: none"> Coherent institutional framework to realign resources in the public sector as well as in NGOs/CBOs for strategic youth/community development programmes operational. Baseline: Low institutional capacity to support youth-at-risk programmes as evidenced by the halt in programmes in 2012. Community development centres and multi-purpose facilities functional. Baseline: Community development centres and multi-purpose facilities not functionally equipped to meet the needs of target population. 	<ul style="list-style-type: none"> Institutional and capacity building support to Ministry of Social Services (MSS) in project management of community-driven development interventions that target youths at risk. Retrofitting and retooling of community development centres in New Providence. “Green” multi-purpose community empowerment facilities. 	<p>Risk:</p> <ul style="list-style-type: none"> Weak country ownership. <p>Mitigation:</p> <ul style="list-style-type: none"> CDB will engage in broad-based consultations with all stakeholders at project preparation to promote country ownership.
Productivity enhancements of MSMEs to support economic growth and development.	<ul style="list-style-type: none"> Low productivity and competitiveness. Weak managerial capabilities. Limited exposure of MSMEs to production-improvement techniques. 	<ul style="list-style-type: none"> Strengthened productive and managerial capacities of MSMEs. 	<p>Targets (By 2017):</p> <ul style="list-style-type: none"> At least 50% of MSMEs receiving training from the Caribbean Technological Consultancy Services (CTCS) remain in business. 	<ul style="list-style-type: none"> CTCS interventions geared at business services development training and capacity building. National and Regional Training Workshops. Group Training attachments. Direct TA and on-line TA consultancy. 	<p>Risks:</p> <ul style="list-style-type: none"> Deteriorating macroeconomic conditions. Participants reluctant to adopt new practices. <p>Mitigation:</p> <ul style="list-style-type: none"> Timely response by CDB in providing assistance to address the effects of exogenous shocks. Continuous and timely engagement by CDB/CTCS staff to assess country capacity needs and the provision of support as needed.

Country Objectives (Development Priorities)	Key Sector Challenges	Expected Sector Outcomes	Outcome Indicators	Caribbean Development Bank's Proposed Interventions	Risks and Mitigation
PILLAR I: INCLUSIVE GROWTH AND DEVELOPMENT (Aligned with the Bank's Strategic Objective of Promoting Economic Growth and Inclusive Development)					
Fiscal stability to support economic growth and development.	<ul style="list-style-type: none"> Inefficient revenue administration and low public revenue collection. Lack of a well-defined planning framework. 	<ul style="list-style-type: none"> Improved public finances. Strengthened public sector investment programming and planning. 	<p>Targets (By 2017):</p> <ul style="list-style-type: none"> CRA established and functional by end-2014 and by 2017, a minimum of 2 percentage points increase in total revenue as a ratio of Gross Domestic Product (GDP), relative to baseline of 17.0% (average 2007-2012). A medium-term planning framework implemented. Baseline: No medium-term planning framework in place. 	<ul style="list-style-type: none"> TA for the establishment of Central Revenue Agency (CRA). TA to strengthen the planning framework in the Ministry of Finance (MOF). 	<p>Risk:</p> <ul style="list-style-type: none"> Protracted global economic sluggishness. <p>Mitigation:</p> <ul style="list-style-type: none"> CDB will maintain dialogue with the country authorities and offer policy advice to ensure that issues are addressed early. Additionally, the Bank will engage other development partners in the process.
PILLAR II: CLIMATE CHANGE RESILIENCE AND DISASTER RISK REDUCTION (Aligned with the Bank's Strategic Objective of Environmental Sustainability)					
Environmental sustainability to support economic growth and development.	<ul style="list-style-type: none"> Weak resilience of physical infrastructure to climate change, climate variability, and natural hazards. 	<ul style="list-style-type: none"> Strengthened resilience to climate change and improved DRM. Enhanced disaster preparedness and risk management. 	<p>Targets (By 2017):</p> <ul style="list-style-type: none"> Institutional and other administrative policies implemented beginning 2015 to improve physical planning and environmental permitting systems. Baseline: Draft institutional and administrative policies. 	<ul style="list-style-type: none"> Support to improve climate and natural hazard resilience of physical infrastructure, especially in the Family Islands. Support national capacity to promote readiness to access climate financing. Support for mainstreaming disaster vulnerability risk reduction in physical planning and building process. 	<p>Risks:</p> <ul style="list-style-type: none"> Natural hazards. Implementation capacity constraints. <p>Mitigation:</p> <ul style="list-style-type: none"> Quick response from CDB and other development partners will help to address the socioeconomic effects of natural hazards. Donor support, coupled with that of consultants and experts will strengthen human and institutional capacities.

1. COUNTRY CONTEXT

Social Context

1.01 The Bahamas is an archipelagic state that consists of 700 islands with a total land mass of 13,880 square kilometers (km²) [5,358 square miles (sq. mi)], located north of Cuba and Hispaniola and northwest of the Turks and Caicos Islands. Close to 40 of the 700 islands are inhabited. The main inhabited islands of New Providence and Grand Bahama are the centres of economic activity, and social and economic services. The capital, Nassau, is located on New Providence. These two islands account for around 85% of The Bahamas' population, which was estimated at 351,461 in 2012. The other 15% of the population is unevenly distributed across the Family Islands of Eleuthera, Cat Island, Andros Island, Long Island, Exuma, Bimini, Inagua, The Abacos, and San Salvador, where the population sizes are small, ranging from 17,000 on Abaco to 1,500 on Cat Island. This uneven population distribution is being exacerbated by the continuous drift from the other Family Islands to mainly New Providence and, to a lesser degree, Grand Bahama to escape inadequacies in social and economic services and access economic opportunities and social services offered on these larger more developed islands. The drift in the population observed over the years is similar to rural to urban population movements in other Caribbean territories and likewise is contributing to undesirable changes in lifestyles and living conditions, evidenced by the development of settlements with inadequate living conditions and declining living conditions in some of the older residential communities on both islands. Though on aggregate, the country has one of the highest per capita incomes in the Caribbean (estimated at \$24,002 in 2012), there is high income inequality. The country's Gini Coefficient was estimated at 0.57 in 2011, the highest in the Caribbean.

1.02 Similar to other Caribbean territories, the vulnerability of its female population is a concern to the country's policymakers. Female poverty rates are marginally higher than the national average at 9.6% and poverty rates are above the national average amongst female-headed households at 7% (only 5% of Bahamian households are poor). This is a reflection of the gender inequalities that have existed in the labour force for decades. Female labour force participants have not been able to secure employment at the same levels as their male counterparts. In 2011, the Bahamian labour force grew by 3.3% and women were the main contributors to this growth. Instead of becoming discouraged in the labour force, women sought means of making a livelihood by increasing their engagement in informal sector activities, mainly in insecure, unskilled activity such as street vending. Although there was an expansion of the employed labour force in 2011 and unemployment levels were only marginally higher for women than for men, access to decent work still remains a limiting factor to the sustained social mobility of women in the society. This is especially so for women from Grand Bahama. The Government recognises these levels of vulnerability and inequality in the society and the need for welfare assistance for targeted groups of citizens.

1.03 Human resource development is a national development priority as reflected by consistent significant investments in the education sector. Education expenditure as a percentage of GDP and annual recurrent expenditure averaged 4% and 22% respectively in 2011, comparing favourably with other Caribbean Community territories. The country has achieved both universal basic education access and the Caribbean Millennium Development Goals (CMDGs) targets of gender parity in educational enrolment in primary and secondary education. Notable achievements in basic education also include a high proportion of trained and graduate teachers (among the highest in the Region), high internal efficiency as shown by low repetition rates (3%), and acceptable pupil/teacher ratios (13:1) and modern facilities in urban centres. Key challenges exist evidenced by a limited access to and coverage of early childhood development (ECD) and tertiary education opportunities and a performance threshold beyond which the system seems unable to transition. The participation rate for the 3-4 age cohort is constrained at 34% and gross enrolment in tertiary education is approximately 28%, the majority of which (60%) are females. Overall pass rates in BGCSE have remained stubbornly high at around 66% for the last lustrum (2008-2012), as was the

performance of boys who achieved approximately 38% of the acceptable grades compared to the girls over the same period. The level of non-mastery in the national assessment for primary schools, the GLAT has averaged 45% in Grade 6, indicating that a substantial number of children do not achieve the minimum standards as they transition to secondary education.

1.04 Targeted professional development and addressing the learning needs of all students emerge as critical areas for investment. The skills gap (gap in the school-to-work transition) is evident with limited capacity to meet the heightened demand for skilled persons consistent with the existing and emerging labour market needs. As a result, the principal focus is now on increased quality and relevance of education. The key policy goals being pursued include targeted and value-added enhancements within the CMDGs mandate and include: (a) expanding access to quality tertiary education with the achievement of university status by COB by 2015; (b) improving teacher quality through on-going professional development; (c) increasing access to quality CTE provision; (d) enhancing equity through an expanded early detection of learning disability and associated classroom interventions and provision of specialised services; and (e) enhancing sector governance, planning and management.

1.05 Overall, the country has achieved generally favourable social indicators. The Bahamas' Human Development Index (HDI) for 2012 was 0.749, placing the country in the high development category and positioning its ranking at 49 out of 186 countries. However, when adjustments for inequality were applied there was a loss of potential human development due to inequality of 14.7% and the HDI fell to 0.658. The Bahamas' Gender Inequality Index (GII) of 0.322 ranks the country 54 out of 146 countries. The gender-based inequalities and vulnerabilities considered in the GII ranking for The Bahamas took into consideration that in 2011: (i) only 17.9% of the State's parliamentary seats were held by women; (ii) some 48.5% of the adult women in the population had reached secondary school or a higher level of education compared with 54.5% of the male adult population; (iii) female participation in the labour market was lower than male participation at 68.3% for females and 78.7% for males; (iv) for every 100,000 live births, there were 49 maternal deaths; and (v) the adolescent fertility rate was 31.8%.

Macroeconomic Context

1.06 The Bahamas has a relatively undiversified economic base; the services sector dominates the economy. Tourism generates about half of all jobs and accounts for about 60% of GDP, financial services account for about 15% of GDP, while agriculture and industry contribute smaller shares to national output. The narrow economic base has resulted in volatile growth, as evidenced by the standard deviation of real GDP growth over the past decades. Additionally, growth has been decelerating on average, and the number of years of recorded growth has been lessening. Per capita growth has been tepid at best and has been on a downtrend as is shown in Table 1. On the whole, the country has made good strides in managing its advancement as a service economy aided in large measure by stable institutions and sound economic policies. The economy is highly vulnerable to external shocks, particularly (but not exclusively) those emanating from the US - the country's largest trading partner and source market for tourism and investment. Accordingly, real GDP growth in The Bahamas closely tracks that of the US; the correlation coefficient between the two series was 80% during the period 2000-2012. Inflation also moves in tandem with that of the US and, as such, rates in The Bahamas have been low and stable over the years, averaging 2.2% in the past decade. Inflation is also impacted by changes in international commodity prices, especially that of crude oil.

TABLE 1: GROSS DOMESTIC PRODUCT GROWTH

Years	Real GDP Growth			GDP per capita Growth		
	Average (%)	St. Deviation (%)	Years of Growth (#)	Average (%)	St. Deviation (%)	Years of Growth (#)
1975-1984	6.2	11.6	8	3.9	11.4	8
1985-1994	1.3	3.6	7	(0.6)	3.5	5
1995-2004	3.2	2.3	9	1.8	2.4	8
2005-2012	2.2	2.8	6	(1.1)	2.9	3

Source: Authors' calculation based on data from the World Development Indicators, 2012.

1.07 Public finance in The Bahamas is characterised by a narrow revenue base and generally pro-cyclical expenditures. Total revenue, dependent on a few volatile sources, accounts for around 17% of GDP on average, compared with the regional average of 28%. Indirect taxes, mainly levied on international trade, make up half of total revenue. Fees and levies on tourism and financial services account for the majority of the remainder of public revenue. There are no taxes on consumption and income. Government expenditure accounts for around 20% of GDP, with current expenditure amounting to around 87% of total expenditure. Wages and salaries take up around 40% of current expenditure. Public debt, which was estimated at \$4.7 billion (bn) at end 2012, largely reflected the operations of central government (CG), which accounted for 87% of total debt in 2012. Domestic creditors hold 80% of the country's debt.

1.08 The Bahamas faces a persistent external current account deficit given its limited domestic production. The country is heavily dependent on imports which account for around 55% of GDP. All fuel products and a high proportion of food are imported leaving the country vulnerable to international commodity price shocks. Exports make up close to 45% of GDP and are mainly tourism and financial services exports. Goods export (mainly marine products, few fruits and vegetables and rum) comprise around 20% of total exports. Strong capital inflows, mainly in the area of real estate, finance the external current account deficit. Regarding the financial sector, The Bahamas has been providing banking and trust services to the international financial community since the 1930s and the financial services sector is recognised as one of the major global centres. Over 250 banks and trust companies are licensed by the Central Bank of The Bahamas, with most maintaining a physical presence. Based on the International Monetary Fund's (IMF) 2012 Article IV Report (Public Information Notice released in February 2013) there are no immediate threats to financial stability.

Recent Economic Developments

1.09 The economy contracted in 2008 and 2009 as a result of the global economic crisis. The modest recovery that started in 2011 was sustained in 2012, underpinned largely by tourism and tourism-related construction activities. Economic activity is estimated to have increased by 2.5% in 2012 but unemployment remained elevated at 14.0%. Meanwhile, consistent with the decline in international crude oil prices during the latter part of the year, the rate of inflation slowed in 2012; estimated at 2.0%, relative to 2.5% in 2011. Public finances remained under pressure with the fiscal deficit at a level (6.5 % of GDP) that cannot be comfortably sustained in the medium to long term. Public debt as a ratio of GDP recorded its 11th consecutive annual percentage point increase to reach an estimated 53.2% of GDP at end-December 2012. The Bahamas is the only country of CDB's BMCs where there has been a persistent annual increase in the debt-to-GDP ratio during the period 2002-2012. In the banking sector, credit and deposit growth remained soft and liquidity tightened. On the whole, key prudential indicators were favourable and the financial system was assessed as stable and sound. External performance stayed weak, contributing to a contraction in international reserves; however, the reserves (four months of total imports) were adequate to underpin confidence in the stability of the exchange rate.

1.10 The short-term outlook for growth is positive. Real economic growth is estimated at 2.7% in 2013 barring any fallback in the recovery in the US. Growth will be underpinned by foreign investment in tourism-related activities and an accelerated public sector investment programme, which would boost construction and ancillary services and, by extension, employment. The Government, in its Mid-year Budget presented to Parliament in February 2013, proposed a plan to help improve fiscal performance in the short term. Some of the key proposals include re-prioritising capital expenditure, establishing ceiling on outlays of ministries and departments, and introducing a property tax amnesty to incentivise increased payments. The Government also announced that a medium-term fiscal plan is being prepared to consolidate public finances. Two key planks of that plan will be the establishment of a CRA and the introduction of the value-added tax (VAT)^{1/} by December 2014. Accordingly, the overall fiscal deficit is projected to narrow and although the debt-to-GDP is projected to remain on an upward trajectory, the pace of debt accumulation is likely to moderate over the medium term. However, The Bahamas' fiscal outlook and debt profile could be significantly affected by external shocks. Should the US economic recovery be slower than presently anticipated, the fiscal deficit and, by extension, the Government's gross financing needs will be larger than projected. Going forward, key policy priorities suggest themselves *viz*: (i) entrenching fiscal reforms, especially in the area of tax policy by broadening the tax base; (ii) improving expenditure management through better planning and procurement practices; and (iii) containing indebtedness by strengthening budget discipline, maintaining a tight fiscal policy, and pursuing more low-cost borrowings. Additionally, another key policy priority is to make growth more broad based by boosting competitiveness of the private sector and promoting new ventures, as well as diversification of existing sectors. Appendix 1 presents key macroeconomic indicators.

Private Sector Development

1.11 The private sector in The Bahamas is dominated by tourism-related and financial services businesses. Other significant private sector activities where SMEs dominate include retail and wholesale trade, fishing, light manufacturing, and agriculture. The attractiveness of the business environment is derived from the country's long tradition of political and currency stability; its proximity and accessibility to the US market; a flexible immigration policy that facilitates an efficient process for granting work permits to key expatriate personnel; the economic and social infrastructure in place to support investment; and the low-tax regime. However, while large foreign-owned companies are relatively competitive, SMEs face serious challenges (which will be elaborated in Chapter 2) that constrain their productivity and competitiveness.

Cross-Cutting Issues: Gender and Environmental Sustainability

(i) Gender

1.12 The Government, in recognising economic empowerment as the most important strategy for the advancement of women has, in recent years, reviewed, passed, amended, or repealed legislation to facilitate the drive towards a more gender-sensitive and gender-equitable society. Laws have been amended to ensure women's equal access to and treatment in the workplace, as well as to ensure that women and men inherit equally. The law has also been amended to broaden the scope and definition of domestic and sexual violence and to provide for stiffer penalties for sexual offences. In the area of political decision making, women have held a number of high political offices and account for the overwhelming majority of top administrative and executive positions in Government agencies. The Department of Gender Affairs was established in January 2013. The new entity carries out the mandate of the Bureau of Women Affairs, which it has replaced and has an expanded scope in its work to also address issues impacting men and boys. The Department has continued the work of educating and informing civil society on issues that impact

^{1/} Carded to be effective on July 1, 2014.

women throughout The Bahamas and actively seeks to educate Bahamian women about the “Convention on the Elimination of All Forms of Violence Against Women”. Further, it is spearheading Government’s efforts to draft The Bahamas’ National Gender Equality Policy. With the formulation of the National Gender Equality Policy, the Government is also well positioned to benefit from funding available under the Gender Equality Policy and Operational Strategy to assist with gender mainstreaming.

(ii) Environmental Sustainability

1.13 The geography of The Bahamas (many low-lying and sparsely-populated islands with development concentrated in the coastal zone) has contributed to its extreme vulnerability to natural hazards, drought, tropical storms, hurricanes, frequent coastal flooding, and coastal erosion. It is predicted that climate change and variability and sea level rise (SLR) will further increase this vulnerability, particularly of the Family Islands, which are already underserved with respect to basic physical infrastructure; and which are home to the country’s poorest and most vulnerable communities. Integrating climate change and disaster risk reduction considerations into the country’s development plans and programmes is therefore essential to the achievement of long-term environmental sustainability.

2. DEVELOPMENT PRIORITIES

2.01 The Bahamas has to deal with some critical development challenges in order to preserve socioeconomic gains accrued thus far, and strengthen the foundation for accelerated and sustainable development in the future. The Government identifies the most pressing development issues facing the country as: (i) upgrading social and economic infrastructure; (ii) reducing the constraints on access to quality education and training; (iii) increasing social inclusion and enhancing citizen security; (iv) boosting competitiveness of the private sector, especially SMEs; (v) improving public finances and planning; and (vi) strengthening resilience to climate change and DRM.

(i) Upgrading Social and Economic Infrastructure

2.02 The provision and maintenance of appropriate infrastructure is essential to sustain economic and social development. In The Bahamas, the provision of quality infrastructure is challenged by the geographic dispersion of the islands, coupled with the low population densities of most of the Family Islands. These factors result in higher than average infrastructure costs and create particular challenges with regard to policy, management and maintenance. There are critical infrastructure gaps that need to be addressed to support medium and long-term growth and social development. In 2008, the Government's National Focus Group on Infrastructure estimated infrastructure investment needs at between \$1 and \$2.4 bn. The Inter-American Development Bank's (IDB's) 2010 estimate of medium-term infrastructure needs was approximately \$1 bn. The use of public-private partnerships has been among the Government's project delivery mechanisms, most visible for the Nassau Airport Development.

2.03 While inadequate network coverage has been identified as the principal issue affecting road transport in New Providence and the main contributor to chronic congestion, the road network in most of the Family Islands is characterised by the absence of redundancy and by vulnerability to flooding and storm damage due to their low elevations and proximity to coastlines and ponds. Additionally, there are deficiencies with the public transportation system, as well as with planning and policy formulation in key agencies and departments. To support and improve the performance of its mandate, several institutional strengthening initiatives are in progress within the Ministry of Works and Urban Development (MWUD), including the operation of the Road Maintenance and Management System (RMMS), the expansion of the RMMS into a comprehensive Asset Management System, and the reorganisation of staff to deliver critical services. Initiatives to improve the capacity of MWUD to contribute to improved road safety in The Bahamas are also being developed.

2.04 Marine transport is a principal mode of transport of cargo and people between islands. There are approximately 140 public docks across The Bahamas, and the modernisation of many of these facilities is required to keep pace with increasing demand, including the need to service new housing and tourism developments and to accommodate the handling of newer, larger vessels serving ports of entry in the Family Islands. Throughout the Family Islands, user charges applied at docks are maintained at low levels as an indirect means of social support from the Government to these less-developed island communities. Concomitant with the upgrading of infrastructure, a review of policy provisions regarding the administration of docks is required, particularly pertaining to the collection of appropriate user charges to contribute to the operation and maintenance of these facilities. Modernisation of several of the Family Islands' airports has also been prioritised to support the Government's tourism development strategy, as well as the country's security objectives, together with updating the regulatory environment for civil aviation in the country.

2.05 In the water and sanitation sector, service is hampered by a high level of non-revenue water (NRW) and the high cost of providing service to dispersed settlements in many Family Island locations. Over the past decade, NRW has been estimated at over 50% due to the deteriorated condition of

the aged network, inadequate maintenance and business practices. The Water and Sewage Corporation (WSC) proposes to halve the existing NRW level on New Providence by 2016 through improved data collection and information management and modernisation of the network infrastructure. Reduced energy costs will be a benefit from NRW reduction. The development of a master plan to guide the development of the water sector within the Family Islands is imperative, as is the development of an improved regulatory framework. WSC is receiving substantial assistance from IDB in addressing key institutional reforms and improvements to the management of the network on New Providence. Institutional strengthening activities are focused on strategic planning; improved customer service capability; equipment upgrades for monitoring and billing purposes; training; and a review of tariffs to ensure consistency with proposed water sector regulation. Upgrades to New Providence's waste water infrastructure are also being supported under the IDB-financed project, as is the development of a modern regulatory framework and the engagement and training of appropriately qualified persons to staff the proposed Utilities Regulation and Competition Authority.

(ii) Reducing the Constraints on Access to Quality Education and Training

2.06 The overall objective of the Government is to improve student outcomes at all levels of the education system through sustained focus on student-centred learning and the development of a well-rounded graduate with appropriate competencies and aptitudes for work and life. While progress has been made in key areas, more needs to be done to realise the educational outcomes required to support economic competitiveness and advance social development. Central to strengthening the economic competitiveness and social cohesion in The Bahamas is expanding access to quality post-secondary and tertiary education through targeted initiatives within the various sub-sectors. These include improving quality intervention services to special needs and at-risk students, enhancing teacher efficacy through systematic professional development and broadening access to demand-driven skills development and quality tertiary education opportunities. Furthermore, the draft ten-year ESDP prepared in 2007 is yet to be finalised, constraining the Ministry of Education, Science and Technology (MOEST) in its endeavour to structure the systematic development of the sector. Moreover, while the legal and regulatory framework is undergirded by the 1997 Education Act, some of the regulations are still outdated and need to be revised to facilitate enhanced planning, coordination and oversight of the operations of a modern education system.

2.07 Strengthening special education services, including early screening for learning disabilities, intervention programmes and guidance and counselling services for at-risk students, is central to ensuring quality education for all, particularly those with severe disabilities. With 90% of teachers certified, MOEST has identified structured on-going professional development as a principal means of improving teacher effectiveness within a wider framework of enhanced supervision, support and accountability. Existing CTE facilities and programmes in magnet schools and BTVI need to be expanded and improved in accordance with minimum standards. There is significant unmet demand at the BTVI with over 30% eligible applicants not being able to be accommodated. BTVI provides a wide range of CTE programmes for its current enrolment of 1,628, which comprises 60% males, but is constrained by outdated facilities that do not meet minimum standards. As BTVI pursues accreditation status as a medium-term goal, the upgrade of the institution, consistent with established standards, is an urgent priority. New initiatives such as the proposed NTC can assist in meeting the unmet demand for relevant skills development, once established as part of an articulated network of training providers. Issues surrounding equity and the cost-effective delivery of education need to be addressed in the Family Islands.

2.08 For tertiary education, given the proposed transition of COB to university status, support to complete the transition process and the immediate capital development needs identified by COB, is critical. These include the construction of residential facilities, a graduate school and a small islands sustainability centre, while enhancing its institutional framework including its distance education capacity to serve disparate populations within the archipelago. Not only are the physical development needs of COB an

urgent priority but so too is the enhancement of its institutional arrangements. Through a University Transition Secretariat, COB has begun to focus on a number of key initiatives including reforming of the governance framework and undertaking of a detailed operations audit. There is also need to articulate clearly a comprehensive tertiary education system with a rigorous accreditation/articulation and qualification framework for mobility within the national system and wider acceptability of certification (regional and international). In addition to strengthening its three programmes targeting students at risk,^{2/} the Government should consider scaling-up effective alternative programmes on mentorship, increasing parents' connectedness to the school and alternative sentence with the juvenile justice system. These initiatives should be pursued within an enhanced sector governance, planning and accountability framework, which necessitates the adoption and implementation of an ESDP.

2.09 There is also the need to strengthen the institutional underpinnings of the Education Loan Programme to better support tertiary education and training. Currently, the EGF is administered by the Bank of The Bahamas (BOB). From its inception^{3/}, the EGF has experienced high delinquency and is consequently unsustainable. In an effort to revamp the EGF and strengthen its governance arrangements, initiatives have been undertaken including suspension of new lending; follow up and collection on delinquent loans not being dealt with by BOB; introduction of priority areas of study consistent with national development needs, reduction of the maximum loan size; and more stringent requirements for selection of candidates, including needs-based assessment. While the reforms have produced some success, there is a need for a diagnostic review of the EGF with emphasis on its long-term viability and sustainability, the introduction of some form of collateral requirement for loans, and the development of monitoring indicators for measuring the outcomes and impact of the scheme, including the number of beneficiaries graduating and returning to work in The Bahamas, especially in the areas of nursing and engineering.

2.10 Support by development partners for education is mainly provided by IDB through the implementation of an education reform project that focuses on strengthening early childhood education, implementing a national framework to align the technical and vocational education and training (TVET) system in secondary and post-secondary education and technology integration.

(iii) Increasing Social Inclusion and Enhancing Citizen Security

2.11 While poverty is not entrenched there are pockets across the country, especially in the Family Islands, where formal employment opportunities are limited and opportunities for labour force participation in the informal sector are almost non-existent. Consequently, there are wide disparities in living conditions that are not reflected in the poverty headcount for the country of 9.3%. Poverty levels on the Family Islands have been estimated at significant levels above the national average at between 13.2% and 21%. The Government implements through its Ministry of Labour and Social Development, ten cash and in-kind transfer programmes that target those in need. The National Insurance Board also provides non-contributory pension and assistance benefits to the elderly. However, there are inefficiencies in the targeting and adequacy of these programmes. Government recognises some of its challenges and received assistance from IDB to support reform of its social protection system as a mechanism to improve the efficiency and effectiveness of its expenditure on non-contributory social safety net programmes.

2.12 Crime has been rising in The Bahamas, particularly on the islands of New Providence and Grand Bahama. Data from the United Nations show that since 2007, there has been an increase in major crimes including murder and armed robbery. An official report on crime released in

^{2/} The Transitional Alternative Programme for Students, the Success Ultimately Reassures Everyone and the Providing Access to Continuing Education (PACE). These programmes target girls, boys and teenage mothers, respectively.

^{3/} EGF was established under the Education Guarantee Fund Act of 2001, which sought to guarantee educational loans to eligible students in an aggregate amount of \$100 mn.

March 2012, identified several antecedents of crime, including: (i) lack of family cohesion; (ii) poor education making crime a viable alternative to work; (iii) unemployment; and (iv) inadequacy of the judicial system. In this context, the Urban Renewal Initiative was established to alleviate the conditions of poverty in “inner city” areas with a view to reducing crime. Some of the interventions under the Initiative include community policing, clean-up and urban renewal, and, working with young people to enhance their education and skills levels. However, there are some implementation challenges in the preventative approaches to address youths at risk. The Youth-at-Risk programmes are now on hold but challenges that this group present to the security of citizens are growing. Overall, the development of a comprehensive and sustainable programme to consolidate citizen security to build a safer Bahamas is an urgent priority.

(iv) Boosting Competitiveness of the Private Sector

2.13 Although an estimated 90% of registered businesses in The Bahamas are SMEs with less than 20 employees^{4/} SMEs face significant challenges that constrain their productivity and competitiveness. These include: (i) inadequate access to commercial financing; (ii) weak management; and (iii) high transaction costs and weak trade facilitation systems. The country ranked 77th out of 185 countries in the World Bank's/International Finance Corporation's Ease of Doing Business Survey (2013). The 2013 global ranking improved from the 85th ranking in 2012 but was lower than St. Lucia (53rd) and Antigua and Barbuda (63rd). This ranking suggests the need for continued reforms in order to further improve the business climate. In this regard, implementation of the new “Small and Medium Sized Business Development Framework” requires sustained focus to facilitate the growth of the sector. IDB, through Compete Caribbean is supporting the new SME Development Framework. The Government recognises the importance of SMEs to economic development, particularly in the area of job creation and is committed to providing the necessary support for their development. Government has prepared draft legislation to promote, support and facilitate the development of SMEs in The Bahamas. Government also proposes to re-focus the mandates of The Bahamas Development Bank (BDB) and The Bahamas Agricultural and Industrial Corporation (BAIC) to provide credit on a limited scale, credit guarantees, equity, and a suite of business technical services to support the development of SMEs.

(v) Improving Public Finances and Planning

2.14 There are structural weaknesses in the country's fiscal accounts, stemming from low revenue mobilisation and inefficiencies in revenue administration. Tax revenue has averaged around 17% of GDP in the past five years, well below the regional average of 28%. About 90% of The Bahamas' tax revenue is from indirect taxes, there are no taxes levied on consumption or income. In the area of tax administration, areas of weakness include: (a) human resource management; (b) internal audit and internal investigations; and (c) data sharing; cooperation, coordination and communication. There are also fragilities in the budgetary process that result in frequent expenditure overruns. These structural weaknesses were exacerbated by the global crisis, pushing public finances onto an unsustainable path. The fiscal deficit of CG is estimated at 6.5% of GDP in fiscal year (FY)⁵ 2012/13; a marked deterioration relative to the deficit of 3.4% of GDP in FY 2011/12. This resulted from strong growth in expenditure particularly, but not exclusively, capital expenditure. Primary deficits have persisted since FY 2008/09; and have become more acute. Consequently, CG debt, estimated at 47.0% of GDP in 2012, has risen by 16 percentage points relative to the ratio in 2007. Similarly, total public sector debt grew by 17 percentage points to 53.2% of GDP between 2007 and 2012. Standards and Poor's revised the country's outlook from stable to negative in September 2012 and affirmed its BBB/A-2 sovereign credit ratings. In December 2012, Moody's Rating Agency downgraded The Bahamas' sovereign rating to Baa1 from A3, with a negative outlook on concerns of weakening debt sustainability.

^{4/} IDB's Country Strategy with The Bahamas 2010-14.

^{5/} July 1 – June 30.

2.15 In an effort to address the imperative of fiscal consolidation, the Government, as articulated in its Mid-year Budget Communication to Parliament on February 20, 2013, will be embarking on comprehensive fiscal reforms. Key measures on the revenue side will include the introduction of a VAT, the establishment of a CRA, improvements in customs as well as property tax administration. On the expenditure side, expenditure controls will be tightened and procurement practices will be further improved. The Government is receiving support from IDB to strengthen its procurement system to better align it with regional and international standards. With these reforms, the overall fiscal deficit is projected to narrow to around 2.1% of GDP in FY 2015/16, and while public debt is projected at 60% of GDP, the pace of debt accumulation is projected to decelerate. Support from development partners is therefore crucial to help the Government to stay the course of fiscal reforms.

2.16 There is also the equally important need for a holistic and integrated approach to development planning that makes provision for the attainment of people-centred development that is broad-based and participatory. The efficacy of project implementation is constrained by the lack of a coherent planning framework. Moreover, limited required project implementation capacity in key ministries results in project implementation delays and consequential difficulties for individual projects. The Government has received assistance from IDB to develop a comprehensive Medium-term Development Strategy that will help steer the country development planning in a more coherent and results-maximising manner. CDB proposes to assist with capacity development to help strengthen support mechanisms for this development planning framework, specifically investment in the development of data collection systems for effective monitoring and evaluation for more targeted programming and planning.

(vi) Strengthening Resilience to Climate Change and Disaster Risk Management

2.17 Climate change and natural resource management considerations will likely be the country's most important development challenge, since these can significantly modify the country's risk profile. Estimates are that The Bahamas will experience the largest percentage (11%) of impacted land among CDB's BMCs, with a one metre (m) SLR. This percentage rises significantly (to above 60%) under a 5 m SLR scenario. The increasing frequency and intensity of hydro-meteorological hazards, (droughts, tropical storms and hurricanes) rising sea levels and increased temperatures will require more effective integration of climate change and disaster risk reduction in key sector policies such as physical infrastructure, energy, agriculture, water and housing. The areas that demand attention in The Bahamas will likely include: (a) food security and attendant impacts on the poor and vulnerable, dependent on the natural resources for their livelihoods such as fishermen and subsistence farmers; (b) management of water resources; (c) biodiversity degradation and habitat loss; and (d) vulnerability of the population at risk to natural hazards in the coastal zone.

2.18 The Government has articulated its intentions to further advance the environmental agenda to address issues considered fundamental to environmental sustainability. An area highlighted for attention, and one where tremendous work has already been done, is the stated commitment to expand formal environmental protection coverage to 20% of its marine and coastal resources by 2020. In the 2012 Budget, changes were announced to enhance the institutional framework for environmental management through a revamped Ministry of Environment and Housing and the provision of increased resources to support operational improvements of The Bahamas Environment Science and Technology Commission, the Bahamas National Geographic Information Systems Centre, and to better focus management objectives in areas of forestry and solid waste management. The Government also announced its intention to work with development partners to promote the development and adoption of alternative energy sources to reduce its dependency on imported fossil fuels and to promote greater energy conservation and energy efficiency. These are all critical areas for improving environmental sustainability, however, the Government will need to place much emphasis on the completion and adoption of many environmental policies that now exist as

draft; and see to their integration in sectoral policies and programmes. In addition, further enhancements may be necessary to improve the legislative and administrative frameworks for environmental governance for improved coordination and coherence of work programmes of agencies with environmental mandates. In particular, the national physical planning and environmental permitting systems and processes will need to be strengthened to ensure that they can effectively support the intended spatial and wider development outcomes.

2.19 Support will be needed to: (i) undertake vulnerability assessment of hazard and climate risk considerations and to mainstream these into national, sectoral and spatial development plans and investment programming; (ii) assess and prioritise climate resilient requirements for critical physical infrastructure (roads, bridges, coastal sea defences across the archipelago and in particular in the Family Islands); (iii) improve physical planning policies and environment, building and permitting processes; (iv) establish improved hazard warning systems and DRM practices in the Family Islands; (v) improve water resources management; and (vi) undertake a comprehensive approach to the reform of the energy sector to support the country's environmental sustainability agenda.

3. CARIBBEAN DEVELOPMENT BANK IN THE COMMONWEALTH OF THE BAHAMAS

Portfolio Review and Lessons Learnt

3.01 The Bank's involvement in The Bahamas has been on a relatively small scale, yet its support has served critical development needs of the country. CDB approved \$64.1 mn (net) in loans, contingent loans, equity and grants to the country over the period 1970 to 2012; representing 1.6% of total approvals to CDB's BMCs. CDB's lending has mainly been in the area of economic infrastructure. Given the country's small portfolio, it has historically been a net contributor to the Bank's operations. However, this situation was reversed in 2012 with a \$5 mn disbursement on a transportation sector enhancement loan. As at end-December 2012, The Bahamas had a total outstanding balance of \$6.6 mn on three loans, which are under implementation: (i) Agricultural and Industrial Line of Credit Numbers 3 and 4; (ii) Water Supply (3rd Loan); and (iii) Family Islands Transportation Sector Enhancement Project. Over the years, there have been several projects that were not implemented after substantial efforts were expended on preparation and appraisal by CDB. Varying reasons account for the non-implementation of these projects including, *inter alia*, issues relating to procurement (perceived rigidity of Bank's procurement rules, especially pertaining to eligibility of suppliers). Additionally, cost of funds was uncompetitive; during the early/mid-2000s, the Bank's Ordinary Capital Resources (OCR) rate averaged around 6%.

3.02 Lessons of experience drawn from other BMCs over the decades point the way for CDB to deepen its engagement with The Bahamas. Specifically, based on the Bank's relatively limited experience in The Bahamas, three salient lessons have emerged: (i) a coherent medium-term planning framework is integral to improve the pace of project execution and development planning; (ii) robust monitoring and evaluating capabilities are imperative for the measurement of development effectiveness; and (iii) clear understanding of procurement procedures and a structured procurement plan are important to support efficient project execution. The country's fragile planning capability is a persistent challenge for country programming. The efficacy of project implementation is constrained by the lack of a coherent planning and monitoring framework. Moreover, limited project implementation capacity in key ministries results in project implementation delays and consequential difficulties for individual projects.

3.03 The Bahamas' small portfolio with the Bank and the need to improve debt dynamics (which can arise from increased multilateral lending) provide significant scope for the country to benefit from an expanded strategic relationship with CDB. The Bank's regional expertise, which is grounded in a deep historical understanding of the Caribbean's development realities and imperatives, as well as its technical knowledge services and policy advice augur well for a strong development partnership. This, together with competitive lending terms (relative to domestic commercial borrowing) and clearer procedures for national competitive bidding under CDB's revised procurement guidelines (2006 and 2011) provide a tremendous opportunity for the Bank to strategically engage The Bahamas. The Bank's engagement will be focussed on improving socioeconomic development and promoting mutual accountability for results. CDB will take into consideration lessons learnt, as well as the country's and the Bank's strategic vision for the future. These foundational issues have in part, informed the design of CDB's Country Strategy with The Bahamas.

Caribbean Development Bank's Country Strategy: 2013-17

Objective and Strategic Alignment

3.04 The objective of the Country Strategy is to help The Bahamas achieve its overriding development goal of faster, more inclusive and environmentally sustainable growth that is buttressed by macroeconomic stability and national security. This Strategy responds to the development priorities of the country and is consistent with the Bank's strategic objectives of promoting broad-based economic growth and social development and enhancing environmental sustainability. It covers the period 2013-17.

Strategic Focus and Expected Outcomes

3.05 The Country Strategy is anchored on two pillars: inclusive growth and development and climate change resilience and disaster risk reduction. The design of specific projects will embed citizen security and GE components, where appropriate. The strategic pillars and respective components are framed within the following context: (a) high-level and strategic policy dialogue with the country's key policymakers and stakeholders; (b) the country's financial/fiscal capabilities; and (c) development partners' activities in the country.

3.06 Particular emphasis will be placed on the Family Islands to help narrow opportunity gaps to promote greater social inclusion and prevent those islands from becoming poverty traps in the absence of sustained but practical development assistance. Interventions in the Family Islands will be sensitive to their economic geography, physical and cultural realities/constraints, and inherent challenges associated with diseconomies of scale and scope due to small population size. Support to the Family Islands will concentrate on reducing population drift and its attendant social challenges by addressing the extant needs of communities through development/upliftment programmes. The Bank's interventions will also focus on enhancing social and economic infrastructure. Additionally, focus will also be given to improving educational outcomes. Emphasis will also be placed on strengthening small business activities through skills enhancement programmes to help entrepreneurs, especially those involved in micro businesses, to frontally address poverty reduction at the individual and community levels. Furthermore, given the country's extreme vulnerability to natural disasters and the effects of climate change, special focus will be placed on building resilience of physical infrastructure to climate change and improving DRM. CDB's support to promote environmental sustainability will be mainstreamed throughout its interventions, particularly in the area of social and economic infrastructure. GE considerations will also be mainstreamed in CDB's interventions. Overall, the Bank will adopt a flexible, adaptive, and culturally-sensitive approach in its support to The Bahamas that seeks to best balance economic viability considerations with poverty reduction, well-being, and development-effectiveness principles.

Pillar I: Inclusive Growth and Development

3.07 To help promote inclusive growth and development, the Bank's interventions will focus on achieving the following outcomes: (i) improved access to, and quality of climate-resilient social and economic infrastructure; (ii) enhanced access to quality and demand-driven post-secondary and tertiary education; (iii) increased social inclusion and citizen security; (iv) strengthened productive and managerial capacities of MSMEs; and (v) improved public finances and planning.

Expected Outcome 1: Improved Access to, and Quality of Climate-Resilient Social and Economic Infrastructure

3.08 Over the Strategy period, the Bank proposes to support the Government's efforts to develop the national and local Family Islands economies, and to improve access to basic services and employment opportunities through the enhancement of the physical infrastructure, particularly within the Family Islands. Projects that will contribute to the outcome include:

- (i) Cat Island Road – Road works to be defined under a proposed Cat Island Infrastructure Master Plan, to reduce the flood risk now affecting Cat Island's population due to the low-lying elevation of the coastal road that is the sole main road link;
- (ii) Glass Window Bridge – The construction of a safe road link between the Eleuthera mainland and North Eleuthera, one of the country's leading tourism destinations and the fourth most populated of the islands of The Bahamas chain;

- (iii) Exuma Port – Construction of a commercial port on Great Exuma according to designs to be developed under the TA component of the CDB-financed Family Islands Transport Sector Enhancement Project, the existing dock at George Town having been in an advanced state of deterioration for several years. Exuma is one of the rapidly developing Family Islands, with the population having increased by 94% between 2000 and 2010;
- (iv) Long Island Water – Increased coverage of safe, piped water to the population of Long Island, in addition to improved sanitation. Long Island, typical of the Family Islands, exhibits markedly higher poverty levels than New Providence. This intervention will also seek to assist WSC to prioritise proposed investments in the Family Islands;
- (v) Exuma By-pass Road – Road works designed under the TA component of the CDB-financed Family Islands Transport Sector Enhancement Project to reduce the flood risk associated with the low-lying coastal main road;
- (vi) Nassau Port Breakwater – Rehabilitation of the breakwater at the entrance to Nassau’s harbour, which was breached during hurricane conditions about 10 years ago; and
- (vii) The Arawak Cay Container Port Access – The development of an alternative link to provide access for container traffic between Arawak Cay and West Bay Street, including upgrading of existing tertiary class roads, the objective of which will be improved safety and environmental conditions at Arawak Cay and in its environs.

Expected Outcome 2: Enhanced Access to Quality and Demand-driven Post-secondary and Tertiary Education

3.09 To help realise this outcome one component of the Bank’s overall support to the education sector will be geared towards the systematic refocusing and transformation of the education system. Specific attention will be on increased access to quality post-secondary and tertiary education opportunities as a deliberate strategy to support a better skilled workforce aligned to labour market needs, and the promotion of citizen security. CDB’s support to the enhancement of the education sector in this Country Strategy period is designed as the first phase of CDB’s long-term assistance, consistent with the development priorities defined by the Government. Besides direct support to the strategic development of COB and the TVET sub-sector, targeted interventions are proposed for basic education to minimise school failure for those at risk and improve the quality of teaching through systematic teacher professional development. These will enhance student achievement at the end of basic education and satisfy matriculation requirements for further education opportunities. The following constitutes the menu of interventions that will be supported over the next five years:

- (i) TA to enhance the strategic planning capacity by supporting the finalisation of the Draft Ten-year ESDP. The approach will support ownership of the planning process and focus on effective implementation, monitoring and evaluation of the ESDP;
- (ii) institutional strengthening of COB and the expansion of its facilities to assist with the college’s transition to university status. This support will be based on the institutional development needs as outlined in COB’s Strategic Plan (2009-2019). The focus will be on the priority areas for investment, many of which are related to programmatic expansion, with associated physical development needs, within a wider framework of environmental sustainability. As part of a comprehensive programme of enhanced service delivery, the immediate capital development needs identified by COB include the construction of a

Graduate School and a Small Islands Sustainability Centre. Critical support for residential facilities, and institutional enhancement in distance education and an Oral and Public History Institute are also envisaged within the period as a second set of interventions. These reflect the current imperative of expanding quality tertiary education opportunities to meet both economic competitiveness and social demand needs;

- (iii) quality enhancement of basic education to address students' learning needs as part of improving education outcomes and transition to post-secondary and tertiary education. Interventions will focus on strengthening the early screening and diagnosis system and implementation of effective intervention programmes to promote learning for special needs students and others at risk at all levels of the delivery system. Support will also be provided to improve overall teacher effectiveness through the implementation of a structured professional development programme with linkages to improved supervision, support and accountability. Key teacher competencies for mixed ability and differentiated instruction, improving assessment for, and promoting a culture of learning are important areas of focus. The programme will be institutionalised for sustainability and its efficacy will be based on demonstrated improved teacher competence and student achievement;
- (iv) addressing the labour market needs of the country through interventions geared towards strengthening workforce development programmes that are aligned to the main economic sectors, particularly the hospitality industry. Interventions will focus on the urgent need to address the extant skills/training gaps in both the private and public sectors by strengthening the institutional framework for an integrated CTE system, enhancing the programmes at the BTVI and augmenting CTE provision through the establishment of a proposed NTC. This includes a focus on enhancing managerial capacity in the public sector. Interventions will promote demand-driven competency-based training and a coordinated approach to skills development; and
- (v) revamping the Scholarship and Education Loan Programme to address the human resource and skills deficits in the country by strengthening its governance arrangements in the first instance and possibly financing its funding gap. CDB will provide TA for institutional strengthening aimed at assisting the Education Loan Authority in developing a long-term strategy for funding the EGF on a sustainable basis. Consideration will be given to providing a line of credit to the Government for student loans but only after demonstrated improvements in the governance arrangements of the EGF.

Expected Outcome 3: Increased Social Inclusion and Citizen Security

3.10 CDB's support will focus on promoting social inclusion and citizen security by augmenting its educational interventions with a community development component, specifically targeting youths at risk. The Bank's proposed assistance aims to revamp and enhance the Government's Youth-at-Risk Programme – PACE. Accordingly, CDB proposes to assist the MSS through a three-phased intervention of TA and investment funding to support community development programmes, which are geared towards reducing the number of youths at risk. Stakeholders will include young people between the ages of 15 and 25, teachers, parents, CBOs, NGOs, professionals in youth and development, and civil society. Intended support seeks to :

- (i) enhance institutional capacity of NGOs and CBOs as community implementation agencies. Institutional strengthening approaches will be used to build capabilities of CBOs that meet the criteria to be potential community-based partner agencies;

- (ii) strengthen institutional capacity within MSS in project management of community-driven development interventions that target youths at risk. This will create the framework to realign institutional resources in support of community activities for youths that can result in sustainable equitable outcomes across all groups of young people in The Bahamas; and
- (iii) provide investment funding to facilitate the development of demonstration project models as a training tool. Comprehensive sub-projects that promote long-life, equitable changes across all groups of persons aged 15 to 25 will be developed. Ideally, projects will take into consideration the complexity of persons in this age group across Bahamian communities; the need for activities during gap periods (before/after school, on weekends, during school breaks, to school leavers and unemployed young people); and the importance of transparency/accountability structures and systems in promoting sustainable changes in the development of targeted age cohort.

3.11 Further, CDB also proposes to strengthen social infrastructure to better support community empowerment initiatives. A range of programmes that cater to the needs of varying population groups are hampered because of the inability of supporting infrastructure to respond to the changes dictated by socioeconomic developments in the society. Retrofitting and retooling of community development and family centres will begin with the facility in New Providence because its prevalence of youths at risk has been estimated to be the highest when compared with the other islands of The Bahamas. Centres on the other islands will follow. Additionally, construction of “green” multi-purpose facilities (at least one or two during the Strategy period) will serve not only as community empowerment spaces that promote social inclusion and citizen security, but also as recreational facilities and natural disaster shelters.

Expected Outcome 4: Strengthened Productive and Managerial Capacities of Micro, Small and Medium-sized Enterprises

3.12 CDB’s strategic support to help strengthen the productive and managerial capacities of MSMEs will be channeled through CTCS. Several CTCS activities are proposed for 2013 including, national workshops, group training attachments, regional workshops and individual TAs. National workshops to be undertaken include: (i) Computerised Job Estimation Tool for Artisans and Small Contractors; (ii) Enhancing Customer Care for MSMEs; and (iii) SERVSAFE Certification for Food Handlers, which will target up to 60 persons to undergo formal training under the worldwide recognised SERVSAFE US programme. Cognisant of the importance of mainstreaming GE, a dedicated workshop for female MSME operators and entrepreneurs on “Applied Management and Business Modelling Techniques” will be conducted. This workshop will be hosted in one of the Family Islands (likely Eleuthera or Abaco) and will be conducted over five days. The CTCS’ on-line training facility, which will allow consultants to provide training in specified areas to groups of up to five persons, will be launched during 2013. Additionally, CTCS will accommodate individual requests for one-on-one TA after rigorous evaluation.

3.13 Bahamian MSMEs will also benefit from the promotion and execution of group training attachments to regional technical laboratories and MSMEs operations throughout the other BMCs. Resource persons will be drawn from within The Bahamas from individuals who have undergone CTCS Train the Trainer workshops and/or other local professionals. Bahamian MSMEs will also be selected to participate in all proposed regional workshops to be conducted by CTCS Network during 2013. As the Strategy period progresses, the format of interventions will be replicated and CTCS will collaborate with The Bahamas Cooperative League Limited to facilitate workshops, group attachments and individual requests for one-on-one TAs. Actual areas of training and capacity building will be modified to meet existing demand. Additionally, The Bahamas also stands to benefit from several regional projects

including, Measuring Competitiveness for Private Sector Development in the Caribbean and Skills Development for Global Competitiveness in the Caribbean, being undertaken by Compete Caribbean.

Expected Outcome 5: Improved Public Finances and Planning

3.14 To help accomplish this outcome, CDB proposes to assist the Government to improve revenue administration and collection by supporting the Government in its effort to establish a CRA. The CRA initiative is a critical component of an overall programme of reforms to improve tax administration and by extension, public finances. Once operational, the CRA will provide a more effective platform to strengthen fiscal management by improving revenue administration and collection, thereby contributing to fiscal stability. The Government is committed to establishing the CRA and initial technical work has started. A second component of CDB's support will seek to strengthen the Government's planning capability. Specifically, the Bank is willing to consider providing TA to enhance the project cycle management, as well as improve the public sector investment programming and statistical capacity building.

Pillar II: Climate Change Resilience and Disaster Risk Reduction

3.15 To help promote climate change mitigation and adaptation, the Bank's interventions will be designed with a view to achieving the following outcome - strengthened resilience to climate change and improved DRM.

Expected Outcome 6: Strengthened Resilience to Climate Change and Improved Disaster Risk Management

3.16 CDB's support for infrastructure investments will ensure that these interventions not only adhere to good environmental standards and safeguards, but also support the establishment of improved institutional and technical capacities for climate change adaptation, DRM and environmental sustainability. Financing will be provided for physical infrastructure (roads, bridges and sea defences, expansion of shelter facilities) to boost climate resilience in the Family Islands. The following are identified as priorities for CDB's assistance:

- (i) improving climate and natural hazard resilience of physical infrastructure, particularly in the Family Islands, establishing improved levels of energy conservation and efficiency and adoption of renewable energy technologies, either by integrating these considerations in the design of capital investment projects;
- (ii) supporting national capacity to promote readiness to access climate financing to enable implementation of the country's climate change agenda; and
- (iii) promoting the mainstreaming of disaster vulnerability risk reduction and climate change considerations in the physical planning, building and environmental permitting processes, to support more proactive and robust climate resilient development policies and programmes.

3.17 The country can also benefit from CDB's regional technical and institutional capacity-building activities in the areas of natural resources management, disaster risk reduction and climate change. The country is also eligible for project support from the recently established Community Disaster Risk Reduction Fund.

Resource Envelope

3.18 A notional resource envelope of \$188.1 mn has been estimated for the five-year period to support the proposed programme of interventions outlined in Appendix 2. However, the Government’s budgetary constraints and consequently the need to address the imperatives of fiscal consolidation and debt reduction over the medium term necessitate the sequencing of proposed interventions. Therefore, the Government has prioritised the proposed interventions into first, second and third tiers (Appendix 2). Utilisation of the indicative envelope is envisioned under three scenarios as shown in Table 2. Scenario 1 contemplates only interventions in the tier-one category being undertaken given the baseline fiscal outlook in Appendix 1. Total cost of all proposed interventions in this category is estimated at \$80.7 mn. In Scenario 2, interventions in both the first and second-tier categories are undertaken. The estimated cost of proposed interventions in these two categories amounts to \$159.5 mn. This scenario contemplates a situation where economic growth and fiscal performance moderately exceed the baseline projections, creating space for additional capital investments. Scenario 3 contemplates significant improvement in the country’s fiscal outturns and debt dynamics over the medium term, which allows full utilisation of the indicative resource envelope. A mid-term review of the Strategy will be done in 2015 to assess portfolio progress and review and revise the resource envelope. In sum, the main factor determining final commitments and the overall utilisation of the indicative envelope will be the evolution of the country’s public finances over the Strategy period.

TABLE 2: INDICATIVE RESOURCE ENVELOPE
(\$ mn)

Scenarios	Expected Outcomes that Interventions are Targeting						Total
	Improved Access to, and Quality of Climate-Resilient Social and Economic Infrastructure	Enhanced Access to Quality and Demand-driven Post-secondary and Tertiary Education	Increased Social Inclusion and Citizen Security	Strengthened Productive and Managerial Capacities of MSMEs	Improved Public Finances and Planning	Strengthened Resilience to Climate Change and Improved Disaster Risk Management	
Tier 1 Interventions	60.0	20.2	0.5	0.0*	-	0.0^	80.7
Tier 1 and 2 Interventions	85.0	69.5	0.5	0.0*	4.5	0.0^	159.5
Tier 1, 2 and 3 Interventions	95.0	75.1	13.5	0.0*	4.5	0.0^	188.1

Notes: *CTCS activities supported by TA grants. ^Interventions to support climate change resilience will be mainstreamed throughout the physical infrastructure interventions.

Operationalising the Strategy

3.19 Implementation of the Strategy will be guided by a coherent operational framework that defines specific roles and responsibilities at both the country and Bank levels once projects have been approved. The relevant line ministries/agencies (in close collaboration with MOF) will have responsibility for the management of specific projects, while CDB will assist with implementation through technical and financial assistance. In the absence of strong country systems, the mechanism to promote efficient Strategy implementation will be through structured communication channels and regular reporting. CDB will work closely with country officials to promote and improve cross agency/cross sector dialogue and collaboration, with a view to fostering a common view of results and collective responsibility for their achievement. CDB will also collaborate with other development partners, with a view to optimising its development impact. Finally, as part of its implementation support, CDB will actively follow up with country officials to kick start the project pipeline, prepare and appraise projects in a timely and robust manner, and work closely with the relevant executing agencies to ensure timely implementation of projects following Board approval.

Where needed, capacity-building support will be provided to facilitate efficient execution of projects and, by extension, promote the realisation of the Strategy's expected sector outcomes.

Development Partners' Activities

3.20 In addition to CDB, development partners working with The Bahamas include IDB, the European Commission (EC), and the Caribbean Regional Technical Assistance Centre (CARTAC). IDB has a physical presence in the country and its activities are the most comprehensive amongst the development partners. IDB's current Country Strategy (2010-14) focuses on four priority areas which include water and sanitation, energy, small business development and transport (mainly on New Providence). Lending is estimated at \$195 mn over the strategy period. IDB has also been providing TA to support fiscal and social protection reforms and is also supporting the education sector as well as climate change adaptation and mitigation. With respect to the EC, four point seven mn Euros (€4.7 mn) are available under the 10th European Development Fund (2008-2013), earmarked for the further development of the Family Islands. CARTAC's recent assistance (April - October 2012) has mainly been in the area of macro-fiscal management. The Bank will avoid duplication of efforts and collaborate with other development partners as necessary and where feasible, areas for co-financing will be embraced. Current activities of development partners are summarised in Appendix 3.

4. RISKS, MITIGATION, MONITORING AND EVALUATION

Risks and Mitigation

4.01 Key risks that may affect the implementation of the Country Strategy include: (i) macroeconomic risk; (ii) implementation capacity risk; (iii) country ownership risk; and (iv) exogenous risk.

(i) Macroeconomic Risk

4.02 The Bahamas is extremely vulnerable to external economic shocks, particularly (but not exclusively) those originating from the US. Therefore, the execution of the Country Strategy will be challenging if the recovery of the US economy is slower than anticipated^{6/} and if volatility in international financial markets resurges. The consequences for The Bahamas of adverse global economic developments would be a further slowdown in economic activity, higher unemployment and tighter budget constraints. Additionally, weak public finances can also hamper implementation. To help cushion any adverse effects on programme implementation, the Country Strategy is designed with built-in flexibility to balance strategic relevance with realism. Accordingly, should any macroeconomic risks materialise, the Strategy is designed to allow for re-scoping of some of the sector outcomes and indicators, while preserving its strategic focus. CDB will maintain dialogue with country authorities and offer policy advice to aid with re-prioritising and/or re-sequencing of project interventions as necessary. Additionally CDB will actively monitor the implementation of the Strategy and engage other development partners in the process.

(ii) Implementation Capacity Risk

4.03 The lack of a well-defined planning framework, coupled with human and institutional capacity constraints, can hinder the pace of project execution. CDB will continuously assess capacity-building needs of in-country teams in order to accelerate the project implementation and the delivery of the Strategy's expected outcomes. CDB staff will interact more closely with staff in respective ministries/agencies and build capacity in the process. Additionally, support from other development partners, coupled with that of consultants and experts, will help strengthen human and institutional capacities to implement the programmes and projects that are integral to the attainment of the country's development objectives. The Government is committed to improving its planning architecture and this commitment is expected to be translated into meaningful efforts to execute the Strategy and, in turn, implement projects as efficiently and expeditiously as is feasible.

(iii) Country Ownership Risk

4.04 Successful implementation of the Government's development goals requires country ownership of the programmes and policies. The implementation of the Country Strategy can be jeopardised if there is insufficient buy-in from all stakeholders in the development process. Accordingly, the Bank undertook broad-based consultations with Government officials and key stakeholders (civil society/NGOs, private sector and the Parliamentary Opposition) to help promote country ownership of the proposed programme.

^{6/} The US economy is projected to grow by 1.9% in 2013 according to the IMF's World Economic Outlook released in April 2013.

(iv) Exogenous Risk

4.05 The Bahamas is vulnerable to a number of natural hazards, including tropical storms and hurricanes, extreme rainfall events, drought and tsunamis. The occurrence of natural events can derail the execution of the Strategy. Quick response from CDB and other development partners will help to address the socioeconomic effects should this risk materialise. CDB is prepared to assist the country with interventions to mitigate and reduce the potential risk from future natural hazard events and to build its resilience to climate change. CDB will also assist with facilities for emergency relief, immediate response, as well as rehabilitation and reconstruction geared towards building resiliency.

Monitoring and Evaluation

4.06 The Bank will use a RMF to monitor expected sector outcomes of its country programme. For each intervention, the monitoring framework will identify the country's development objectives to which the intervention(s) is aligned, the sector outcomes to which the intervention(s) is expected to contribute and the performance indicators against which the results of the intervention(s) will be measured. Strategy implementation will be monitored through annual country portfolio missions, as well as a mid-term review. The Mid-term Review will be undertaken in 2015 to assess progress towards meeting expected sector outcomes in addition to assessing portfolio progress and utilisation of the resource envelope. An end of Strategy review will also be undertaken. Overall monitoring of the Strategy will be done by both the Bank and country authorities. CDB's engagement will be focussed on promoting mutual accountability for results and fostering open and frequent policy dialogue with the Government.

SELECTED MACROECONOMIC INDICATORS

Item	2007	2008	2009	2010	2011	2012^E	2013^P	2014^P	2015^P
Real Gross Domestic Product (GDP) (%)	1.4	(2.3)	(4.9)	0.2	1.6	2.5	2.7	3.1	4.1
Inflation (%)	2.5	4.4	2.1	1.0	2.5	2.0			
Unemployment (%) (average)	7.9	8.7	14.2	N/A *	15.9	14.0			
Overall Fiscal Balance (% of GDP)	(1.1)	(2.9)	(3.1)	(3.6)	(3.4)	(6.5)	(4.0)	(3.4)	(2.1)
Central Government Debt (% of GDP)	31.1	37.3	41.8	42.8	42.8	46.9	49.7	52.0	53.0
Public Debt (% of GDP)	36.1	43.9	48.2	49.0	49.5	53.2	56.2	58.7	60.0
Private Sector Credit (% change, annual)	9.7	5.2	0.9	(0.2)	1.1	(0.6)	2.7	3.0	4.8
Gross Reserves (\$mn)	454.2	562.9	815.9	860.4	884.8	812.1			
Average Effective Interest Rate (%)	5.2	4.6	4.8	5.5	5.6	6.0	6.2	6.2	6.3
Nominal GDP, Factor Cost (\$mn)	8,283.0	7,982.0	7,744.0	7,771.0	7,788.0	8,040.0	8,318.0	8,682.0	8,817.7

Sources: Central Bank of The Bahamas, Bahamas Statistical Services and International Monetary Fund.

Notes: E means estimate, P means Caribbean Development Bank's Projections as at February 2013. * Unemployment is not available in Census Years.

**CARIBBEAN DEVELOPMENT BANK'S INDICATIVE LENDING
AND TECHNICAL ASSISTANCE PROGRAMME TO
THE COMMONWEALTH OF THE BAHAMAS 2013-17**

PROPOSED INTERVENTIONS FOR CDB'S SUPPORT AND EXPECTED SECTOR OUTCOMES	PRIORITY	INDICATIVE TIMELINE FOR APPRAISAL	INDICATIVE COST \$mn
INFRASTRUCTURE – Improved Access to and Quality of Climate-Resilient Social and Economic Infrastructure:			
• Reconstruction of the Main Coastal Road (Cat Island)	Tier One	2015	15.0
• Rehabilitation/reconstruction of the Glass Window Bridge (Eleuthera)	Tier One	2016	25.0
• Exuma Port	Tier One	2014	15.0
• Long Island Water Improvement	Tier One	2014	5.0
• Exuma By-pass Road	Tier Two	To be determined (TBD)	10.0
• Nassau Port Breakwater	Tier Two	TBD	15.0
• Arawak Cay Container Port Access	Tier Three	TBD	10.0
EDUCATION - Enhanced Access to Quality and Demand-driven Post-secondary and Tertiary Education:			
• Technical Assistance (TA)-Education Sector Plan Development	Tier One	2013	0.2
• Professional Development Institute (with distance education capabilities in the Family Islands)	Tier One	2014	3.0
• TA-Intervention Programme: Early Screening in Primary Education; Enhancing School Success for at Risk and Special Needs Students	Tier One	2014	2.0
• College of The Bahamas (COB) Interventions:			
o Establishment of a Graduate School of Business	Tier One	2013	4.0
o Establishment of a Small Island Sustainability Centre	Tier One	2013	11.0
• National Training Centre/Bahamas Technical and Vocational Institute Enhancement	Tier Two	TBD	14.0
• COB Interventions:			
o Construction of Resident Facilities (New Providence and Grand Bahama)	Tier Two	TBD	30.0
o Oral and Public History Institute	Tier Two	TBD	5.3
• COB Interventions:			
o Enhancement of Distance Education Network	Tier Three	TBD	0.6
• Student Loan Programme (institutional strengthening and financing)	Tier Three	TBD	5.0
SOCIAL INCLUSION AND CITIZEN SECURITY - Increased Social Inclusion and Citizen Security:			
• Youth-at-Risk Programme: Rehabilitation of Providing Access to Continuing Education	Tier One	2013	0.5
• Design and Construction of “Green” Multi-purpose Facilities that will Serve as Recreational Facilities, Resource Centres as well as Hurricane Shelters on Abaco, Cat Island, Eleuthera, and Exuma	Tier Three	TBD	12.0
• Community Development/Family Centres (New Providence)	Tier Three	TBD	1.0
MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES DEVELOPMENT (MSMEs) - Strengthened Productive and Managerial Capacities of MSMEs:			
• TA-Caribbean Technological Consultancy Services Interventions	Tier One	2013	0.0 (Grants)
PUBLIC FINANCE AND PLANNING - Improved Public Finances and Planning:			
• TA-Establishing a Central Revenue Agency	Tier Two	TBD	3.5
• TA-Public Sector Investment Programming, Development Planning, Statistical Capacity Building	Tier Two	TBD	1.0
CROSS-CUTTING: CLIMATE CHANGE RESILIENCE AND DISASTER RISK REDUCTION AND GENDER EQUALITY			
TOTAL			188.1

DEVELOPMENT PARTNERS' ACTIVITIES

Strategic Area	Specific Intervention	Donor Support
Infrastructure	Roads and Bridges	Caribbean Development Bank (CDB), Inter-American Development Bank (IDB), European Commission (EC)
	Air Transportation	IDB, EC
	Water and Sanitation	CDB, IDB, EC
Education	Institutional Reforms in Early Childhood Development	IDB
	National Framework to Align and Articulate Technical and Vocational Education and Training at the Secondary and Post-secondary Levels	IDB
Social Development	Social Safety Nets/ Social Protection Reforms	IDB
Private Sector Development	Improving the Business Climate	IDB
Institutional Strengthening	Fiscal Reforms (Revenue and Expenditure)	Caribbean Regional Technical Assistance Centre (CARTAC), IDB
	Financial Sector Reforms Budget Support (for further development of the Family Islands)	CARTAC EC
Environment and Disaster Risk Management	Vulnerability Assessment	IDB
	Energy	IDB
	Sea Defences	EC

FIGURE 1

MAP OF THE COMMONWEALTH OF THE BAHAMAS

