



RE-358

***Country Program Evaluation:
The Bahamas 2001-2008***

Office of Evaluation and Oversight, OVE

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ACRONYMS

| | |
|-------------|---|
| b | Billion (\$ 000,000,000) |
| The Bahamas | Commonwealth of The Bahamas |
| Bank | Inter-American Development Bank |
| BEST | Bahamas Environment Science and Technology Commission |
| CARICOM | Caribbean Community |
| CBH | Country Office The Bahamas |
| CCB | Country Department Caribbean Group |
| CP | Country Program |
| CPE | Country Program Evaluation |
| CPI | Consumer Price Index |
| CS | Country Strategy |
| DHES | Department of Health and Environmental Services |
| DO | Development Objective |
| DSA | Debt Sustainability Analysis |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| FNM | Free National Movement |
| GDP | Gross Domestic Product |
| GOB | Government of The Bahamas |
| HDI | Human Development Index (UNDP) |
| HDR | Human Development Report |
| HQ | IDB Headquarters, Washington, DC |
| IDB | Inter-American Development Bank |
| IIC | Inter-American Investment Corporation |
| IMF | International Monetary Fund |
| IP | Implementation Progress |
| LAC | Latin American and Caribbean Countries |
| m | Million (\$ 000,000) |
| MDGs | Millennium Development Goals |
| MIF | Multilateral Investment Fund |
| MOE | Ministry of Education |
| MOH | Ministry of Health |
| NDP | National Development Plan |
| NGO | Non-Governmental Organization |
| NOAA | National Oceanic & Atmospheric Administration |
| NSG | Non-Sovereign Guaranteed |
| OAS | Organization of American States |

| | |
|--------|---|
| OECD | Organization of Economic Cooperation & Development |
| OFC | Offshore Financial Center |
| OVE | Office of Evaluation and Oversight |
| PAIS | Project Alert Identification System |
| PCR | Project Completion Report |
| PLP | Progressive Liberal Party |
| PPF | Project Preparation Facility |
| PPMR | Project Performance Monitoring Report |
| PPP | Purchasing Power Parity |
| PRI | Private Sector Department |
| PRODEV | Program to Implement the External Pillar of the Medium Term Action Plan for Development Effectiveness |
| PROPEF | Project Preparation and Execution Facility |
| PSIP | Public Sector Investment Program |
| Region | All Bank member countries in LAC |
| SME | Small and Medium Enterprise |
| S&P | Standard and Poor's |
| TC | Technical Cooperation |
| TVET | Technical Vocational Education and Training |
| UK | United Kingdom |
| UNDP | United Nations Development Program |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| UNESCO | United Nations Economic and Scientific and Cultural Organization |
| UNICEF | United Nations Children's Fund |
| U.S. | United States |
| US\$ | US Dollar (note: The Bahamian Dollar is on par with the US Dollar) |
| WB | World Bank |
| WHO | World Health Organization |
| WSC | Water and Sanitation Corporation |

EXECUTIVE SUMMARY

This Country Program Evaluation covers two Bank strategies that spanned from 2001 to 2008. The Bahamas has the highest per capita income of any borrowing member of the Bank. It also has access to international financial markets as a result of its stable political environment. The country's social indicators are not, however, commensurate with its level of income, and the pattern of social and economic development varies substantially across the islands. The economy contracted by 1.7% in 2008, and is expected to display negative growth rates in 2009-10.

The Country Program 2001-2008

Between 2001 and 2008, the Bank approved two Country Strategies (CSs). The first strategy, CS 2001-2002, was developed to span the period leading into general elections in 2002. The objective of the strategy was to "support the economic and social development of The Bahamas by supplementing government's efforts to provide critical public goods, in areas where the Bank can add value." Given the authorities' reluctance to commit to any new projects in the advent of a possible change in administration, the scope of the program was limited to two loans already under development, and five Technical Cooperations (TCs). Of these, one loan was approved; and the TCs were dropped.

CS 2003-2007 was informed by the recommendations of the previous CPE. Although the development objectives of this strategy mirrored those of CS 2001, it differed in several important ways. First, consistent with the recommendation of the CPE, it shifted the Bank's strategic focus away from infrastructure expansion, towards pressing challenges in health, education, youth, poverty, and environmental management. This shift was aligned with the new administration's mandate for greater engagement in the social sector, and with the institutional focus of IDB-8. Second, contrary to the large investment loans of the past, it emphasized "*smaller projects with a high technical assistance content ... that will help government address policy, strategic, and technical issues.*" This feature acknowledged that "*the Bank's major contribution to the development of The Bahamas [is] the technical knowledge that it brings rather than its financial support.*" By doing so, the CS set the stage for the transfer of knowledge and skills in the absence of significant TC flows. It also opened the door for a more significant level of engagement than that of a lender of last resort. Third, it was believed that the concentration on smaller projects would allow the Bank to address a wider range of development challenges than it had in the past, another CPE recommendation, "*while remaining within the constraints of the capital program.*" The indicative operational program included 11 loans and two MIF operations. Of these, three loans and one MIF grant were approved.

Evaluation Findings

Relevance. Over the period of review, the relationship between the Bank and The Bahamas has been characterized by a number of starts and stops. While the Bank did a good job of diagnosing the development challenges faced by the country, it wasn't able to develop an effective operational program. This led to a relationship that was costly for both partners in terms of time, resources, execution delays, and ultimately, a low-performing portfolio.

The major development challenges identified by CS 2001, were validated in CS 2003, and remain pertinent today. These were grouped into four development pillars, and include: (i) sustained economic growth and private sector development; (ii) social development with equity; (iii) environmental management and natural resource conservation. CS 2003 added a fourth pillar: (iv) strengthened public sector management. The imperative of Family Island integration was woven across both Strategies.

Although the Bank mobilized substantial resources to develop the pipeline, the program that was delivered differed significantly from the intent of the Bank's Program. Thirteen loans were included in the CSs, but just four were approved. An additional 19 operations were inserted into the pipeline between 2001 and 2008, of which three were approved. A reduction in support for infrastructure was envisioned by CS 2003; however, the sector continued to dominate the lending portfolio throughout the period (around 85% of approvals). Social spending, which represented 66% of the indicative program, comprised just 9% of the approved portfolio; and all loans envisioned for the public and environmental sectors were either dropped or pending cancellation as of December 2008.

Partly, this is the result of an investment environment in which decisions are influenced by the fit between immediate needs and available fiscal space. The Bahamas lacks a guiding framework within which to plan and oversee investment projects. This has, on occasion, resulted in a low attention to strategic planning and weak coordination between government agencies and the Bank. It has also contributed to: (i) a country program that was crafted around a purpose that was too broad to measure and objectives that were generic; (ii) a focus that contradicted the Bank's capacity to anticipate and deliver the pipeline; and (iii) a low level of government ownership during project preparation. Not only did the lack of a formal planning system limit the ability of both partners to anticipate development bottlenecks, it undercut their capacity to accurately dimension projects, and in some instances, undermined any opportunity for sustainability or profit.¹

Constraints to effective planning also stemmed from the political economy in which decisions were made, and the institutional environment in which they were managed. Because the Bank lacked an appropriate understanding of these inherent constraints, this dimension of decision making was consistently underestimated.

Coherence. Both strategies contained a good deal of reflection about the possible fit between Bank instruments. In practice, multi-phase loans, reimbursable TCs, and Sector Facilities were used as stage-setting operations; but, with the possible exception of the multi-phase instrument, they did not lead to larger investments. Although limited, MIF has been an effective private sector development tool. Neither PRI nor IIC were relevant as a source of external financing.

Evaluability. The Bank's Program was not focused on measuring results. Measurable objectives were not established at the level of purpose in either CS. Both were weak in their selection of performance indicators (quality, specificity, and relevance); and neither included a complete metric (baseline, milestone, target) to gauge progress in terms of development impact. By not establishing targets for its own performance, the Bank missed an important opportunity to clearly define the role that it could play in assisting the country to achieve its development priorities. It also missed an opportunity to drive for results.

At the project level, evaluability was considerably higher. The ex-ante evaluability of loan documents reveals that 57% of the specified indicators have a baseline, 68% include targets, but just 3% contain milestones to gauge progress.

Execution. A low level of borrowing and a high level of cancellations have characterized the program. Over the period of review, seven loans were approved. As of December 2008, four were active, two were pending cancellation without any disbursement, and one had been completed (albeit with a 78% cancellation of funds).

The portfolio's disbursement rate lags behind the Bank wide average with just one loan performing above the norm. The average length of extension for completed loans also exceeds the Bank norm by 33%. Given significant execution delays, disbursements have fluctuated widely. At any given time, the proportion of the portfolio at risk has been substantial, varying from 29% in 2006 (the lowest) to 72% in 2008 (the highest). Compliance with contractual conditions, legislative approvals, execution capacity, and borrower commitment have consistently been identified as the major risks to portfolio performance.

The cost of project preparation is high relative to the size of the loans. Over the period of review, the Bank invested a significant level of resources in the preparation of six loans which were eventually withdrawn from the pipeline. The average administrative cost (staff, travel, consultants) to prepare these operations was \$24,761 per million dollars programmed, compared to \$8,873 per million dollars programmed for the approved cohort of loans, and \$2,803 Bank wide for approved investment loans over the same period of time. In general, the relatively high cost of loan preparation in the country is associated with the small size of the operations. It is also the result of inefficiencies. Although an outlier, one operation (Youth, BH-L1006), accrued \$693k in administrative costs and 16 missions before it was withdrawn from the pipeline. While this may be seen as a remarkable display of persistence on the part of the Bank, it is a practice that might not be sustainable. The major reasons identified by the Bank for the withdrawal of projects from the pipeline are the low level of borrower ownership and lack of consensus. This calls into question the effectiveness of the Bank's policy dialogue.

Results. The developmental effectiveness of the Country Program could not be clearly determined for the reasons mentioned above. Nonetheless, given the fact that the only two loans approved in the environmental pillar are pending cancellation without any disbursements, and that neither the proposed loans nor consensus on the reform agenda emerged from the public sector pillar, it could be deemed that two of the four pillars did not achieve their development objectives.

While most infrastructure projects have completed (or are expected to complete) their physical targets, both the Electricity and Solid Waste Projects fell short of the objective of satisfying the growth in demand for their services. This outcome is the result of a demand forecast that did not take into account anchor projects that were already on stream. This pitfall reflects a shortcoming in long-term planning that has not been addressed by the Bank.

None of the proposals that required regulatory changes were approved, and none of the proposals that required changes in fee structures were enacted. These concerns affect the financial viability of state-run enterprises and their prospects for privatization. The fact

that the water, electricity, and solid waste projects could not comply with the limited financial conditions of their loan contracts generates apprehension about the lack of leverage, or exercise thereof, of the Bank. It also calls into question whether these objectives were appropriate to begin with, given the political economy of the country.

The Land Use Policy and Administration Project is the only project that has data to ascertain that it has achieved its development objectives. It was also able to achieve its financial targets. The operation is adequately dimensioned, targeted, and executed through the Office of the Prime Minister. In the education sector, although it is plausible that improvements in pedagogy and curriculum may have contributed to the achievement the project's retrofit outcomes, it is impossible to measure the Bank's attribution since the project was designed without a logical framework or project monitoring system.

Recommendations

First. If the Bank is to improve its performance in the country, it must pay more attention to the process of policy and planning. The Bank, together with The Bahamas, should define what role it is to have. This could be accomplished by working more deeply with the country to strengthen public sector investment planning and management. As recommended in the previous CPE, given uncertainties surrounding a possible shortfall in public investment during the current recession, and the possibly large investment needs to address priorities in social protection, infrastructure, housing, and employment, the Bank should:

- (i) *"work with government to develop a public investment needs assessment. Such an assessment should address long-term development challenges as well as pressing needs, and apportion responsibility between the private sector, multilateral development banks, and the country's own budgetary resources."*
- (ii) *"jointly examine the potential value of a formal public sector investment program within which to manage, inter alia, Bank investment projects...Both parties might assess, in light of the public investment needs assessment mentioned above, the relative strengths and weaknesses of formal investment planning, and the current practice of making investment decisions on an annual basis within the budget." And,*
- (iii) *"deepen its work on improving planning and managerial capacity in the public sector. This work should focus on economic planning as such, its required inputs in terms of data, analytical tools, technical skills, competence of core staff, and an organized structure that allows collaboration among agencies, and which feeds directly into policy-making. This continues the tradition of institutional strengthening' in the public sector, but is firmly oriented... to developing specific competencies that enable better integration of [investment] projects, clear identification of priorities and sequencing among them, monitoring of performance, and follow-through in assessing results so as to lead to designing new programs and projects."*

All three recommendations were included in the previous CPE, and remain highly relevant.

Second. The new strategy should clearly define its strategic goal and development objectives at the program level, and within a results framework that includes verifiable outcome indicators -- benchmarks, milestones, and targets. The developmental objectives of the Bank's program should be specific, measurable, and attainable. To enhance the

effectiveness of this exercise, the results framework should link performance indicators to existing information management systems within government and to government's own development targets. Further, the development effectiveness of the new Country Program should be measured jointly with the country, to provide an institutional forum to generate knowledge and lessons learned.

Third. The high cost of project preparation must be addressed. To enhance its efficiency, the Bank should: (i) become more adept at inserting itself into the planning process; (ii) establish clear, time-bound agreements with the country on the scope and dimension of project preparation, data sharing, and inter-agency coordination; (iii) establish an oversight mechanism to jointly manage project preparation and address bottlenecks; (iv) tailor projects to inherent political constraints and viable institutional capacity; (v) address risks from the perspective of the country; and (vi) deepen its understanding of the political economy in which decisions are made and the institutional environment in which they are managed through additional analytical work.

Fourth. The slow rate of project execution must also be addressed. The opportunity to learn from the country's past experience as well as from that of the Bank should not be overlooked. Therefore, OVE recommends that the Bank broaden its analytical program to include in-depth research on execution constraints. The proposed research would enable the Bank and the country to jointly analyze the factors that are linked to the success and sustainability of ongoing initiatives, as well as the challenges to consensus-building and project execution encountered in CS 2003. It would evaluate the constraints to institutional and regulatory reform that were experienced by a number of Bank loans, and analyze the political economy in which public policy decisions are made. The research should be undertaken from the perspectives of both the country and the Bank. Lessons learned could be used to strengthen the Bank's technical assistance and policy dialogue, to inform the identification and mitigation of potential execution risks in the active portfolio, and to validate the assumptions upon which the new strategy is based.

Fifth. Given the country's high credit rating, strong macroeconomic framework, and low level of corruption, The Bahamas would be a good candidate to use national systems. Such a move could benefit the country by reducing the transaction costs of doing business with the Bank. It could also enhance the competitiveness of the Bank's services. With this in mind, the Bank should conduct a needs assessment to identify strengthening measures that would enable the Bank to delegate fiduciary responsibility to country systems.

Sixth. Challenges to competitiveness in its driving economic sector, tourism, relate to the capacity of government to expand public services in tandem with demand. Electricity generation, a key input to the hotel industry, remains inadequate. Operational losses are significant in the public water system. Low sewerage coverage raises substantial risk of aquifer contamination; and the capacity of solid waste facilities is inadequate. Although these issues may reflect the outcomes of past decisions, and a structural weakness in investment planning, they remain relevant to economic policy today. Thus, support for infrastructure, both in New Providence and the Family islands, should continue to be a central focus of the Bank's Country Program.

Furthermore, the dramatic rise in the cost of imported fossil fuels, on which The Bahamas' economy is heavily dependent, makes it advisable that the country pursue renewable sources

of energy. Thus, there is scope for the Bank to explore realizable goals in this critical area in the future strategy.

Seventh. The country is on track to achieve all eight Millennium Development goals (MDGs); however, the equitable achievement of these goals, and the sustainability of outcomes could be at risk without additional economic support and improved efficiencies in social service delivery. To enhance its relevance and effectiveness, OVE recommends that the new strategy: (i) continue to support instruments of social policy and economic participation, particularly in the Family Islands; (ii) specify how the benefits of programming will flow to the poor; (iii) realistically dimension investments to ensure that outcomes are attainable and that resources are not spread too thinly; and (iv) explore the extent to which synergies can be exploited by clustering small, targeted operations around a measurable, shared purpose.

Eighth. The country is vulnerable to natural disasters, particularly hurricanes. While the Bank has been responsive in the past, its task is not finished. There is scope for the Bank to support the efforts of The Bahamas by enhancing the country's analytic capacity to anticipate the impact of climate change on the national economy, to assess the fiscal aspects of mitigation measures, and to evaluate future-looking policy responses. In addition, some of the instruments that the Bank has used to provide relief, lack the flexibility that is needed as a first response. This underscores the imperative for the Bank to analyze its existing tools, with a view to improving the mix and relevance of available instruments and technical assistance.

Ninth. OVE recognizes the difficulties faced by the Bank's private sector windows when working in The Bahamas, and urges them to more actively explore opportunities for investment. The new strategy may want to consider building on existing synergies between MIF and IIC in order to lay the groundwork for greater private sector engagement. For example, a potential opportunity for MIF could be to address asymmetries in the domestic and international business environment, by building the capacity of the local private sector to adopt transparent business practices (financial, accounting, auditing) which would enable them to compete for capital in the domestic market and through IIC. This approach might have a larger impact on development effectiveness over the long term than by trying to broaden the pool of financing through these mechanisms at this time.

Tenth. It is possible that The Bahamas may seek support from the Bank to finance anti-cyclical measures. The new strategy should therefore take into account the context of the financial crises and government's response when establishing short-term goals and actions.

I. INTRODUCTION AND DEVELOPMENT CONTEXT

- 1.1 ***This Country Program Evaluation (CPE) independently assesses the developmental effectiveness of the Bank's assistance to The Commonwealth of The Bahamas between 2001 and 2008.*** Two Country Strategies (CSs) were operative at the time. CS 2001-2002 was developed with a short horizon to span between the operational program inherited from the previous cycle and the transition to a new administration following elections in 2002. CS 2003-2007 was approved in 2004, and encompassed the general elections of 2007. Both strategies are consistent in their diagnosis of key development challenges.
- 1.2 ***To inform the evaluation, OVE undertook two missions to The Bahamas during which it interviewed senior government officials, met with private sector representatives, and visited projects funded by the Bank.*** The team also interviewed Bank staff and analyzed statistical, economic, budgetary, and project data facilitated by the country and available through on-line sources as well as the Bank's internal reporting systems.² The performance of the operational portfolio was calculated using the Results Framework developed specifically for this purpose by OVE.
- 1.3 ***Chapter I establishes the context in which the Country Program was conceived and delivered.*** It examines the developmental challenges faced by the country, and the structure of the economy. Against this backdrop, Chapter II analyzes the relevance and coherence of the Bank's program. Chapter III reviews how efficiently the operational portfolio was delivered; while Chapter IV evaluates the program's outcomes and developmental impact. Chapter V presents concluding observations.
 - A. **Country Overview**
- 1.4 ***The Bahamas is comprised of an archipelago of 700 islands and 2,400 cays scattered over 100,000 square miles of the Atlantic Ocean between Florida and Hispaniola.*** Roughly 29 of the islands are inhabited. An estimated 82% of the total population of 331,000³ is concentrated on the islands of New Providence and Grand Bahama. The balance is distributed across the Family Islands, ranging from a mere 70 people on Ragged Island to 13,000 on Abaco (Annex 1.1). Transportation between the islands is by air and sea. Mail boats and fishing boats require a large number of docks around the islands. Marinas and ports are generally in good shape, and have become an important source of employment and income generation. The largest floating dry dock in the hemisphere is located in Grand Bahama, and the container port ranks 3rd in the world in terms of gross registered tonnage. There are 62 airports, 17 of which are international ports of entry. On the inhabited islands, the main road generally skirts the shoreline, requiring the construction of sea defenses against storms. Just one percent of the land is arable.
- 1.5 ***The economy is driven by two service industries: tourism and financial services.*** Roughly 60% of the nation's \$7.5b gross domestic product (GDP),⁴ 50% of all employment, and 73% of exports correspond with revenue generated directly or indirectly by tourism, tourism-driven construction, and related services. The rapidly

expanding financial and business services industries contribute an additional 30% to GDP and 13% to employment. This level of concentration is not unusual in small island-nations where geography and a small human resource base do not allow for alternative large-scale economic activity.⁵

1.6 ***The per capita income of The Bahamas is the third highest in the Western Hemisphere (after the United States and Canada) and substantially higher than any Bank borrowing country.*** Its 2007 per capita income, estimated at approximately \$27,470 (PPP),⁶ was 40% higher than Trinidad and Tobago’s (\$19,664), 48% larger than Barbados’ (\$18,565), and roughly twice that of Mexico, Chile and Argentina.

1.7 ***However, the country’s social indicators do not correspond to its level of income.*** The Bahamas ranked 49 of 179 countries in the 2008 Human Development Index (HDI), placing it in the 'High Human Development' category, ahead of Trinidad and Tobago but behind Barbados. Indicators such as infant mortality, life expectancy, HIV prevalence, and public education expenditure also lag behind other countries of the region (Annexes 1.2 and 1.3). To some extent, the gap in social indicators is illustrative of inequities in the delivery of educational services, health care, and employment opportunities in the archipelago; as well as the stress placed on the system by the growing population of Haitian immigrants.

1.8 ***In terms of the six dimensions of good governance tracked by the Worldwide Governance Index,⁷ The Bahamas ranked in the 83rd percentile (Table 1.1).*** This reflects the transparency of the electoral process, the capacity of government to effectively implement sound policies, and the respect of its citizens for the institutions which govern economic and social interactions. After studying various offshore financial centers, Dharmapala and Hines (2006) concluded that only “overwhelmingly small, wealthy, and especially well-governed jurisdictions, with sound legal institutions, low levels of corruption, and checks and balances on government” are able to become major offshore hubs.

Table 1.1 Worldwide Governance Indicators 2008 (Percentile)*

| | The Bahamas | Barbados | Jamaica | Trinidad & Tobago | OECD |
|--------------------------|--------------------|-----------------|----------------|------------------------------|-------------|
| Voice & Accountability | 87.0 | 87.5 | 66.3 | 61.5 | 90.6 |
| Political Stability | 73.2 | 86.6 | 34.9 | 47.8 | 81.9 |
| Government Effectiveness | 83.4 | 89.6 | 57.8 | 64.5 | 88.7 |
| Regulatory Quality | 79.7 | 74.4 | 63.8 | 70.5 | 91.2 |
| Rule of Law | 87.1 | 88.5 | 39.2 | 48.8 | 90.2 |
| Control of Corruption | 90.8 | 86.5 | 35.7 | 52.7 | 90.2 |
| Average | 83.5 | 85.6 | 49.6 | 57.6 | 88.8 |

Source: World Bank Institute, Worldwide Governance Project (n=212 countries)

* A high percentile indicates a relative strength

1.9 ***In 2008, the country ranked 55 of 181 economies in the overall ease of 'Doing Business' (Annex 1.4).*** This performance reflects the administrative and regulatory ease of employing workers, operating a business, and paying taxes relative to other countries. Looking towards the future, the country aims to simplify the process of starting a business so that local entrepreneurs can convert their ideas into business

streams as quickly as possible. This would require a further reduction in the time required to license a business and register property. A significant cost that is not reflected in the index is that of labor. Wages tend to be 50% higher in The Bahamas than in Barbados, and four times more than in Jamaica (IDB 2008).

B. Economic Performance

- 1.10 *The Bahamas has an open and highly concentrated economy that is vulnerable to external factors.* Tourism was adversely affected by the September 2001 terrorist attacks;⁸ and the financial sector by fallout from OECD efforts to curtail money laundering. In addition, the country has been battered by severe weather and natural disasters, which resulted in economic dislocation and physical damage. Despite these events, government maintained a prudent fiscal position, and the economy grew by an average of 1.7% in real terms from 2001-2007. In 2008, the economy contracted, reflecting fallout from the global financial crises (Table 1.2 and Section D).

Table 1.2: The Bahamas - Select Economic Indicators

| Indicator | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008* |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Current Prices (2007) | | | | | | | | |
| GDP (in millions of US\$) | 5,131 | 5,389 | 5,512 | 6,032 | 6,509 | 7,280 | 7,498 | 7,463 |
| GDP Per Capita PPP | 20,218 | 20,741 | 21,091 | 23,172 | 24,690 | 26,343 | 27,470 | 27,394 |
| Annual Percentage Change (unless otherwise stated) | | | | | | | | |
| Growth Rate, Real GDP | 0.8 | 2.3 | 1.0 | -0.2 | 3.3 | 4.3 | 0.7 | -1.7 |
| Consumer Price Index | 2.0 | 2.2 | 3.0 | 1.0 | 2.2 | 1.8 | 2.5 | 4.5 |
| Unemployment | 6.9 | 9.1 | 10.8 | 10.2 | 10.2 | 7.6 | 7.9 | 8.7 |
| Net International Reserves | 12.9 | 10.8 | 7.3 | 31.9 | -8.1 | -3.0 | -9.1 | 23.9 |
| Percent of GDP | | | | | | | | |
| FDI | 8.7 | 5.3 | 10.8 | 10.5 | 14.0 | 16.9 | 16.1 | 11.3 |
| Current Account Balance | -11.6 | -7.8 | -8.6 | 2.4 | -9.3 | -19.0 | -17.3 | -12.9 |
| External Public Debt | 6.1 | 5.7 | 5.9 | 5.6 | 5.0 | 4.6 | 4.4 | 5.7 |
| Central Government Bal. | 0.4 | -3.2 | -3.4 | -3.2 | -2.9 | -1.7 | -2.6 | -3.0 |

Sources: IMF World Economic Outlook 2009, Central Bank of The Bahamas; Ministry of Finance.

- 1.11 *The fiscal revenue base is narrow and largely based on import tariffs and real estate taxes, thus also vulnerable to external shocks and cycles.* The tariff-based revenue system, has also limited the participation of The Bahamas in trade agreements. Since 1999, it has had observer status in the World Trade Organization; however the country has not yet completed accession negotiations. Although a member of CARICOM and the Economic Partnership Agreement (the integrated trade strategy with the EU envisioned for the Caribbean), it does not participate in the Caribbean Single Market Economy due to: (i) the lack of trade benefits from such a union, when its primary trading partner is the U.S;⁹ and (ii) concerns about the provision for free movement of labor, given significant wage differences between The Bahamas and the rest of the region.
- 1.12 *Macroeconomic policies implemented by both the Progressive Liberal Party (PLP), which held office from 2002-2007, and the Free National Movement (FNM), which returned to office in 2007 after governing from 1992-2002, have worked to create a stable economic environment to attract foreign direct investment.* Between

2002 and 2006, net foreign direct investment (FDI) increased from 5.3% of GDP to 16.9%, before declining to 11.3% in 2008.¹⁰ The variation stems from the completion of several major projects, the cancellation of others, and economic deceleration. Roughly 90% of all businesses registered in the two main islands are small and medium-sized enterprises (SMEs) with less than 20 employees (IDB 2008). These businesses, which are primarily owned and operated by Bahamians, represent about 5.3% of GDP, and are generally concentrated in services like health, security, and retail. Linkages between FDI projects and local SMEs are underdeveloped, although mandates for Bahamian participation are included in Heads Agreements. The Bahamas also has a relatively low level of debt (approximately 40% of GDP). External public debt fluctuated between 4.4% and 6.1% of GDP over the period of review.¹¹ Inflation, which was contained near the 2% threshold from 1995-2007, generally reflects U.S. trends. This has allowed the country to peg its currency to the U.S. dollar since 1973. The Central Bank projected that inflation would reach 4.5% by the end of 2008 due to increased food and energy costs. External reserves equaled 14.8 weeks of non-oil imports in December 2008, up from 10.0 weeks in 2007.

- 1.13 ***The Bahamas has high credit ratings and therefore access to international financial markets.*** The country's Standard & Poor's (S&P) sovereign rating of A- and Moody's A3 allow it to obtain financing at a relatively low cost in the international market. In fact, in 2003, government was able to successfully issue a \$200.0 million 30-year bond in very favorable terms. (See Box 3.1)
- 1.14 ***Due to the characteristics of the economy, demand is import-intensive, accounting for 85% of private consumption.*** In the past, government tightened its monetary and fiscal policies to keep the current account balance in check and curb non-essential expenditures. The Central Bank also used credit controls in the form of lending limits to restrain domestic demand and curtail reserve falls. The discount rate has played a secondary role as a monetary tool.
- 1.15 ***Most goods consumed in The Bahamas are imported, including 80% of food, which guarantees a steady stream of revenue in the form of customs duties, import tariffs, and stamp tax.*** The average tariff for the Bahamas, 30%, is among the highest in the region. It is three times higher than the CARICOM Common External Tariff (10.1%), and four times more than Jamaica (7.2%). (IDB 2008) High tariffs, customs duties, and stamp taxes are intended as a source of government income, rather than as a protection for local industries. International trade and transactions account for about 60% of tax revenue, and tax revenue accounts for 85% of total revenue. The country does not impose direct taxation on capital gains, corporate earnings, personal income, inheritance, dividends, or sales.

C. Development Dilemmas

1. Socioeconomic Performance

- 1.16 ***As noted before, social outcomes lag behind economic performance.*** The benefits of past investments have not resolved existing inequities, leading to a pattern of economic and social development that varies substantially across the islands. According to the 2002 Living Conditions Survey (the most recent data

available), residents of Grand Bahama and New Providence enjoy a standard of living that surpasses that of the other islands. Historically, both islands have benefitted from infrastructure development, as well as growth in tourism and offshore financial services. Poverty, which averaged 9.2% nationally, was more pervasive in the Family Islands, ranging from 13.2% in Abaco, Eleuthera, and Andros; to 16.6% in Exuma and Long Island; and 21% in the other islands. Moreover, the Gini coefficient (0.57) was among the highest in the Caribbean. According to Handa (2004), sub-regional inequality estimates (of around 0.39 each) are significantly lower than the national estimate, confirming that the high Gini derives from sharp variations in inter-regional welfare. These differences have sparked migration to Nassau and Freeport from the smaller islands, where economic opportunities and the provision of social services are more limited.

- 1.17 ***As a cornerstone of its economic development policy, government introduced incentives to attract ‘Anchor Tourism Projects’ of various scopes and size to the Family Islands, where unemployment and poverty are highest.*** The projects aimed to extend prosperity more equitably throughout the archipelago by stimulating local economic development, upgrading infrastructure, improving access to basic services, and energizing the job market. Ironically, limited access to post-secondary education and technical training in the Family Islands has meant that some Bahamians are unable to compete for employment in economic development projects in their own communities when advanced skills are required.^{12,13} It has also left a number of FDI projects with few alternatives but to import specialized labor from abroad.¹⁴
- 1.18 ***The growing deficit of skilled labor across the economy, and in the Family islands in particular, raises questions about the quality of education and the relevance of vocational training programs to the employment sector.*** It also underlies an average unemployment rate of 8.9% between 2001 and 2008. A survey of 200 CEOs, conducted by the Nassau Tourism and Development Board, provides a stark image of the impact of skills shortages on the economy in the year 2000: 65% of the employers were experiencing serious difficulty finding and keeping qualified employees; 65% believed there was a serious skills gap;¹⁵ 80% thought that the shortage would have an impact on future economic growth; and 44% were forced to reconsider plans to expand their business due to these shortages. A 2005 labor market study by The College of The Bahamas confirmed that less than 50% of the grades awarded for The Bahamas General Certificate of Secondary Education were ‘C’ or above;¹⁶ 75%-80% of all vocational students read below grade level; about a third of all boys drop out before graduation;¹⁷ and roughly 40% of the jobless are under 25. Family Island unemployment is around 50%-100% higher than the national average.¹⁸

2. Maintaining Economic Growth and Competitiveness

a) Tourism

- 1.19 ***The U.S. market that fuels much of the tourism industry also renders it vulnerable to external developments.*** The annual influx of tourists to the islands is about 15 times larger than the population. Approximately 60% of GDP is derived from these visits, and US tourists comprise 87% of all visitors.^{19 20} In 2005, The Bahamas was the number one destination in the Caribbean, according to Caribbean Tourism

Organization statistics. Since then, visitor arrivals have declined. Reasons for the contraction include rooms taken out of service by major reconstruction projects, the tightening of U.S. passport requirements, a slowing of the US economy, and aggressive marketing by countries which offer all-inclusive holidays at a price that can't be matched in The Bahamas.^{21,22}

- 1.20 ***FDI is a dominant economic force, impacting dramatically on the availability of foreign exchange, public-sector revenue, economic growth, and employment.*** Beginning in 1994, existing tourism facilities on Paradise Island witnessed a major reconstruction and refurbishment, renewing interest in the island as a destination for high net-worth individuals. The expansion of the tourism industry was accompanied by a wave of public investments in infrastructure to stimulate the investment climate. At the apex of the FDI boom, the pipeline consisted of 149 projects, mostly tourism, on 16 islands, with an estimated value of \$18.0b (IDB 2008). While the country continues to have a healthy pipeline of FDI projects, the flows have temporarily slowed. The uncertain outlook for tourism in the present environment and the fact that many investors find it difficult to raise funds from their banking systems, even for high-quality investment purposes, have further dampened the economy. Employment in the tourism and construction sectors contracted by approximately 10% in 2008, leading to a jump in unemployment of from 8% in 2007 to above 12% in 2009.²³
- 1.21 ***To enhance long-term growth prospects, the industry has shifted its business model away from services offered exclusively by hotels with amenities, to the provision of luxurious vacation homes and marinas.*** In this context, government passed favorable legislation to bolster competitiveness in the timeshare market, and real estate is driving the sector through mixed-use, fractional ownership schemes.²⁴ This shift provides the foundation for a permanent, year-round influx of returning affluent visitors that could help the country protect itself against adverse events in the future.²⁵

b) Financial Services

- 1.22 ***The offshore financial sector, which contributed on average, 15%-20% GDP between 2000 and 2008, is considered “among the world’s top five Offshore Financial Centers (OFCs) in relation to banking assets and assets under management.”***²⁶ This recognition is attributed to the country's pool of highly qualified financial specialists, adherence to international standards, strong supervision and regulation, and a favorable tax regime. Services are concentrated on wholesale euro-currency business, private banking, and asset management by trust companies. The products they offer are easily commoditized, which implies fierce competition with other OFCs. The passing of new regulations favorable to the development of niches could further strengthen the competitiveness of The Bahamas in the sector.
- 1.23 ***In June 2000, the Financial Action Task Force, an OECD agency created to set international standards to combat money laundering and terrorist financing, included The Bahamas on its list of Non-Cooperative Countries and Territories.***²⁷ Over the course of the year, Parliament passed different laws addressing “banking supervision, customer identification, and the ownership of international business

companies;"²⁸ and in 2001, the country was removed from the blacklist. The new regulatory framework has had considerable impact on offshore banking. The physical presence requirement policy eliminated shell banks, while a more vigilant supervision elevated the external asset position of the offshore sector to \$366.9b in 2006, approximately 53 times the size of the Bahamian economy.²⁹ Renewed pressure targeting offshore financial services is coming from OECD, as more countries focus their attention on an overhaul of the global banking system and a more stringent regulation of 'tax havens'. Attention from regulators could limit future growth.

c) Private Sector Development

- 1.24 ***A stated goal of government is to 'create jobs and expand Bahamian business ownership in the Bahamian economy.'***³⁰ While the country has been extremely successful in attracting private foreign direct investment, especially in the tourism sector, the participation of the local private sector is not proportional. As a consequence, the retention rate of the wealth generated in the country is low. Although FDI resources have the potential to produce positive outcomes through linkages with the domestic economy, overly generous concessions can also crowd out local businesses. In a small economy like The Bahamas, large FDI inflows can challenge the capacity of government to plan, negotiate, and manage investments in a way that is transparent to all stakeholders, and that optimizes benefits for Bahamians. Furthermore, a population that is small relative to its human resource needs and a shortage of skilled labor means that it is not possible to draw from a pool of qualified nationals at all levels. As a result, the wage structure, already among the highest in the region, has risen in response to the growth in demand, without a corresponding change in productivity. The cost of 'doing business' in the country is further inflated by a reliance on imported goods, and the high cost of energy and telecommunications. All of this making it difficult for SMEs to compete.

3. Infrastructure

- 1.25 ***Challenges to sustainable development began to surface in the 1990s, as the demand by residents and visitors for public services outstripped the capacity of local providers to satisfy them.*** The generation and transmission capacity of the state-owned electricity corporation has not grown in tandem with demand, and the regulatory framework restricts alternative providers from competing. Solid waste facilities already operate at full capacity, and cannot absorb the additional tons of garbage generated by the tourism industry. Operational losses are high in state-run utilities, requiring subsidies from government. Air and sea transport between the islands is limited, helping to constrain Family Island development. The road network is congested in Nassau due to burgeoning automobile traffic and roads in need of upgrading; and, the telecommunications grid is obsolete by today's business standards. These constraints add to the transaction costs of doing business in the nation. They also test the capacity of government to deliver the infrastructure and services required to fuel growth in all economic sectors and regions of the country.

4. Environmental Sustainability and Climate Change

- 1.26 ***Given The Bahamas' reliance on its coastal zones for tourism, transportation, and accommodation, a pressing challenge relates to the sustainable development of***

these natural resources. The beauty of the sea and shoreline is a major comparative advantage for the tourism industry. It is also vital to the lifestyle of residents. With much of its land within 1.5 meters of sea level, most economic development takes place in coastal zones. Unplanned and in some cases difficult to sustain, development has placed much of this area under stress from degradation. Urban population growth and an expanding tourism base pose significant challenges to the environment, as does solid waste. A growing per-capita use of water and the unregulated extraction of ground water in New Providence have led to contamination of the aquifer by saline and bacterial intrusion. Thus far, land development has not benefited from the enactment of a comprehensive policy to ensure the sustainable use and rational development of land and coastal resources. Given the significant role of tourism in the country, this is essential to avoid a detrimental impact on the economy.

- 1.27 ***The country has been battered by severe weather conditions, and must prepare itself for more intensive episodes as the ocean warms.*** The Bahamas was directly hit by Hurricane Frances and Jeanne in 2004, and Hurricanes Dennis, Katrina, Rita, and Wilma the following year. The estimated damage accumulated from Frances and Jeanne alone amounted to 7.3% of GDP.³¹ Such widespread devastation is a reminder of the vulnerability of the archipelago to natural disasters. In 2008, Hurricane Ike passed over Inagua, causing widespread damage to most buildings and infrastructure. The Morton Salt evaporation facility, which employs more than half of the working population on the island, was badly damaged and remained closed as of the end of the year. Tropical Storm Hanna resulted in additional losses due to tourist cancellations.

D. Outlook: The Economic Crisis³²

- 1.28 ***The fact that the performance of the Bahamian economy is closely tied to that of the United States suggests that the current economic and financial crisis is likely to have a substantial impact on the country.*** The economy has already contracted by 1.7% (in 2008), and 2009-10 are also expected to display negative growth rates.³³ Tourism has declined since 2006, and unemployment has increased to more than 12%, largely due to layoffs in the hotel and construction industries.
- 1.29 ***FDI is expected to decline substantially in 2009 impacting key economic sectors.*** In addition to the contraction observed in 2008, the IMF projects a further decline of 30% in FDI during 2009 due to the tightening of global credit. Given the importance of these investments to the performance of the Bahamian economy, this phenomenon is likely to adversely impact the construction, real estate, and financial markets.
- 1.30 ***In November 2008, Standard & Poor's lowered its growth forecast for the country.*** The ratings agency also lowered its outlook from stable to negative, citing "*concerns over the rapidly slowing economic growth in The Bahamas and its impact on the sovereign's fiscal and external accounts. Moreover, the country's inherently weak economic structure [which is highly open, concentrated in a single industry, and highly dependent on a single country for investment, trade, and tourism] exacerbates the current downturn and puts more pressure on the policy response.*" (S&P 2008.)
- 1.31 ***It must be noted that Government has moved swiftly to introduce counter-cyclical policies to boost the domestic economy.*** Under the stimulus, the administration has

taken steps to widen the safety net to include new unemployment benefits, broaden relief to low-income households, and increase borrowing to continue priority investments in housing and infrastructure. Furthermore, according to the IMF, “*the projected decline in tourism receipts is significantly tempered by the impact of offsetting factors outlined by the authorities. The government and the tourism industry have been working together to implement measures to counteract the potential decline in receipts. These include: launching a new promotional campaign; diversifying the tourism base by easing visa requirements for Latin Americans; working with airlines to provide increased airlift capacity at reduced prices; and providing more diversified products. There has been a five-year wage settlement for hotel employees that largely freezes nominal wages to help contain rising costs.*”³⁴

II. THE COUNTRY PROGRAM

A. Relevance

1. Findings from the 1990-2000 CPE

- 2.1 *The previous CPE found the Bank's diagnosis of the country's development challenges to be well grounded and remarkably consistent over the years, indicating "considerable continuity of effort and purpose on behalf of both GOB and the Bank."* The program was considered “*highly relevant by government, since it responded to the country's priorities for international borrowing; but only partially relevant to the objectives of the CS*” due to its narrow focus on capacity expansion projects in the infrastructure sector. In terms of results, the CPE observed that the program was more successful in carrying out civil works than it was in dealing with issues related to institutional change and public sector management. Looking forward, it recommended that the Bank work with the country to: (i) develop a public investment needs assessment; (ii) examine the potential value of a formal public sector investment program; (iii) improve planning and managerial capacity in the public sector; (iv) link TC resources with long-term efforts; (v) reach beyond the electricity sector to include operations in sanitation, environmental management, and transportation in the Family Islands; and (vi) develop a lending program with greater support for the social sector. (Annex 2.1 contains the detailed recommendations).

2. The 2001-2008 Country Program

- 2.2 *Between 2001 and 2008, the Bank approved two Country Strategies (CSs).* The first strategy, CS 2001-2002, was developed to span the period leading into general elections in 2002. The objective of the strategy was to “*support the economic and social development of The Bahamas by supplementing government's efforts to provide critical public goods, in areas where the Bank can add value.*” Given the authorities' reluctance to commit to any new projects in the advent of a possible change in administration, the scope of the program was limited to two loans already under development, and five Technical Cooperations (TCs). Of these, one loan was approved; and the TCs were dropped.
- 2.3 *CS 2003-2007 was informed by the recommendations of the previous CPE.* Although the development objectives of this strategy mirrored those of CS 2001,

it differed in several important ways. First, consistent with the recommendation of the CPE, it shifted the Bank's focus away from infrastructure expansion, towards pressing challenges in health, education, youth, poverty, and environmental management. This shift was aligned with the new administration's mandate for greater engagement in the social sector, and with the institutional focus of IDB-8. Second, contrary to the large investment loans of the past, it emphasized "*smaller projects with a high technical assistance content ... that will help government address policy, strategic, and technical issues.*" This feature acknowledged that "*the Bank's major contribution to the development of The Bahamas [is] the technical knowledge that it brings rather than its financial support.*" By doing so, the CS set the stage for the transfer of knowledge and skills in the absence of significant TC flows. It also opened the door for a more significant level of engagement than a lender of last resort. Third, it was believed that the concentration on smaller projects would allow the Bank to address a wider range of development challenges than it had in the past, another CPE recommendation, "*while remaining within the constraints of the capital program.*" The indicative program included 11 loans and two MIF operations. Of these, three loans and one MIF grant were approved. (Annex 2.2 summarizes the consistency of the CSs with the recommendations of the previous CPE).

- 2.4 ***The major development challenges identified by CS 2001, were validated in CS 2003, and remain pertinent today, thus the Bank's 2001-2008 program could be deemed relevant to the needs of the country.*** These include: (i) sustained economic growth and private sector development; (ii) social development with equity; and (iii) environmental management and natural resource conservation. CS 2003 added a fourth pillar: (iv) strengthened public sector management. The imperative of Family Island integration was woven throughout both Strategies. Table 2.1 presents the relevance of the Bank's Program to the identified development challenges.

B. Programming Framework

- 2.5 ***The Bahamas does not have a public sector investment program or a national development framework to guide medium-term planning. This creates an investment environment whereby development decisions are influenced by the fit between immediate needs and available fiscal space, as earlier projects come to completion.*** To inform the strategic planning process, the previous CPE recommended that the Bank support the country's efforts to undertake "a public sector needs assessment to address the country's long-term development challenges." CS 2003 observed that "institutional capacity for strategic planning and the coordination of government policies and programs is limited." It went on to note that "the public sector lacks a comprehensive system for project management, and project identification, prioritization and selection" and called for "greater attention to medium-term and inter-sectorial planning and coordination to improve the allocation and use of scarce public investment resources." The Bahamas signed a Letter of Agreement with PRODEV in April 2005, and is presently in discussion with the Bank on the design of the elements to be carried out under this initiative.

Table 2.1: Country Program Relevance

| Diagnostic: <u>Key Development Challenges</u> • Constraints | CS 2001-2002: <u>Strategic Focus</u> • Targeted Interventions | CS 2003-2007: <u>Strategic Focus</u> • Targeted Intervention |
|---|---|--|
| | Purpose: <i>"Support the economic and social development of The Bahamas by supplementing government's efforts to provide critical public goods, in areas where the Bank can add value."</i> | Purpose:" <i>Support the economic and social development of The Bahamas by helping the government, as well as the private sector and civil society, to successfully address the broad range of development challenges facing the country."</i> |
| <p><u>Economic:</u> <i>The imperative to sustain economic growth; strengthen the investment environment; bolster competitiveness in key economic sectors; and reduce vulnerability to external events</i></p> <ul style="list-style-type: none"> • Small and open economy, vulnerable to external factors • Weakened conditions of competitiveness in major economic sectors • Supply of public goods (water, electricity, solid waste, transport) cannot keep up with demand • Outdated & inadequate infrastructure • Cost of Doing Business: wage structure, high tariffs, price of electricity • Limited resources for SME development (finance, market) • Need for a revenue structure that is less dependent on external trade | <p><u>Foster private sector development as the principal engine of growth</u></p> <ul style="list-style-type: none"> • Legal and regulatory framework • Infrastructure • Privatization • SME development • Labor market reform <p><u>Assist government to mitigate vulnerability to external events</u></p> <ul style="list-style-type: none"> • Disaster preparedness • Lessening vulnerability | <p><u>Support a reactivation of the economy and continued development of the private sector</u></p> <ul style="list-style-type: none"> • Competitiveness and an enabling environment • Transportation • Electricity services |
| <p><u>Social:</u> <i>The mandate to fortify social outcomes, tackle the skills deficit, and extend prosperity more equitably.</i></p> <ul style="list-style-type: none"> • Highly skewed income distribution • Narrow skills base, shortage of qualified nationals to fill all • Social and economic exclusion, particularly in the Family Islands • Social outcomes trail economic performance • Relevance of education and training • Healthcare access and quality | <p><u>Promote social development and equity enhancement, in education and health services, in pockets of poverty, and youth unemployment</u></p> <ul style="list-style-type: none"> • Education • Health • Poverty <p><u>Strengthen local government capacity, enhance Family Island development and integration</u></p> <ul style="list-style-type: none"> • Improved service delivery and management | <p><u>Promote social development and equity, through improving the quality of and access to social services, and improved targeting</u></p> <ul style="list-style-type: none"> • Education • Health • Poverty and Social Safety Net • Youth at Risk |
| <p><u>Environment:</u> <i>The necessity to protect the country's natural resources, the foundation of its success, from environmental degradation that accompanies growth and climate change.</i></p> <ul style="list-style-type: none"> • Weak framework for environmental protection, planning, and oversight • Environmental degradation threatens tourism product | <p><u>Support institutional mechanisms that promote sound environmental management and natural resource conservation</u></p> <ul style="list-style-type: none"> • Environmental management • Natural resources conservation | <p><u>Increase the effectiveness of environmental protection and improve the sustainability of the country's natural resources</u></p> <ul style="list-style-type: none"> • Improving environmental management and natural resource conservation |
| <p><u>Public Sector Management:</u> <i>The challenge of strengthening public sector responsiveness through improved efficiency, transparency, effectiveness, and coordination.</i></p> <ul style="list-style-type: none"> • Limited capacity to plan, negotiate, and oversee investment projects • Inefficient state corporations • Priorities defined by budget, not by Public Sector Investment Program | <p style="text-align: center;">Not included</p> | <p><u>Improve public sector management and civil service performance (efficiency, effectiveness, and responsiveness)</u></p> <ul style="list-style-type: none"> • Public sector reform |

- 2.6 *As illustrated in the above Table, both strategies were crafted around a purpose that was too broad to measure and objectives which were generic.* By not focusing its site on the delivery of concrete results at the program level, the Bank failed to indicate to the country how meaningful of an impact it would make. It also failed to assume responsibility for its own development performance.
- 2.7 *The broad-casting of objectives also led to contradictions between the breadth of the Bank's programmatic intent and its capacity to deliver on its commitments.* CS 2001 identified 13 areas of "Strategic Focus" and CS 2003 nine.³⁵ Neither strategy provided evidence to support why the proposed set of actions was considered the most effective way to achieve the country's development objectives, neither indicated why the selected activities were prioritized over actions not included, neither analyzed alternative or counterfactual scenarios, and neither discussed which policies would provide the greatest returns.
- 2.8 *Both strategies relied heavily on expressions of the Bank's intent.* Statements like "the Bank would be prepared to consider..." make it clear that although the Bank had identified a group of potential interventions at the general level, it had yet to agree with government on the strategic focus of its program. This leaves unanswered the degree to which the Country Program was driven by the Bank's agenda at the operational level, and the level of government commitment to the Bank's proposals.

C. Program Intent and Approvals

- 2.9 *The breadth of the Bank's focus weakened its ability to anticipate the lending program.* The operational portfolio that spanned the two strategies included a total of 13 loans and \$267.2m in Bank financing. Of this group, four loans totaling \$71.5m were approved and the others dropped. This represents an overall approval ratio of 1:3. (Table 2.2 and Annexes 2.3-2.5). An additional 19 loans were inserted into the pipeline over the course of the Country Program. Of these, three were approved and the others withdrawn.

Table 2.2: Program Intent by Strategic Pillar 2001 - 2008

| Pillar | Programmed Loans (Approved and dropped) | Total Approved (\$m) | Approval Ratio |
|--|--|-------------------------|----------------|
| Economic Growth & Private Sector Development | <u>New Providence Transport Program</u> | \$ 46.2 | 2:3 (66%) |
| | <u>Land Use Policy and Administration</u> | \$ 3.5 | |
| | <i>Infrastructure Rehabilitation II</i> | | |
| Social Development with Equity | <u>*Education & Training</u> | \$ 18.0 | 1:6 (17%) |
| | <i>Health Sector Strengthening</i> | | |
| | <i>Institutional Support for Youth</i> | | |
| | <i>Youth Development Program</i> | | |
| | <i>Health Sector Multi-Phase (I & II)</i> | | |
| Environmental Protection & Management | <u>Master plan for Coastal Zone Management</u> | \$ 3.8 | 1:2 (50%) |
| | <i>Coastal Zone Management Program</i> | | |
| Public Sector Modernization | <i>Public Sector Institutional Support</i> <i>Public Sector Modernization Program</i> | | 0:2 (0%) |
| Total | | \$ 71.5 | |

- 2.10 *Although the Bank mobilized substantial resources to develop the pipeline, the program that was delivered differed significantly from the one that was*

anticipated (Table 2.3). Consistent with the recommendation of the previous CPE, the Bank made a concerted effort to diversify its program beyond infrastructure, and to broaden its relevance to pressing challenges in the social and environmental sectors. Nonetheless, agreements reached in principle sometimes unraveled. This led to the withdrawal of nine of the 13 operations in the indicative pipeline. The Health Sector Strengthening Program (Phases I and II) was removed following 63 months in the pipeline and the execution of a \$784k Project Preparation Facility because consensus could not be reached on the various technical proposals. The Youth Development and Institutional Support for Youth Projects were dropped following 16 preparatory missions because the Bank did not support the approach of the line ministry, and was unable to build consensus around its own proposal. The Public Sector Institutional Support and Modernization Programs, a cornerstone of CS 2003, fell short of generating buy-in among stakeholders for a long-term reform agenda. Likewise, the Social Safety Net Reform was unable to mobilize adequate institutional support across participating agencies. Infrastructure Rehabilitation II could not meet any financial test posed by the Bank due to a lack of economies of scale;³⁶ and, the Coastal Zone Management Program was withdrawn because the stage-setting loan to develop a "Masterplan" was not ratified by the new administration.

Table 2.3: Program Intent v. Delivery by Strategic Pillar 2001 - 2008

| Pillar | Total Loans | | | Total Volume | |
|-----------------------------|-------------|-----------------------|---------------------------|--------------|-------------|
| | Programmed | Programmed & Approved | Not Programmed & Approved | Programmed | Approved |
| Economic Growth | 3 | 2 | 2 | 22% | 86% |
| Social Development | 6 | 1 | 0 | 66% | 9% |
| Environmental Management | 2 | 1 | 1 | 7% | 5% |
| Public Sector Modernization | 2 | 0 | 0 | 5% | 0% |
| Total | 13 | 4 | 3 | 100% | 100% |

2.11 *Government expressed the view that the Bank has, on occasion, approached project design with a preconceived conceptual framework, and without sufficiently taking into account the perspective of the country.* The Bank contends that there was agreement, in principle, on the importance of the proposed interventions and that the projects were designed in full consultation with counterparts; but there was not always a unified position within government, and coordination mechanisms were not always in place. Thus, agreements reached in principal sometimes lost momentum, resulting in delays, withdrawals, and cancellations.

1. Pillar 1: Sustained Economic Growth and Private Sector Development

2.12 *Pressing infrastructure needs in electricity and transportation, were identified by the Bank in both CSs as critical inputs to the country's competitiveness and*

*economic growth.*³⁷ CS 2001 intervened with a \$46.2m loan to expand the road and public transport network in New Providence. The inclusion of this loan in the Bank's program fit well with government's long-standing goal to “*provide the infrastructure, legal framework and incentives needed to support and sustain profitable ventures.*”³⁸ It was also expected to strengthen competitiveness in the country's major economic sector, through enhanced market access for day visitors and a more enjoyable product for stop-over tourism. A second loan to reconstruct the Glass Window Bridge in the Family Islands was dropped for reasons discussed in Section 4.

2.13 ***Although no additional financial support was programmed for infrastructure, two loans totaling \$116.7m were approved.*** These loans responded to the need for \$16.7m to address hurricane damage,³⁹ and \$100.0m in supplementary financing for the New Providence Transport Project.⁴⁰ While neither loan was foreseen, they elevated the proportion of funding for infrastructure from 21% of the anticipated program (2001-2008) to 84.0% of the approved portfolio. Hence, the objective of diversifying away from infrastructure was not achieved. Annex 2.6 illustrates the remarkable trend in infrastructure investment that prevailed both cycles.

2.14 ***Enhancements to the regulatory environment for land administration and revenue collection were considered strategic to grow the domestic private sector and strengthen investor confidence.*** In this context, a \$3.5m loan was programmed and approved to develop a one-stop shop for land sales, tax, registration, titling, planning and monitoring. Not only was the status quo a major contributing factor to delays in earlier Bank loans, it was also identified by 'Doing Business' as a reform that could enhance the investment environment, particularly given the fact that 70% of all land is Crown Land administered by Government.

2. Pillar 2: Social Development with Equity

2.15 ***In accordance with the institutional targets of IDB-8, the previous CPE recommended that the Bank extend its focus from infrastructure to strengthening social outcomes.*** At the same time, it cautioned that while “*the Bank's program in The Bahamas was largely successful in carrying out capacity expansion projects in infrastructure, [it] had less success in dealing with issues related to institutional change.*” CS 2003 embraced the “*trade-off between increased risks to implementation, for an increased chance of tackling the most relevant development issues.*” The anticipated contribution of the Country Program to social equity and poverty reduction was considerably high. Six of the 13 programmed loans included resources to expand preschool education, address the skills gap, extend public health access, strengthen the social safety net, and attend to the needs of at-risk youth. All six operations addressed Family Island inclusion, and were aligned with the targets of IDB-8 (Table 2.4). Three loans set the stage for larger investments; but only one, Transforming Education and Training (BH-L1003) was approved. Thus in practice, compliance with IDB-8 was not attained.

Table 2.4: IDB-8 Targets

| Social Equity & Poverty Reduction Targets | IDB-8 | Active Portfolio 2001 | IDB Country Program 2001-2008 | |
|---|-------|-----------------------|-------------------------------|----------|
| | | | Programmed | Approved |
| % of Portfolio | 50% | 40% | 46% | 14% |
| % of Volume | 40% | 26% | 66% | 9% |

3. Pillar 3: Environmental Protection and Management

- 2.16 *Ground-water contamination, solid waste management, seabed pollution, and coastal erosion were identified by the Bank as threats to the environment generated by unsustainable patterns of growth.* CS 2001 advocated measures to ensure the sustainable development of the country's coastal zones. A stage-setting operation to develop a Masterplan for Coastal Zone Management (BH-L1005) was programmed, and approved prior to the 2007 general election; however, the incoming FNM administration chose not to ratify the loan.
- 2.17 *Coping with climate change was also seen by the Bank as having great importance to the social and economic well-being of the country.* Nonetheless, "mitigating vulnerability to external events", a strategic focus of CS 2001, was dropped from CS 2003 because it appeared to be less of a priority following several years of low storm activity. In 2004 and 2005, the country sustained damage from successive hurricanes, and requested Bank assistance. To its credit, the Bank responded with an emergency loan to rehabilitate damaged infrastructure through the Immediate Response Facility, as well as a second loan through the Disaster Risk Management Facility to help the country prepare for the specter of frequent and more violent storms. Both loans were eventually cancelled.

4. Pillar 4: Strengthening Public Sector Management

- 2.18 *Cognizant of the possibly large investments needed to address infrastructure and social needs, the previous CPE recommended that the Bank support government efforts to strengthen its framework for economic planning and investment management.* CS 2003 envisioned a more ambitious "two-track" approach consisting of an initial investment that could set the stage for a larger, more comprehensive reform of the public sector through a second loan. Government and the Bank agreed on several targeted reforms that could produce "early winners", but were not able to reach consensus on the scope of the broader reform agenda. Consequently, neither loan was approved.

D. Coherence

- 2.19 *Both CSs contain a good deal of discussion about the possible fit of the different financial instruments available to the Bahamas.* They consider roles for the Multilateral Investment Fund (MIF), Private Sector Department (PRI), and the Inter-American Investment Corporation (IIC); and discuss how multi-phase loans, reimbursable TCs, Sector Facilities, and MIF loans could set the stage for larger investment loans. This discussion flows across both strategies and constitutes a good effort to create synergies between Bank instruments. The consistency between these activities was found to be high.
- 2.20 *The targeted use of TC resources as a building block for the lending program was emphasized in both strategies.* Five TCs were programmed in CS 2001 with the objective of "leading to additions to the operational program"; none were approved. Ten de-facto TCs were approved over the course of CS 2003 (Annex 2.7). Of these, five were linked to loans (three of which were approved), and two enabled the Bank to quickly extend help following natural disasters. In terms of effectiveness, the most

- significant contribution of the TC Portfolio is its support for the Living Conditions Survey. Not only did this lead to the first (and only) complete socio-economic profile of the country, it continues to inform policy today.
- 2.21 ***Project Preparation Facilities (PPFs) have not been an effective tool.*** Three facilities were approved between 2001-2008. The PPF associated with the Health loan was fully disbursed, while the PPF to prepare the Youth loan was cancelled without disbursement. Neither facility led to an approved project. The third facility, \$700k from the InfraFund Contingency Program, was approved in December 2008. It is premature to assess whether this will result in a request for a loan.
- 2.22 ***MIF's mandate and instruments have been an effective private sector development tool.*** It cannot, however, address all of the needs of the private sector because of its limited financing scope. MIF is the only window of the Bank that is linked to the country's leading economic sector (Annex 2.8). Based on studies carried out under the previous CP, MIF, through the country office, initiated the Inagua Sustainable Tourism Project (BH-M1002) to stimulate the ecotourism industry on the island. The synergy between tourism and other sectors of the economy was also supported through the Linking Agriculture with Tourism (BH-M1004) and Sustainable Tourism Network for SMEs (BH-M1001)⁴¹ projects. Besides these, and a separate operation supporting SME participation in trade negotiations (BH-M1005), the Bank's involvement in private sector development has been insignificant.
- 2.23 ***There appears to be consensus among people interviewed by OVE, about why this is so: the limited relevance of most private sector instruments to satisfy The Bahamas' private sector needs.*** PRI was tied, until recently, by the sectors it could finance since infrastructure (energy, water, sanitation, transportation, and communications) is in the hands of the Commonwealth and consequently ineligible for PRI financing. Moreover, where operations were eligible for PRI financing, the Bank was operating at a disadvantage because: (i) it did not develop a private sector strategy for the country until 2007; and (ii) it competed with faster sources of financing--commercial banks. None of the programs under consideration at the time (Liquid Natural Gas Terminals, Freeport Harbor, and Grand Bahamas Power) were approved.
- 2.24 ***IIC does not have the capacity to finance Greenfield operations.*** Ironically, this is the type of financing apparently required by small entrepreneurs in The Bahamas. Although both CSs stated that the Corporation was in discussions with companies in different sectors for potential operations, none of them materialized due to deep information asymmetry in the local business culture.⁴²
- 2.25 ***The Bank is the country's most active development partner.*** The Bahamas was graduated by the World Bank in 1988, and the Caribbean Development Bank has not approved a loan since 1999. The European Investment Bank, which in the past has supported water and energy projects, has not approved a loan since 1996. On a more limited basis, the Pan American Health Organization, Organization of American States, and UNESCO provide grant support. A thorough account of donor participation is reflected in both CSs.

E. Analysis of the Previous Program Cycles

- 2.26 ***A thorough analysis of the performance of the previous strategy relative to its development objectives is absent in both CSs.*** CS 2001 provides a generic positive overview of the impact of the Bank in the Bahamas without making a serious attempt to identify risk factors. It defines achievements in terms of portfolio execution rather than development objectives. CS 2003 is more reflective. It examines slow execution in the context of low planning and managerial capacity, but fails to draw any clear lessons from this experience. There is no indication of what the Bank would do differently in response to lessons learned from past experiences, and no discussion of how the Bank's mixed performance has impacted upon the relevance of its country program.
- 2.27 ***CS 2003 successfully identified two of the most important risks, but overlooked others.*** The two major risks identified were that of moving from infrastructure lending to structural reform, and the risk that fiscal restrictions may deter loan execution. These are both correctly identified and highly relevant. Although not identified as a risk, the difficulty of obtaining government buy-in for different activities is repeated throughout the documents. This constitutes an important omission that should be addressed in the next strategy.

F. Evaluability

- 2.28 ***The Bank's strategy was not focused on measuring impact⁴³.*** Measurable outcomes, baselines, and targets were not set at the level of purpose in either CS. As a consequence, both strategies lacked a thorough analysis of the factors that could help or hinder the achievement of their medium- and long-term development objectives. They also lacked a clear definition of the role that the Bank could play in assisting The Bahamas to achieve its development priorities.
- 2.29 ***For the most part, the outcome indicators were weak with respect to their completeness, specificity, and relevance.*** Of the 20 'performance indicators' listed in the Strategy Matrix of CS 2001 (Annex 2.9), none contained a metric to measure effectiveness. For example, the performance indicator for Strategic Focus 11: "*local government capacity and Family Island development,*" is "*improved administration of Family Islands development, including increased local government capacity.*" This situation makes it difficult to impossible to gauge how much progress was made in terms of development impact. The Strategy Matrix for CS 2003 (Annex 2.10), while improved, was far from complete. Six of the 18 indicators in CS 2003 were associated with a quantifiable target; however none included a baseline or milestones. With one exception, items listed in the 'development objectives' column were not objectives, but sectors, such as 'health' and 'education'. When objectives were identified, they were usually mixed with outputs and activities under the headings "*IDB Strategy*" or "*Government Strategy*". While the Strategy Matrix does attempt to identify 'country-level outcomes', without exception, they are framed in the context of project-level targets.
- 2.30 ***In terms of quality, many of the proposed performance indicators are inadequate to validate the achievement of the development objectives to which***

they were assigned. In other words, it is difficult to understand the logic that would link the actions to the objectives in a causal manner. For example, neither an increase in property revenues nor a reduction of the land survey backlog is a sufficient condition to attain the development objectives identified for competitiveness: "*foster a safe and secure society,...renew competitiveness of financial sector;...promote foreign direct investment;...improve competitiveness and maintain an enabling environment.*"

- 2.31 ***In sum, by not defining its level of commitment in a way that could be accounted for, the Bank missed an important opportunity to lead by example.*** By not establishing a metric, or system to jointly monitor assumptions and track outcomes at the level of program and project, the Bank missed a further opportunity to drive for results. By defining its relevance broadly rather than strategically, the Bank may have missed an opportunity to maximize coherence, and build synergies within each pillar and across thematic areas -- all of which influence the effectiveness of the Bank's program.

III. THE EFFICIENCY OF THE BANK'S PROGRAM IN EXECUTION

A. The Lending Portfolio

- 3.1 The lending portfolio under review includes five loans with an approved value of \$135.5m, which were in various stages of execution in 2001 (cohort 1); and seven loans with a total value of \$190.4m, which were approved between 2001 and 2008 (cohort 2). As of December 2008, six of the 12 loans were completed, four were active, and two were pending cancellation. The value of the active portfolio was \$173.7m.

B. Program Delivery: Efficiency and Cost

- 3.2 ***The average execution period from eligibility to final disbursement was 74.6 months for the original cohort of loans.*** Every loan required an extension of between 14 and 64 months, with the mean being 39 months. This represents a lag of 9 months (30%) behind the Bank average of 30 months for investment loans approved over the same period (OVEDA). There is no statistical correlation between the length of project preparation and the length of execution. (Table 3.1)
- 3.3 ***Of the five loans in Cohort 1, four targeted infrastructure and the other education.*** When analyzed by sector, the average extension for infrastructure was 30.5 months, which conforms to the Bank's norm. The single education loan, which also included infrastructure, required a 64 month extension. In part, this is due to the complexity of the political economy in which sensitive decisions about curricular and institutional reforms take place. It is also indicative of weak coordination between the Ministry of Works, which was responsible for school construction, and the line ministry.

Table 3.1 The Bahamas: Loan Portfolio 2001 - 2008

| | Loan | Pipeline to Approval (months) | Approval Date | Approval to Effective (months) | Effective to Eligible (months) | Original Expiration | Current Expiration | Months Extended | Approved \$M | Disbursed \$M | Cancelled \$M | Status |
|--|----------|-------------------------------|---------------|--------------------------------|--------------------------------|---------------------|--------------------|-----------------|--------------|---------------|---------------|----------------------|
| Active Loans as of 2001 | | | | | | | | | | | | |
| Improved Primary and Secondary Education | BH-0007 | 48 | Dec-94 | 4 | 6 | Apr-98 | Aug-03 | 64 | 21.0 | 19.2 | 1.8 | Complete |
| Power Expansion II | BH-0018 | 35 | Nov-96 | 5 | 1 | Apr-00 | Nov-01 | 19 | 56.0 | 55.8 | 0.2 | Complete |
| Family Islands Potable Water | BH-0025 | 33 | Jul-98 | 8 | 7 | Mar-02 | Mar-04 | 24 | 14.0 | 10.6 | 3.4 | Complete |
| Solid Waste Mgmt | BH-0008 | 31 | Feb-99 | 8 | 2 | Apr-03 | Jun-08 | 62 | 23.5 | 21.8 | 1.7 | Complete |
| Infrastructure Rehabilitation | BH-0031 | 5 | Sep-00 | 6 | 4 | Mar-05 | Jun-07 | 27 | 21.0 | 19.7 | 1.3 | Complete |
| Sub-Total | | Avg. 30 | | | | | | Avg. 39 | 135.5 | 127.1 | 8.4 | |
| Approved Loans 2001-2008 | | | | | | | | | | | | |
| New Providence Transport | BH-0029 | 24 | May-01 | 5 | 7 | Oct-05 | Oct-10 | 60 | 46.2 | 14.5 | 2.8 | Active |
| Land Use Policy and Administration | BH-L1001 | 9 | Nov-04 | 5 | 3 | Mar-08 | Jun-09 | 15 | 3.5 | 2.8 | | Active |
| Immediate Response Facility Natural Disasters | BH-L1007 | | Mar-05 | 1 | 4 | Apr-06 | Oct-06 | 6 | 16.7 | 3.6 | 13.1 | Complete |
| Transforming Education and Training | BH-L1003 | 19 | Nov-05 | 8 | 8 | Jan-10 | Jan-10 | | 18.0 | 2.6 | | Active |
| Masterplan for Coastal Zone Mgmt | BH-L1005 | 8 | Nov-06 | | | | | | 3.8 | 0.0 | | Pending Cancellation |
| Natural Risks Preventive Mgmt | BH-L1008 | 16 | Dec-06 | | | | | | 5.0 | 0.0 | | Pending Cancellation |
| Supplementary Financing New Providence Transport | BH-L1024 | | May-08 | 1 | 5 | Jun-08 | Jun-08 | | 100.0 | 0.0 | | Active |
| Sub-Total | | Avg 15 | | | | | | Avg. 27 | 193.2 | 23.5 | 15.9 | |

Source: The Inter-American Development Bank (as of 12/31/2008).

- 3.4 *The execution performance of the second cohort of loans is mixed.* As of December 2008, seven loans had been approved. Of these, four were active, two were pending cancellation without disbursement, and one was completed (albeit with a large cancellation). The only loan approved during CS 2001, the New Providence Transport (BH-0029), was stalled for six years due to the receivership of its primary contractor, and the subsequent cessation of works while government sorted through various legal and procurement challenges. An additional \$100.0m in supplementary financing was approved in 2008 to complete the project because, according to the PPMR, "demand outgrew the original design, and implementation delays sharply added to the cost of execution." Due to constraints inherent to the lending instrument, 78% of the Immediate Response Facility (BH-L1007) was cancelled (see ¶4.10). With just 14% expended and final disbursement scheduled for 2010, Transforming Education and Training (BH-L1003) will require an extension. The Masterplan for Coastal Zone Management (BH-L1005) and the Natural Risks Preventive Management (BH-L1008) Programs, both approved prior to the 2007 election, are pending cancellation because neither was ratified by the new administration. Land Use Policy and Administration (BH-L1001), housed within the Office of the Prime Minister, is the only loan that is on target to achieve its development objectives.
- 3.5 *The efficiency of project preparation improved significantly in the cohort of new loans.* The average elapsed time from pipeline to approval for this group is 15 months, compared with 30 months for the earlier set of loans. As anticipated in CS 2003, this reduction, a significant 50%, is driven by a shift to smaller loans and flexible lending facilities.

- 3.6 ***The cost of preparing the dropped operations outstripped the cost of preparing the approved loans.*** Administrative costs (staff, travel, consultants) associated with project preparation are available for years 2002-2008 (OVEDA, ICB/ABC). Over this period, the Bank invested \$1.3m in the preparation of six loans that were approved (Annex 3.1), and \$1.4m into the development of six operations that were eventually dropped from the pipeline (Annex 3.2). The average time required to approve an operation was roughly 17 months, while dropped operations remained in the pipeline for an average of 49 months before being withdrawn. A total of 31 missions were undertaken to develop the approved loans, and 39 in the context of the dropped loans.

| Table 3.2: Comparative Cost of Loan Preparation 2002-2008 (US\$) | | | | |
|---|------------|------------|-------------|-----------|
| | All Bank | Caribbean* | The Bahamas | |
| | | | Approved | Dropped |
| Average Size of Loan | 74,513,903 | 18,190,000 | 24,507,000 | 9,500,000 |
| Average Total Cost of Preparation | 209,397 | 216,202 | 217,442 | 235,233 |
| Average Cost Per Million of Loan | 2,803 | 11,888 | 8,873 | 24,761 |

Source: OVEDA

*Note: Barbados, Guyana, Jamaica, Suriname, Trinidad & Tobago

- 3.7 ***Although the total cost of loan preparation in The Bahamas was similar to regional and Bank-wide averages (Table 3.2), stark differences begin to emerge when project preparation is analyzed in terms of 'cost per million dollars programmed'.*** For example, between 2002-2008, the cost of loan preparation per million dollars programmed averaged \$2,803 Bankwide, \$8,873 in the Bahamas, and \$11,888 in the Caribbean (OVEDA). In part, this difference is due to limitations of scale. By contrast, the cohort of dropped loans averaged \$24,761/million dollars programmed -- nearly three times higher than the cost of the approved loans. Although an outlier, one operation (Youth, BH-L1006), accrued \$693k in administrative costs and 16 missions before it was withdrawn from the pipeline (Annex 3.2). While this may be seen as a remarkable display of persistence on the part of the Bank, it is a practice that might not be sustainable.
- 3.8 ***The major reasons identified by the Bank for the withdrawal of projects from the pipeline are the low level of borrower ownership and lack of consensus.*** This calls into question the effectiveness of the Bank's policy dialogue.

C. Disbursements and Net Cash Flow

- 3.9 ***With the exception of 2007-2008, the flow of net cash resources was negative.*** The main contributing factors include: (i) implementation delays resulting from land disputes under the Solid Waste and Water loans; (ii) difficulty in meeting contractual conditions; and (iii) the cessation of work under the New Providence Transport Program. Net Cash Flow was also affected by the absence of approvals in 2002, 2003, and 2007. This is the result of FNM's refrain from new commitments prior to the 2002 general election; an extensive review of the Bank's program by the incoming PLP in 2003; and the return of FNM in 2007. The

negative flow spiked in 2003 due to a one-off prepayment of four loans on behalf of the Bahamas Electricity Corporation (Box 3.1). The Bank projects that disbursements will rise to \$47.4m in 2009; followed by \$46.9m in 2010, and \$35.5m in 2011 upon the completion of the two transport loans.⁴⁴ While these projections may be plausible, they assume a much higher disbursement rate than can be substantiated by historic trends (\$11.0m/year average) or actual flows. In 2008, disbursements peaked at \$17m. (Annex 3.3, 3.4).

Box 3.1: Access to Finance

The country's solid credit rating and ability to access both the domestic and international financial markets led to an early repayment of four loans in 2003. The Power Expansion II project (BH0018) was completed in 2001. Two years later, government refinanced a US\$122 million debt that the Bahamas Electricity Corporation (BEC) acquired with the Bank for this project and three others. BEC was able to secure a syndicated loan from commercial banks at LIBOR + 1 1/8%, which at the time represented about 2.3% compared with interest rates charged by the Bank of between 5.27% and 8.4% over the four loans. In addition to the higher interest rates, some of these loans corresponded to the currency pooling system facility which included currencies like the euro, the yen, the Swiss franc, and the US dollar. The former three were all appreciating against the US dollar. This represented an additional cost for BEC.

D. Implementation, Monitoring, and Supervision⁴⁵

3.10 The CBH has complied with Bank requirements for the submission of Project Performance Monitoring Reports (PPMRs) and Project Completion Reports (PCRs), as well as technical and financial inspection visits. From these and other monitoring systems, concerns about the developmental effectiveness of the portfolio emerge. Between 2001 and 2008, eight of the 12 active loans were either 'on alert' for unsatisfactory implementation progress, or classified as a 'problem project' with low probability of achieving developmental objectives (Table 3.3).⁴⁶

Table 3.3: Portfolio At Risk

| Year | Active Loans | Alert Projects Unsatisfactory IP | Problem Projects Low DO | At Risk # Portfolio (Alert+ Problem) | Alert Projects % Portfolio | Problem Projects % Portfolio | At Risk % (Alert+ Problem) | At Risk Total \$m (Alert+ Problem) |
|------|--------------|----------------------------------|-----------------------------|--------------------------------------|----------------------------|------------------------------|----------------------------|------------------------------------|
| 2001 | 6 | 2 (Ed, Water) | 1 (Waste) | 3 | 33 | 17 | 50 | \$58.5 |
| 2002 | 5 | 1 (Trans) | 2 (Waste, Water) | 3 | 20 | 40 | 60 | \$83.7 |
| 2003 | 5 | 1 (Trans) | 2 (Waste, Water) | 3 | 20 | 40 | 60 | \$83.7 |
| 2004 | 5 | 1 (Trans) | 2 (Waste, Water) | 3 | 20 | 40 | 60 | \$83.7 |
| 2005 | 6 | 2 (Trans, IRF)) | | 2 | 33 | | 33 | \$46.2 |
| 2006 | 7 | 2 (Trans, IRF) | | 2 | 29 | | 29 | \$62.9 |
| 2007 | 6 | 2 (Trans, Waste) | 1 (Coast) | 3 | 33 | 17 | 50 | \$73.5 |
| 2008 | 7 | 3(Trans, Waste, Training) | 2 (Disaster, Coastal Zones) | 5 | 43 | 29 | 72 | \$96.5 |

3.11 *At any given time, the percentage of the portfolio at risk fluctuated between 29% in 2006 (the lowest) to 72% in 2008 (highest).* By replacing the number of projects at risk with the dollar amounts of the approved loans, it is possible to see that risk has fluctuated between \$46.2m and \$96.5m. In general, risk has elevated with the age of the loan, indicating that a higher level of COF supervision and technical assistance is

required as projects mature to maintain a healthy stream of disbursements. In 2001, the average age of the portfolio was 2.6 years; in 2008, the average years in execution rose to 5.1 years.

- 3.12 ***According to PISTA, the most frequently cited reasons for lags in portfolio performance include delays associated with:*** (i) compliance with contractual conditions (34%); (ii) legislative approvals (26%); (iii) executing agency capacity (25%); and (iv) borrower commitment (22%). Other reported delays have stemmed from: procurement bottlenecks; inter-agency coordination; project design; contractor performance; cost overruns; and Bank responsiveness. These weaknesses are consistent throughout the various supervision and monitoring documents of the Bank. In terms of Audited Financial Statements (AFS), government is working towards strengthening the capacity of the office of the Auditor General to assume this function, a practice that was dropped in 2003 due to late submissions and low compliance with Bank auditing terms.
- 3.13 ***Two additional reasons for the lag in project execution were identified by OVE.*** These include bottlenecks related to contracting splitting and delays associated with land acquisition and registration. International competitive bidding, particularly in civil works, often presents difficulties in small island states. This is because the larger foreign firms prefer not to take-on small projects where their profit margins are encumbered by a shortfall of trained labor and challenging geographic locations. Execution is also constrained by the capacity of the local construction industry to take-on projects above a certain magnitude. Regional contractors are reluctant to step in to fill the gap for a one-off job. In response, government split several larger projects into smaller sub-projects to facilitate local bidding. The New Providence Transport loan was separated into 19 corridors, with an average budget of \$2.6m; and the Infrastructure Rehabilitation Project was split into 57 sub-projects, with an average budget of \$370k. Apart from the inefficiencies implicit in contract splitting, the smaller scale of the projects and limited competition have resulted in relatively high unit costs, and excessive demands in contract management that impeded work from progressing in a timely and coordinated fashion. At the same time, it did generate opportunities for local businesses that would otherwise have been excluded.
- 3.14 ***Inefficiencies in land acquisition and registration, the second bottleneck identified by OVE, contributed to the protracted execution of the Solid Waste and Transport loans.*** Both operations sited works on land that was not Crown property. This led to significant delays in the acquisition of the sites, particularly in the Family Islands, where claimants often did not hold a proper title. It was also met by a slow response from Government, as the registration, clearance, surveying, titling, sale, and taxation of land was managed by different agencies (Lands and Survey and the Attorney General's Office, etc.) with little coordination between them. This constraint is presently being addressed through the Land Use Policy and Administration Project.

IV. RESULTS

4.1 *In this section, CPEs generally seek to evaluate the developmental effectiveness of the Bank's Country Program in areas identified by its strategy.* Nonetheless, as discussed in ¶2.28-¶2.31, The Bank's program was not focused on measuring impact. Both strategies lacked measurable development objectives, baselines, and indicators by which to gauge the Bank's performance at the program level. Where performance indicators were identified, they were defined at the level of project (Annexes 2.9 and 2.10). For this reason, this chapter will concentrate on project-level interventions where the completeness of the results frameworks is considerably higher. The ex-ante evaluability of loan documents reveals that 56.9% of the specified indicators have a baseline, 67.5% include targets, but just 2.7% contain milestones to gauge progress. The analysis is structured around the four development challenges that link the two strategies. Three loans were omitted from the review because they had disbursed less than 15%.⁴⁷

A. Results: Sustained Economic Growth through Private Sector Development

4.2 *Electricity.* Approved in 1996, the \$56.0m **Power Expansion Program II (BH0018)** followed two earlier investment projects in the electricity sector, and was designed *"to satisfy efficiently the increasing demand for electric power."*⁴⁸ In addition, the project was to finance studies leading to improved environmental standards and the privatization of The Bahamas Electricity Corporation (BEC). Serious shortcomings in long-term planning were apparent from the start. The demand to be tended by the loan exceeded the solution, even at the design stage. Although the loan achieved its physical targets for generation expansion, transmission, and distribution optimization, it failed to satisfy the growth in demand for electricity because the net increase was nearly double the original forecast. Instead of growing by an estimated 3.4% per year from 1996-2000, and at 3% from 2001-2010, actual demand grew by an average annual rate of 5.3% from 1996-2006. According to the PCR, as the gap between supply and demand widened, additional strain was placed on the system, *"depleting its generation reserve capacity, and resulting in increased levels of forced outage."* While the increase in demand was driven, to a large extent, by the success of the country in attracting sizeable FDI commitments in the tourism sector, because of weak planning, a major tourism development that was already on the books in Paradise Island was not taken into account. This type of costly omission was repeated in other infrastructure projects.

4.3 The institutional objectives of improved environmental standards and privatization were not achieved. BEC was not able to meet the financial targets agreed in the loan. Although the arrears for electricity consumption by government agencies and state corporations were paid prior to first disbursement as agreed in the Arrears Action Plan, debts incurred after project approval were not honored.⁴⁹ This placed BEC in a situation where it was not able to achieve the Financial Ratios agreed to in the Loan Contract. The project also fell short of accomplishing its objectives of improved environmental standards. Several key activities related to the environmental protection and mitigation component were not undertaken. These include a study of

soil and groundwater contamination under the tank farm, the repair and resealing of moats in the tank farm, the development of a fire and spill contingency program, and a comprehensive investigation into the sources of oil contamination in the Clifton Pier area. The project was completed in 2001 following a 19 month extension, and 14.5% in cost overruns.

- 4.4 **Transport.** Growth in the tourism industry and the related concentration of employment opportunities in and around Nassau have dramatically increased traffic congestion in New Providence. Between 1996 and 2008, the number of vehicles rose from 204 to 345 per 1000 residents. As a consequence, the transaction costs of living, working, and doing business in the capital have also increased. Approved in 2001, the \$46.2m **New Providence Transport Program (BH0029)** aimed *"to reduce transport costs for road users by providing a more rational and efficient transport system for New Providence Island."* This goal was to be achieved *"by rehabilitating and extending the existing road network, modernizing and strengthening the institutional framework for the provision of transportation services, improving road safety,...increasing bus ridership, and alleviating the negative environmental impacts associated with existing traffic congestion."*⁵⁰ The project was designed to have a high developmental impact by its contribution to *"easing the flow of goods and services, solving existing traffic problems that create high costs for residents, and by strengthening Nassau as a tourist destination."*
- 4.5 On alert since 2002 and currently in its eighth years of execution, none of the planned outcomes or developmental objectives of the loan have been attained. With just 20% of the project's physical targets met, the original construction company went into receivership in 2002 and their contract was terminated. This prompted a six-year hiatus and a 60 month extension.⁵¹ Because the road network did not expand in tandem with demand, the cost of doing business in the Capital region increased in terms of time, money, and environmental impact.
- 4.6 In 2007, government requested \$100m in additional loan resources to complete the objectives of the original project. The Bank responded the following year with the **Supplementary Financing for the New Providence Transport Project (BH-L1024)**; and an international firm was contracted to complete all works. According to the December 2008 PPMR, *"it is probable that the project will achieve its development objectives... the logic behind the project remains valid."* OVE views it unlikely that the project will achieve all of its development objectives. According to the PPMR, the second loan was required because demand outgrew the original design, and implementation delays sharply added to the cost of execution. Although a number of the original planning studies have been updated, others are pending. Land acquisition, a major delay in other Bank loans, has not been resolved. The objective of *"alleviating the negative environmental impacts associated with existing traffic congestion"* is not associated with any measurable indicators. If the Bank wishes to sustain that the project has made an impact, it will need to confirm all outcomes. As of December 2008, 59% of the original loan was disbursed. The Supplementary Loan was declared eligible in November 2008.
- 4.7 **Infrastructure Rehabilitation.** Approved in 2000, the overall objective of the \$21.0m **Infrastructure Rehabilitation Program (IRP - BH0031)** is *"the*

- rehabilitation of basic infrastructure [roads, bridges, seawalls, and docks] destroyed by Hurricane Floyd.” No quantitative metrics were included for the outcome indicators. The scope of the project was broadened in Aug. 2005 when the contract was amended “to rehabilitate or reconstruct infrastructure works damaged or destroyed” by subsequent hurricanes.*
- 4.8 Phase I achieved its objective, and was consistent with the Bank's Country Program in several ways. First, the loan reinstated vital transportation infrastructure necessary to support economic development in the Family Islands. This was done by restoring 14.5 km of roads, 26 docks, 9.5 km of seawall protection, and 2 bridges. According to the PCR, *"the supervisory consultant, WSP, and the consultants hired for the assessment of damages created by Frances/Jeanne have attested in their Final Report that the rehabilitated works which were subsequently subjected to the onslaught of Hurricanes Frances, Jeanne and Wilma have generally performed in accordance with their design [objectives]"*. Second, the improved engineering and environmental design standards developed for Phase I projects were incorporated by the Ministry of Public Works and the BEST Commission (the national advisory council on the environment) into their operational guidelines for non-IDB projects. This result was not planned. In addition, the PCR noted that IRP *"embellish[ed] the original scope of work to increase social benefits, e.g. installation of recreational areas with benches at various points of the sea defense."*
- 4.9 In 2004, Hurricanes Frances and Jeanne caused an additional \$382.0m in damages, equal to about 7% of GDP. The Bank supported the national recovery effort with a \$16.7m loan through the **Immediate Response Facility (IRF, BH-L1007)**, for the rapid restoration of basic infrastructure. IRF did not achieve its intended results. The goal of disbursing \$16.7m over 12 months was ambitious given IRP's average disbursement of about \$3.0m per year. Furthermore, the instrument was not a good match for the country's needs. IRF resources must be committed within 9 months of a natural disaster. In the case of The Bahamas, the facility was signed six months after the hurricanes, which meant that the vast majority of funding would be applied retroactively. According to the PCR, the ability of government to properly document its expenditures for reimbursement by the Bank proved to be a serious constraint to disbursement, particularly since most investments took place early-on, with little attention to the documentation required by the Bank. The lack of success in hiring a project management firm also proved a critical setback in terms of detailing, preparing, and executing new contracts. As a consequence, a significant amount of potentially eligible works remained unfunded at the expiration of the commitment.
- 4.10 A weakness repeatedly cited by all the people interviewed was the limited flexibility of the loan to rehabilitate to improved standards. IRF funds could not be used for permanent rehabilitation or improved reconstruction; they could only be used to restore damaged infrastructure to pre-hurricane conditions. In other words, faults in the original design, that may have been a factor in the deterioration of the damaged infrastructure, could be repeated under these circumstances. According to the PPMR, *"transport infrastructure, especially coastal protection, was in poor condition or of outdated, sub-standard construction prior to the hurricane and it did not make sense*

to use new financing to restore the infrastructure to its prior condition. If this condition of the IRF were amended to return works to a state in keeping with current national standards, the IRF would be much more effective and attractive for Borrowers." These constraints led to the cancellation of \$13.1m (78%) of the loan.

- 4.11 **Land administration.** With the support of an earlier Bank TC, government developed a strategy to improve land security, management, and long-term planning. In 2004, the Bank followed-up with a \$3.5m **Land Use, Policy and Administration Project (LUPAP, BH-L1001)** *"to improve the efficiency of land administration and land information management while preparing modern land legislation and policy guidelines; and thereby contribute to the improved use of land resources."* Expected results include: (i) modernization and expansion of land administration services; (ii) provision of geographic information for land use planning and development monitoring; (iii) strengthened government capacity to collect and analyze land information; and (iv) preparation of policy options.
- 4.12 Per its development objective, LUPAP has produced outcomes that have measurably improved the efficiency of land administration and enhanced the business environment. As documented by the December 2008 PPMR, the outcome of reducing the time required to record a property sale or purchase from nine months to one had been achieved. The target of a 20% increase (from 70,000 to 84,000) in the number of properties on the tax role was also achieved; and revenues generated from Crown Land Grants and Leases more than doubled, comfortably exceeding the target of a 40% increase. The project also produced unexpected results. The decision to outsource surveying to the private sector forced the Department of Lands and Surveys into a more regulatory role. This had the dual benefit of accelerating needed changes in the institutional framework, while reducing the backlog of surveys from 700 properties to 110. (The backlog is projected to be eliminated by the close of 2009.) In accordance with results (ii) and (iii) above, 339,999 acres have been mapped on Grand Bahama, and geographic profiles developed for Andros, Abaco, and Inagua. In terms of institutional objectives, LUPAP has formulated policy guidelines and prepared draft legislation to amend the Commonage, Land Surveyors, and Physical Planning Acts. Cabinet is expected to adopt an official position on these issues in 2009. LUPAP is the only loan in the Bank's portfolio that has consistently been rated as 'highly probable' to achieve its development objective in all PPMRs. As of December 2008, the loan was 80% disbursed.

B. Results: Social Development with Equity

- 4.13 **Education.** Approved in 1994, the \$21.0m **Primary and Secondary Education Program (PSEP - BH0007)** had the objective: *"to improve the quality and efficiency of primary and secondary education."* It was to have done this through activities proposed under three components: educational services; institutional strengthening, and an evaluation of vocational education and training. The extent to which the loan attained its development objective cannot be affirmed because: (i) a logical framework was not used; (ii) metrics were not identified to measure impact; (iii) only outputs were tracked; and (iv) a project monitoring system was not required.

- 4.14 In 2001, PSEP was retrofit to include four outcome indicators at the purpose level.⁵² An ex-post analysis of results conducted by the Ministry of Education over the period 1994-2005 confirmed that: (i) two of the outcomes were met: a 10% increase in the pass rates for The Bahamas Junior Certificate examinations; and a 7.5% reduction in the gap in test results between public and private schools; and (ii) one was exceeded: a 10% increase in the number of students entering tertiary institutions. While it is plausible that the project may have contributed to the identified outcomes by implementing activities that impact the teaching and learning process, the Bank's attribution cannot be substantiated in the absence of project-generated data or an evaluation framework. The loan did not complete the planned activities in TVET, thus it did not deliver the outcome of *"a 20% increase in the number of students who gain proficiency in technical skills"*.
- 4.15 In terms of physical targets, instead of building five schools in New Providence and the Family Islands, two senior highs and one primary school were built in New Providence with Bank funds. Government used its own resources to amalgamate small Family Island schools at an additional cost of \$15.0m. The additional school buildings helped to achieve the 25-students-per-class policy at the primary level, and 30 students per class at the senior high level. MOE considers both accomplishments important, as smaller classes have impacted positively on student achievement. The loan was completed in 2004 following a 64 month extension.

C. Results: Environmental Protection and Management

- 4.16 ***Water and Sanitation.*** The incorporation of the Family Island population into the public water system was considered important given the health risks associated with unregulated waste disposal and groundwater contamination. The Bank intervened with the **Family Islands Potable Water Project (BH0025)**, a \$14.0m loan that was approved in 1998 and completed in 2004, following a 24 month extension. The objective of the loan was *"to increase the efficiency and quality of water and sanitation services in the Family Islands [by] expanding existing well fields [and] developing new sources of potable water."* The project also sought to improve the financial condition of the state-owned Water and Sanitation Corporation (WSC), leading to financial independence from the central government, and to *"develop feasible alternatives to deal with groundwater pollution problems and the regulation of extractions in New Providence and the Family Islands."*⁵³
- 4.17 According to the PCR, the targeted production capacity and salinity level was achieved in Abaco; however, the quality of the water produced by the other well fields failed to meet WHO standards, which may limit developmental impacts associated with health. A potential solution to groundwater pollution, the Groundwater Regulation Act, was shelved. The assumption that WSC coverage would generate demand proved false, rendering its product irrelevant and costly. According to the final PPMR, *"some of the potable water systems installed under the project serve a limited number of households - as few as 10 to 40... and one system built in Treasure Cay that included a distribution network, is inoperative due to the lack of customers interested in the service."* Potential customers were reluctant to switch to WSC when they had their own free groundwater solution. The objective of increasing the financial autonomy of WSC was also not achieved. A Business Plan

to stem the decline of WSC's financial position was approved by the corporation's board in 2002, but never implemented by government. Adjustments to fees recommended by the plan required a difficult political decision that government was unwilling to make. If anything, WSC became more dependent on government transfers to finance its deficits over time. According to the PCR, in 2003, the company was *"cash-strapped, with Accounts Payable reaching \$50.7m, or 10.3 times Net Accounts Receivable"* including government arrears. Instead of reducing fiscal transfers to \$4.5m per year by 2002 (a stated goal), they increased from \$11.6m in 2002 to more than \$15.0m in 2006. Due to the low probability of achieving its development objectives, the loan was classified as a problem project during its last three years of execution.

- 4.18 **Solid Waste.** The **Solid Waste Management loan (BH0008, \$23.5m)** was approved in 1999 *"to improve solid waste management services for New Providence and the Family Islands."*⁵⁴ *The improved services will aim to be efficient, financially sustainable, protect the environment, and the standard of public health."*⁵⁵ Although the original Log Frame did not set timeframes for verifiable indicators, results associated with the frequency of garbage collection, loader productivity, and increased waste density were met. Environmental regulations related to waste disposal were also strengthened, and compliance with waste treatment and disposal standards improved through the introduction of regulatory inspectors. While the facilities installed under the project have led to a more efficient and effective disposal of solid waste, planned health outcomes have not been met. According to the PCR, *"the Department of Environmental and Health Sciences, although contractually obliged to monitor the level of contamination in baseline water from the landfills, stopped this practice in 2005... [and]...reductions in illness due to pests and illegal dumping"* have not been verified. The reduction in methane emissions was not achieved because it required *"the design and installation of separate facilities which were not included in the original landfill design and could not be completed within the existing project's budget and implementation schedule."*
- 4.19 Consistent with the other infrastructure loans, weakness in the planning process is apparent. Not all sites were identified upfront. As a result, 15 of the 21 landfills were not on Crown property, leading to the protracted acquisition of land. Of the planned total of 18 Family Island facilities, 44% were commissioned as of final disbursement. Also, the size of some of the solid waste disposal facilities in the Family Islands had to be increased because the demand forecast did not take into account major FDI projects that were on stream. This pitfall reflects a serious shortcoming in long term planning by central government that was not addressed by the Bank. Likewise, the first cell at the Harrold Road facility in New Providence reached full capacity while the loan was still in execution. A new round of physical investments are now required.
- 4.20 The objective of financial sustainability was only partially addressed. A *"reduction to zero of budgetary support for operation of landfills"* was agreed as an outcome indicator; however, tipping fees were only introduced at one site, and returned a mere 11% of the annual cost of that operation. Enabling legislation to introduce an environmental levy was passed by Parliament, but not enacted.

- 4.21 As noted in the PPMR, “*the capacity of the project to break through the bottlenecks of execution was constrained by a shortfall of technical staff in the executing agency, and the fact that a full-time project manager was not appointed until 2002, following the mid-term review.*” As a consequence, implementation was delayed by 62 months. The resulting overruns increased government's share of the total project cost from 30% to 49%. Given the low level of institutional support, unsatisfactory implementation progress, and lack of compliance with financial objectives, the loan was classified as a problem project from 2001-2003. Following the staffing-up of the execution unit in 2004, the project was placed on Alert, where it remained through final disbursement in 2008.

D. Results: Public Sector Reform

- 4.22 The objective of “*improved public sector management and civil service performance*” was not met. The Bank's practice of “*undertaking reform programs as an integral whole involving ... long-term strategic perspectives*”⁵⁶ contradicted its capacity to engage government in effective policy dialogue. Although agreement was reached on several targeted initiatives that could produce “early winners”, consensus could not be achieved on the scope of the broader reform agenda within government, or with the Bank. A more pragmatic approach to the management of private investments also fell short of the producing results. No loans were approved.

V. CONCLUDING OBSERVATIONS

- 5.1 Over the period of review, the relationship between the Bank and The Bahamas has been characterized by a number of starts and stops. While the Bank did a good job of diagnosing the development challenges faced by the country, it wasn't able to develop an effective operational program. This led to a relationship that was costly for both partners in terms of time, resources, execution delays, and ultimately, a low-performing portfolio.
- 5.2 ***Relevance.*** In the broadest sense, the Bank's Program, as envisioned, was deemed relevant to the needs of the country. The development challenges identified by CS 2001, were validated in CS 2003, and remain pertinent today. Consistent with the recommendation of the previous CPE, the Bank made a concerted effort to diversify its portfolio beyond infrastructure, and broaden its relevance to pressing challenges in the social, environmental, and public sectors. In doing so, it shifted its strategic focus away from large investment projects, towards smaller loans with a high technical assistance content, where it had “*an increased chance of tackling the most relevant development issues*” Not only did this decision strengthen the alignment of the Bank's strategy with the institutional mandate of IDB-8, it was also welcomed by government as “*an invaluable source of technical advice as well as an important source of funding on reasonable terms.*”⁵⁷
- 5.3 Although the Bank mobilized substantial resources to develop the pipeline, the program that was delivered differed significantly from the intent of the Bank's Program. Thirteen loans were included in the CSs, but just four were approved.

- An additional 19 operations were inserted into the pipeline between 2001 and 2008, of which three were approved. A reduction in support for infrastructure was envisioned by CS 2003; however, the sector continued to dominate the lending portfolio throughout the period (around 85% of approvals). Social spending, which represented 66% of the indicative program, comprised just 9% of the approved portfolio; and all loans envisioned for the public and environmental sectors were either dropped or pending cancellation as of December 2008.
- 5.4 Partly, this is the result of an investment environment in which decisions are influenced by the fit between immediate needs and available fiscal space. The Bahamas lacks a guiding framework within which to plan and oversee investment projects. This has, on occasion, resulted in a low attention to strategic planning and weak coordination between government agencies and the Bank. It has also contributed to: (i) a country program that was crafted around a purpose that was too broad to measure and objectives that were generic; (ii) a focus that contradicted the Bank's capacity to anticipate and deliver the pipeline; and (iii) a low level of government ownership during project preparation. Not only did the lack of a formal planning system limit the ability of both partners to anticipate development bottlenecks, it undercut their capacity to accurately dimension projects, and in some instances, undermined any opportunity for sustainability or profit.⁵⁸
- 5.5 Constraints to effective planning also stemmed from the political economy in which decisions were made, and the institutional environment in which they were managed. Because the Bank lacked an appropriate understanding of these inherent constraints, this dimension of decision making was consistently underestimated.
- 5.6 **Coherence.** Both strategies contained a good deal of reflection about the possible fit between Bank instruments. In practice, multi-phase loans, reimbursable TCs, and Sector Facilities were used as stage-setting operations; but, with the possible exception of the multi-phase instrument, they did not lead to larger investments. Although limited, MIF has been an effective private sector development tool. Neither PRI nor IIC were relevant as a source of external financing.
- 5.7 **Evaluability.** The Bank's Program was not focused on measuring results. Measurable objectives were not established at the level of purpose in either CS. Both were weak in their selection of performance indicators (quality, specificity, and relevance); and neither included a complete metric (baseline, milestone, target) to gauge progress in terms of development impact. By not establishing targets for its own performance, the Bank missed an important opportunity to clearly define the role that it could play in assisting the country to achieve its development priorities. It also missed an opportunity to drive for results.
- 5.8 At the project level, evaluability was considerably higher. The ex-ante evaluability of loan documents reveals that 57% of the specified indicators have a baseline, 68% include targets, but just 3% contain milestones to gauge progress.
- 5.9 **Execution.** A low level of borrowing and a high level of cancellations have characterized the program. Over the period of review, seven loans were approved. As of December 2008, four were active, two were pending

cancellation without any disbursement, and one had been completed (albeit with a 78% cancellation of funds).

- 5.10 The portfolio's disbursement rate lags behind the Bank wide average with just one loan performing above the norm. The average length of extension for completed loans also exceeds the Bank norm by 33%. Given significant execution delays, disbursements have fluctuated widely. At any given time, the proportion of the portfolio at risk has been substantial, varying from 29% in 2006 (the lowest) to 72% in 2008 (the highest). Compliance with contractual conditions, legislative approvals, execution capacity, and borrower commitment have consistently been identified as the major risks to portfolio performance.
- 5.11 The cost of project preparation is high relative to the size of the loans. Over the period of review, the Bank invested a significant level of resources in the preparation of six loans which were eventually withdrawn from the pipeline. The average administrative cost (staff, travel, consultants) to prepare these operations was \$24,761 per million dollars programmed, compared to \$8,873 per million dollars programmed for the approved cohort of loans, and \$2,803 Bank wide for approved investment loans over the same period of time. In general, the relatively high cost of loan preparation in the country is associated with the small size of the operations. It is also the result of inefficiencies. Although an outlier, one operation (Youth, BH-L1006) accrued \$693k in administrative costs and 16 missions before it was withdrawn from the pipeline. While this may be seen as a remarkable display of persistence on the part of the Bank, it is a practice that might not be sustainable. The major reasons identified by the Bank for the withdrawal of projects from the pipeline are the low level of borrower ownership and lack of consensus. This calls into question the effectiveness of the Bank's policy dialogue.
- 5.12 **Results.** The developmental effectiveness of the Country Program could not be clearly determined for the reasons mentioned above. Nonetheless, given the fact that the only two loans approved in the environmental pillar are pending cancellation without any disbursements, and that neither the proposed loans nor consensus on the reform agenda emerged from the public sector pillar, it could be deemed that two of the four pillars did not achieve their development objectives.
- 5.13 While most infrastructure projects have completed (or are expected to complete) their physical targets, both the Electricity and Solid Waste Projects fell short of the objective of satisfying the growth in demand for their services. This outcome is the result of a demand forecast that did not take into account anchor projects that were already on stream. This pitfall reflects a shortcoming in long-term planning that has not been addressed by the Bank.
- 5.14 None of the proposals that required regulatory changes were approved, and none of the proposals that required changes in fee structures were enacted. These concerns affect the financial viability of state-run enterprises and their prospects for privatization. The fact that the water, electricity, and solid waste projects could not comply with the limited financial conditions of their loan contracts generates apprehension about the lack of leverage, or exercise thereof, of the

Bank. It also calls into question whether these objectives were appropriate to begin with, given the political economy of the country.

- 5.15 The Land Use Policy and Administration Project is the only project that has data to ascertain that it has achieved its development objectives. It was also able to achieve its financial targets. The operation is adequately dimensioned, targeted, and executed through the Office of the Prime Minister. In the education sector, although it is plausible that improvements in pedagogy and curriculum may have contributed to the achievement the project's retrofit outcomes, it is impossible to measure the Bank's attribution since the project was designed without a logical framework or project monitoring system.

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ENDNOTES

¹ A case in point is the sale of water by WSC, which in some instances, is provided by concession to FDIs at a lower rate than it costs to produce.

² Twelve supervisory instruments in the Bank's toolkit were employed in The Bahamas. These include the Project Alert Information System (PAIS), Project Performance Monitoring Report (PPMR), Technical Inspection Visits (TIV), Financial Inspection Visits (FIV), External Financial Auditing (EFAS), Project Completion Reports (PCRs), Administrative Missions; Annual Portfolio Review Mission (CPR), Annual Evaluation of the Portfolio (APE), Mid-Term Evaluations (MMT), Final Evaluations (FIN), Ex-Post Evaluations (BEP). See Chapter III for analysis.

³ 2007 estimate based on 2001 Living Conditions Survey, Department of Statistics, Ministry of Finance.

⁴ Definition: Gross domestic product at market prices Source: National Statistical Office Latest actual data: 2007

⁵ Agriculture, fishing, and manufacturing are marginal, having contributed an average 10% to GDP over the period of review. Just 1% of the land is arable, and the nutrient-poor soil requires heavy fertilization.

⁶ International Monetary Fund, World Economic Outlook Database, April 2009.

⁷ The Worldwide Governance Index reports aggregate and individual governance indicators for 212 countries and territories over the period 1996-2007 in the following dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. The ratings are normalized on a 0-1 scale, with 1 being the best. Country percentile rankings are reported in Table 1.1.

⁸ In the wake of the September 2001 terrorist attacks, government revenues fell by 10% (2001-2002); and the budget, which was almost balanced, spiked at -3.4% of GDP (2003).

⁹ In the past, The Bahamas has enjoyed privileged market access to the United States through the US Caribbean Trade Partnership Act, to Canada through the Tariff Treatment for Commonwealth Caribbean Countries, and the European Union (EU) through the Cotonou Agreement.

¹⁰ International Financial Statistics database, Central Bank of The Bahamas.

¹¹ The government aims to balance the budget and reduce debt to 30-35% of GDP by 2012; however, costly imports have sent the external current account deficit (CAD) soaring. The trade balance suffers from a structural deficit that has deteriorated due to the higher oil import bill and construction-related imports. Between 2001 and 2004, the CAD averaged 8.6% of GDP. This widened to 16.2% from 2005-2007, during the boom in foreign direct investment. By the end of 2008, the CAD was projected to retreat to 12.9% due to the completion of several major FDI projects.

¹² Post secondary education and training is limited to the College of the Bahamas, the Bahamas School of Nursing, the Bahamas Hotel Training College (BHTC) operated by the Bahamas Hotel Training Council, Industrial Training Centers (ITC) operated by the National Training Council (NTC), and The Bahamas Technical and Vocational Training Institute (BTVI). Currently, BTVI offers entry (Level 1) courses in: Arts & Crafts, Auto Repair, Auto Mechanics, Barbering, Bookkeeper Assistant, Cabinet Making, Carpentry, Computer Repair, Cosmetology, Computer Software Application Specialist, Data Entry Clerk, Electrical Installation, Electronics, Facial Technology, Masonry, Nail Technology, Office Systems and Administration, Office Clerk, Painting and Decorating, Plumbing, Air Conditioning & Refrigeration, Tailoring, Women's Apparel Production, Welding, Window Treatment & Accessories. Many of these programs are Certificate Programs requiring up to 30 credit hours, and some are Diploma Programs requiring as many as 60 credit hours.

¹³ COB offers a range of non-technical two- and four-year programs. As part of its effort to become a "national university", COB reduced its technical two-year programs. COB does not recognize credit extended by BTVI, which only requires functional literacy at the 9th grade level for admission.

¹⁴ The Bahamas has not been successful in resolving the paradox of acute technical skill shortages that co-exist with unemployment. Certain sectors employ a high percentage of foreign workers: 26% in agriculture,

14% in construction, 12% in manufacturing, 14% in education, among others. In 2003, Government issued 1,690 work permits, including permits for bankers, accountants, construction workers, hotel maids, waiters, and specialized tradesmen. (Guerrero, 2005). In the tourism sector, a considerable number of work permits are also issued for upper level jobs such as executive, middle management and supervisory positions.

¹⁵ Skill gaps were said to exist in the following areas: foreign languages; special vocational and technical skills; supervisory and entry level positions; customer and support services; “soft skills” such as attitude, punctuality, etc. Related to middle and senior-level positions, the following skill deficiencies were identified in applicants: written and verbal communication, problem solving, management, leadership, motivation, computer, and work ethic (to name a few).

¹⁶ The performance of the Bahamian system is not benchmarked internationally. National secondary examinations include the Bahamas Junior Certificate (grade 7), and the Bahamas General Certificate of Secondary Education (grade 12).

¹⁷ The lack of IT skills among job seekers was also highlighted by employers in financial services, insurance, and the hotel and tourism industries, due to the increasing importance of technology in these sectors. In the construction industry, companies mentioned the need for more air conditioning and refrigeration mechanics, electricians, carpenters, plumbers and pipefitters, operators of heavy equipment, supervisors, and construction managers, again commenting on the poor basic skills of potential workers.

¹⁸ For example, in 2006, date of the last published Labor Force Survey, unemployment ranged from 6.7% in New Providence to 11.5% in the Family Islands. (National Institute of Statistics, Labor Force Survey.)

¹⁹ Bimini, for instance, is just 40 miles from Miami; and Nassau, the capital and main port of entry, 185 miles.

²⁰ Within the Caribbean, this high-level of dependency on North American visitors is equaled only by Puerto Rico and the US Virgin Islands. In general, European and Canadian visitors, which represent approximately 5% and 4% respectively of The Bahamian market, are driven away by the high costs associated with vacationing in New Providence and Paradise Island, opting instead for “all inclusive” vacation packages offered by other islands in the Caribbean. In 2007-08, there was a slump in US tourism which was partially compensated by an uptake in visitors from Canada and Europe due to a favorable exchange regime. The outlook for 2009 is bleak, however.

²¹ Prior to January 23, 2007, international treaties allowed American citizens to visit Canada, Mexico, and most Caribbean countries without a passport, so long as they carried a valid driver's license or birth certificate. Since then, the U.S. Department of Homeland Security through the Western Hemisphere Travel Initiative requires that all returning travelers present a valid passport before entering the U.S. or its territories. As a result of this measure, tourism declined by 4-10% during the first quarter of 2007, according to The Bahamas Hotel Association. On the other hand, U.S. Territories, like the U.S. Virgin Islands and Puerto Rico, which do not require a passport for US citizens, experienced an increase in their occupancy rates.

²² A transition in Cuba, and the lift of the U.S embargo against that island, could provoke an even deeper cut in tourism revenue. The general belief is that cruise arrivals would be hit fairly quickly if a change in the Cuban regime occurs, while the stop-over sector would be affected in the medium term. It should be noted that in 1961, the U.S. embargo of American tourism in Cuba led to an upsurge in Bahamian tourism that continues to this day.

²³ For example, in 2006, date of the last published Labor Force Survey, unemployment ranged from 6.7% in New Providence to 11.5% in the Family Islands. (National Institute of Statistics, Labor Force Survey.)

²⁴ The point has been proven by Atlantis' Phase 3 expansion, which originally called for a 1,500 room tower, and later became a 600-room, luxury all-suite hotel, and a 400-unit condo-hotel.

²⁵ There are also four exclusive ports of call operated by cruise lines that guarantee stops in the archipelago. These include: Castaway Cay by Disney Cruise Line, Little Stirrup Cay by Royal Caribbean Cruise Lines, Great Stirrup Cay by Norwegian Cruise Line, and Half Moon Cay by Holland America Line.

²⁶ IMF Country Report No. 04/318, The Bahamas: Assessment of the Supervision and Regulation of the Financial Sector—Review of Financial Sector Regulation and Supervision.

²⁷ The jurisdictions included in the FATF's 2000 "Non-Cooperative Countries and Territories" were: Bahamas, Cayman Islands, Cook Islands, Dominica, Israel, Lebanon, Liechtenstein, Marshall Islands, Nauru, Niue, Panama, Philippines, Russia, St. Kitts and Nevis, and St. Vincent and the Grenadines.

²⁸ The laws passed were the Money Laundering (Proceeds of Crime) (Amendment) Act, 2000, on 27 June 2000; the Evidence (Proceedings in other Jurisdictions) Act, 2000; and the Evidence (Proceedings in other Jurisdictions) (Amendment) Act, 2000, on 17 August 2000. On 29 December 2000, it enacted the Central Bank Act, 2000; the Bank and Trust Companies Regulation Act, 2000; the Financial Intelligence Unit Act, 2000; the Financial and Corporate Service Providers Act, 2000; the Criminal Justice (international co-operation) Act, 2000; the International Business Companies Act, 2000; the Dangerous Drug Act, 2000; the Financial Transaction Reporting Act, 2000; and the Proceeds of Crime Act, 2000.

²⁹ By comparison, the Cayman Islands' banking sector manages external assets slightly about 630 times the size of the jurisdiction's economy.

³⁰ His Excellency The Hon. Arthur D. Hanna, Governor-General, "Speech From The Throne" delivered at the opening of Parliament, May 23rd, 2007.

³¹ UNECLAC 2004.

³² This section is largely based on the IMF Staff Report for the 2009 Article IV Consultation.

³³ The IMF projects a contraction of 3.9% in 2009 and 0.5% in 2010. The Government, however, does not agree with these projections and expects a smaller decline in 2009 real GDP growth (IMF Staff Report for the 2009 Article IV Consultation).

³⁴ IMF Staff Report for the 2009 Article IV Consultation, p.7.

³⁵ The 13 areas of strategic focus identified in the Strategy Matrix of CS 2001 include: legal and regulatory framework, infrastructure, privatization, SME development, labor market reform, disaster preparedness, lessening vulnerability education, health, poverty, local government capacity and Family Island development, environmental management, natural resources conservation. The Strategy Matrix for CS 2003 includes the following: competitiveness and an enabling environment, transportation, electricity services, health, education, poverty and social safety net, youth at risk, improving environmental management and natural resource conservation, and public sector reform.

³⁶ The proposed construction of a causeway to replace the Glass Window Bridge that was destroyed by a hurricane did not pass the economic and financial feasibility requirements of the Bank because it lacked the economies of scale to pass any financial test posed by the Bank. Despite the fact that the original bridge provided the only ground connection between north and south Eleuthera,³⁶ and the only protective barrier between the deep Atlantic and the Great Bahamas Sandbank (where most of the archipelago is seated), it was cancelled.

³⁷ The Power Expansion Program II (BH0018) finished in November 2001; the Family Islands Potable Water Project (BH0025) in March 2004; Infrastructure Rehabilitation I (BH0031) in June 2007, and Solid Waste Management (BH-0008) in June 2008.

³⁸ Strategic Plan for Investments, defined by the Ministry of Financial Services and Investment.

³⁹ Immediate Response Facility (IRF) for Natural Disasters (BH-L1007).

⁴⁰ According to the December 2005 PPMR, the additional \$100m in Supplementary Financing for New Providence Transport (BH-L1024) was required to cover cost overruns which resulted from a six-year hiatus in the execution of the original New Providence Transport (BH0029) loan. The interruption in execution was prompted by the bankruptcy of the main contractor and subsequent delays in letting a new construction contract.

⁴¹ According to the Donors Memorandum, "the purpose of the project is to diversify the tourism product and market newly developed sustainable tourism packages offered by a network of SMEs (multi-island destinations) in specific market segments, such as, heritage, culture and nature."

⁴² For example, companies could not produce past audited financial statements; consequently, IIC could not present these projects to the Board. This is the same constraint that confounded the Multisector Global Credit Program, executed (with only limited success) by The Bahamas in the 1990s.

⁴³ The Bank's normative for Country Strategy 2003-2007 can be found in the Country Paper Guidelines (GN-2020-6) that were approved in 2002. These Guidelines serve as a working framework within which to develop the Bank's country strategies. At the time of the formulation of the framework, the Board decided that Management and OVE would reevaluate the instrument in 2005 in order to determine the effectiveness of the Guidelines. To this end OVE reviewed eleven strategies, including that of The Bahamas.

As part of the review, the strategies were rated on seven main themes, by applying an evaluability instrument. The themes were: (i) diagnosis, (ii) analysis of previous programming cycle, (iii) objectives, (iv) logical consistency, (v) risks, (vi) indicators, and (vii) monitoring and evaluation. The instrument assessed the evaluability of the reviewed strategies, as well as the extent of compliance with the Guidelines. The evidence reviewed suggests that the strategies were characterized by poorly developed and in many instances inconsistent diagnostics, a paucity of outcome indicators and metrics for these indicators, limitations in the logical relationship between different components of the strategies, and the absence of a risk assessment. On the whole, the strategies did not contain the elements required in order to serve the purposes identified in the Guidelines. On a normalized scale of 1-100, the average composite score of all 11 strategies was 20.25. The overall score for The Bahamas strategy fell below the norm -- 18.26. In terms of indicators, alone, the 2003-2007 strategy scored 4.44, with just three of the remaining 11 countries having an equal or lesser score. (See RE-309 for more details.)

⁴⁴ Inter-American Development Bank Information Warehouse: Long-Term Loan Disbursement Projections - Bahamas. September 2008.

⁴⁵ There are 12 supervisory instruments in the Bank's toolkit, including the Project Alert Information System (PAIS), Project Performance Monitoring Report (PPMR), Technical Inspection Visits (TIV), Financial Inspection Visits (FIV), External Financial Auditing (EFAS), Project Completion Reports (PCRs), Administrative Missions; Annual Portfolio Review Mission (CPR), Annual Evaluation of the Portfolio (APE), Mid-Term Evaluations (MMT), Final Evaluations (FIN), Ex-Post Evaluations (BEP). Analyzed information has been taken both from the IBD Data Bank and ROS. The Country Office and RE3 have verified this data and provided additional records.

⁴⁶ At risk projects include: Improved Primary and Secondary Education, Family Islands Potable Water, Solid Waste, New Providence Transport, Immediate Response Facility for Natural Disasters, Master Plan for Coastal Zone Management, Transforming Education and Training, and Natural Risks Preventive Management. The two projects considered most problematic from the first cohort of loans, Solid Waste and Water, have since closed. Extensive delays associated with the ratification of the Coastal Zone and Natural Disaster Management loans (both approved prior to general elections in 2007), however, call into question the ability of the projects to achieve their development objective, thus they were both at risk in 2008. The New Providence Transport Loan was on alert for six consecutive years (2002-2008) due to the execution delays, but has recently returned to normal status. given the approval of supplementary financing to complete the scope of work

⁴⁷ With a mere 14% disbursed, Transforming Education and Training (BH-L1003) was not included because it is considered premature to draw conclusions. Masterplan for Coastal Zone Management and Natural Risks Preventive Management were dropped because neither was legally effective as of December 2008. Likewise.

⁴⁸ "Power Expansion Program II," Loan Proposal (BH-0018), IDB, October 1996.

⁴⁹ The *Arrears Action Plan* was an agreement reached in August 1996 between the government and BEC to repay the government's and ministries' debts to BEC over a six year period.

⁵⁰ "New Providence Transport Program," Loan Proposal (BH-0029), IDB, May 2001.

⁵¹ By 2002, the first 4.3 km (of 23 km) of corridors were complete and an additional 3.5 km were underway, when the construction company went into receivership and their contract was terminated. This prompted a six-year hiatus, during which the contract was split into two international and five local subprojects. Three additional attempts were made to let contracts following Bank rules without success. In

2007, with just 20% of the project's physical targets achieved, execution began to turn around. Given the urgency of arresting the deteriorating conditions of several roads, and to provide Bahamian contractors with an opportunity to tackle a large infrastructure project, government removed the local slices from the loan package, paying for the works fully with its own resources.

⁵² Ministry of Education/Planning and Research Unit, Coakley, Brenda, An Assessment of Education in The Bahamas 1994-2000, Sept. 2001, (Conclusions). Also refer to Ministry of Education/Testing and Evaluation Section: Comparative Analysis Between Government High Schools and Private High Schools in The Bahamas 1993-2003. The purpose of the GLAT examination changed in 1997 from a diagnostic test to an achievement test. The revised form of the GLAT was administrated in 1998, which did not give sufficient number of years to ascertain improvement. GLAT test scores from 1998-2001 are presented in the MOE/Coakley report.

⁵³ "Family Island Water Project," Loan Proposal (BH-0025), IDB, July 1998.

⁵⁴ Family Islands targeted by the Solid Waste Management Program include: Abaco, Andros, Bimini, Cat Island, Eleuthera, Great Exuma, Grand Bahama, Inagua, Long Island, and San Salvador.

⁵⁵ "Solid Waste Management Program," Loan Proposal (BH-0008), IDB, January 1999.

⁵⁶ Letter to Senator the Honorable James Smith, Minister of State for Finance. COF/CBH/157/2004.

⁵⁷ "2003/04 Budget Communication". The Honorable Perry G. Christie. P. 17.

⁵⁸ A case in point is the sale of water by WSC, which in some instances, is provided by concession to FDIs at a lower rate than it costs to produce.