Office of Evaluation and Oversight


## Country Program Evaluation

# Bahamas 2010-2017

IDB | IDB Invest

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# Country Program Evaluation:

# Bahamas

## 2010-2017

Office of Evaluation and Oversight (OVE)

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# Acronyms and Abbreviations

| | |
|---|---|
| BCD | Bahamas Customs Department |
| BEC | Bahamas Electricity Corporation |
| BPL | Bahamas Power and Light |
| BSD | Bahamian Dollar |
| BTVI | Bahamas Technical and Vocational Institute |
| CAA | Civil Aviation Authority |
| CPE | Country Program Evaluation |
| CS | Country Strategy |
| CS 2010 | Country Strategy 2010-2015 |
| CS 2013 | Country Strategy 2013-2017 |
| EE | Energy efficiency |
| FDI | Foreign direct investment |
| FI | Financial intermediary |
| GDP | Gross domestic product |
| ICZM | Integrated Coastal Zone Management |
| IMF | International Monetary Fund |
| IDB | Inter-American Development Bank (the Bank) |
| IDBG | Inter-American Development Bank Group |
| IIC | Inter-American Investment Corporation |
| MIF | Multilateral Investment Fund |
| MOE | Ministry of Education |
| NPTP | New Providence Transport Program |
| NRW | Non-revenue water |
| NSG | Non-sovereign -guaranteed |
| OECD | Organization for Economic Co-operation and Development |
| OVE | Office of Evaluation and Oversight |
| PBL | Policy-based loan |
| PEFA | Public Expenditure and Financial Accountability initiative |
| PFM | Public financial management |
| PIU | Project implementation unit |
| RE | Renewable Energy |
| SG | Sovereign-guaranteed |
| SMEs | Small and medium-sized enterprises |
| TC | Technical cooperation |
| TVET | Technical education and vocational training |
| TFP | Total factor productivity |
| VAT | Value-added tax |
| W&S | Water and sanitation |
| WSC | Water and Sewerage Corporation |
| WTO | World Trade Organization |

# Preface

This document presents an evaluation by the Office of Evaluation and Oversight (OVE) of the Country Program of the Inter-American Development Bank Group (IDBG) with The Bahamas over the period 2010-2017. This Country Program Evaluation (CPE) is the third independent evaluation of the Bank's program with the country.

As the Bank's Protocol for CPEs (RE-348-3) states, the main function of a CPE is "to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance." Like other CPEs, this evaluation examines the Bank's relationship with The Bahamas from an independent and comprehensive perspective, and serves the dual purpose of strengthening accountability and sharing lessons learned for future Bank support and for the next Country Strategy.

The CPE looks in depth at the design, implementation, and results of operations approved or active between January 2010 and June 2017, considering the country context and the applicable strategic documents.

In preparing the evaluation, OVE analyzed country data, reviewed project documents, and conducted interviews with Bahamian authorities, project implementation units, members of civil society and the private sector, and IDBG staff at the Bank's Country Office and at Headquarters. The team also visited the sites of IDBG-supported projects to assess implementation progress and challenges.

# Acknowledgements

This evaluation was led by Michelle Fryer and Pablo Alonso under the direction of Cheryl W. Gray, OVE Director. The team included José Claudio Pires, Nayda Ávalos, José Fajgenbaum and Patricia Sadeghi. OVE would like to thank the Bahamian authorities, Bank personnel in the Country Office and Headquarters, and representatives of the Bahamian private sector and civil society for their time and assistance in providing information.

Despite its high levels of human development and per capita gross domestic product, Bahamas faces important structural, economic, and social challenges. The Bank approved two Country Strategies for The Bahamas between 2010 and 2017.

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# Executive Summary

**The Bahamas poses unique challenges. Its high levels of human development and per capita gross domestic product (GDP)—both among the highest of Inter-American Development Bank (IDB) borrowing member countries—mask important structural, economic, and social challenges: significant income inequality, high unemployment, a weak skills base, an inefficient public sector, and inadequate infrastructure. With a total population of 369,700, The Bahamas has an internal market that is small, a productive base that is narrow and unable to benefit from economies of scale, and a regulatory environment that is weak in important sectors. Over four-fifths of the population is concentrated on the islands of New Providence and Grand Bahama, and the balance is distributed across 30 Family Islands. This dispersion creates challenges for transportation, public administration, and employment. Addressing these challenges will require sustained efforts by the Government—efforts in which the IDB Group (IDBG) can play an important role.**

The pace of economic growth has slowed considerably over the past 15 years, although there are signs of recovery. GDP growth averaged less than 0.6% a year over this period, barely exceeding population growth, while the unemployment rate has doubled over the past decade. However, there are some signs of a recovery. Preliminary data from the Department of Statistics' Labour Force Survey showed that the estimated unemployment rates for the general population and for youth (15-24) fell from peaks of 15.7% and 30.8% in 2014 to 11.6% and 25.1%, respectively, in late 2016.

The current fiscal trajectory underscores the need to control public spending and increase public revenues. The successful implementation of a VAT in 2015 contributed to increasing revenues, but further tax reforms are needed. Reforms are also needed on the spending side, as recent economic contractions have pushed expenditures above the medium-term target, adding to public deficits and debt. Addressing fiscal and administrative challenges is important not only for debt sustainability, but also to create fiscal space for needed infrastructure spending.

Private sector investment is critical in meeting investment needs. Even with a stronger fiscal position, public investment would not be sufficient to cover investment needs. The business climate needs to be improved to attract sufficient private investment. Despite recent progress in the area, the Bank Group has not engaged significantly with the private sector and needs to do more, with strong SG-NSG coordination and attention to the cost of its products vis-à-vis those of competitors.

The Bank approved two Country Strategies (CSs) for The Bahamas between 2010 and 2017. While the 2010 CS focused on four development objectives, the 2013 CS identified five, with some overlap between the two CSs. The 2010 CS sought to stimulate growth during a period of economic contraction by providing countercyclical support for Government's capital investment program in the key sectors of transport, energy, and water and sanitation, and for SME development. The 2013 CS sought to (i) reform public sector finances and management to address fiscal and debt sustainability; (ii) prevent crime and violence and strengthen the criminal justice system; (iii) modernize the electricity sector and diversify the energy matrix; (iv) diversify the economy and open markets; and (v) build resilience to natural disasters.

While both strategies were generally relevant in that they reflected the priorities shared between the GOB and the Bank, the 2010 CS did not address some important development needs of the country. The CS did not include citizen security as a priority area, despite rising crime and its detrimental effect on tourism and economic activity. It also did not focus on the serious fiscal challenges the country was facing at the beginning of the period, the Family Islands, vulnerability to natural disasters, or the need to lay the groundwork for future private sector engagement. The next CS partially corrected this situation.

The Bank's country program with The Bahamas was financially relevant. The Bank is the major multilateral lender to the country (as IDB does not have a graduation policy like the World Bank), accounting for roughly 98% of debt to international financial institutions, 25-27% of central Government external debt, and 4% of total central Government debt.

The IDB Group approved 56 new operations with an estimated total value of US$702.1 million. Half of this total was accounted for by three regional NSG loans to a financial intermediary (FI), with the funds going to Brazilian, Argentinian, Colombian, Chilean,

Paraguayan and Peruvian SMEs. The other half of the total lending was heavily skewed toward transport and water and sanitation, with relatively small amounts addressing other strategic priorities mentioned prominently in both CSs. Given difficulties in energy sector reform, the only loans in energy were two recent NSG solar energy projects. Finally, few resources were directed to the Family Islands.

While the cost of preparing investment loans decreased during the period covered by this evaluation, implementation of investment loans took more than seven years. The Bank made a significant effort to strengthen the project implementation units of its operations, but with mixed success.

There have been some positive results in the fiscal area, trade, W&S, and citizen security, but limited or negligible results in other areas. Bank technical assistance supported implementation of the VAT and the Electronic Single Window for trade. There has been progress in reducing NRW but little in improving the financial performance of WSC or adopting a new regulatory framework. Citizen security became a priority in the second strategy, and the Bank's contribution has been substantial. Bank support is designed to strengthen planning capacity in the Government and the integrated financial management system, but it is too early to assess results. Although almost half of the lending that benefited The Bahamas went to transportation, little progress toward achievement of CS goals is evident. Similarly, support to social protection and education had limited verifiable results. The Bank Group engaged little with the private sector for most of the evaluation period, other than a couple of small projects through FINPYME and MIF, though IIC has recently approved financing for two Renewable Energy loans.

Based on these findings, OVE has the following four recommendations for Bank Group management:

**1.** Explore with the Bahamian authorities the possibility of providing broader and deeper support for tax policy and administration and public expenditure management, using a strategic mix of Bank instruments.

**2.** Foster greater SG-NSG coordination in energy and transport, including in strengthening regulatory frameworks and attracting private sector investments.

**3.** Engage in an in-depth dialogue with the Government to help diagnose the factors underlying the country's weak institutional capacity and define an action plan to strengthen it.

**4.** Explore with the Bahamian authorities the possibility of focusing some work on the Family Islands, given their greater poverty and unique challenges.

Sluggish economic activity and a major increase Government spending led to deterioration in public finances after 2008. Gross central Government debt increased from under 30% of GDP in 2007 to 69.9% at end-2016.

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# 1 Context of the Country Program

**The Bahamas poses unique challenges. Its high levels of human development[1] and per capita gross domestic product (GDP)[2] —both among the highest of Inter-American Development Bank (IDB) borrowing member countries—mask important structural, economic, and social challenges: significant income inequality, high unemployment, a weak skills base, an inefficient public sector, and inadequate infrastructure. With a total population of 369,700,[3] The Bahamas has an internal market that is small, a productive base that is narrow and unable to benefit from economies of scale, and a regulatory environment that is weak in important sectors. Over four-fifths of the population is concentrated on the islands of New Providence and Grand Bahama, and the balance is distributed across 30 Family Islands. This dispersion creates challenges for transportation, public administration, and employment. Addressing these challenges will require sustained efforts by the Government—efforts in which the IDB Group (IDBG) can play an important role.**

## A. Economic structure and recent economic developments[4]

Tourism is the largest sector of the economy in The Bahamas. Together with tourism-driven construction and manufacturing, it contributes roughly 60% to GDP, employs half of the labor force, and accounts for about 30% of Government revenue. Because more than 80% of tourists come from the United States, the sector is heavily dependent on developments in the U.S. Despite concerns about

the cost structure of the industry relative to competitors, skills deficiencies, and potential environmental problems, tourism has rebounded recently, growing at 2.7% in 2016 and heading toward a similar growth rate in 2017. The recent gradual opening of the Baha Mar hotel complex augurs well for the sector in the near term. There is considerable potential for tourism growth in the Family Islands and in ecotourism. However, challenges in the energy, transportation, water, and citizen security sectors as well as vulnerability to natural disasters (more below) present long-term challenges to this crucial sector of the economy.

Financial services is the second largest sector in the economy, and although it has declined in recent years, it still contributes 11% to GDP.[5] Like other offshore financial centers, The Bahamas has been affected by global "de-risking," with some additional scrutiny of financial institutions and interruptions in correspondent banking relations.[6] This has led the offshore financial sector to focus on wealth management.

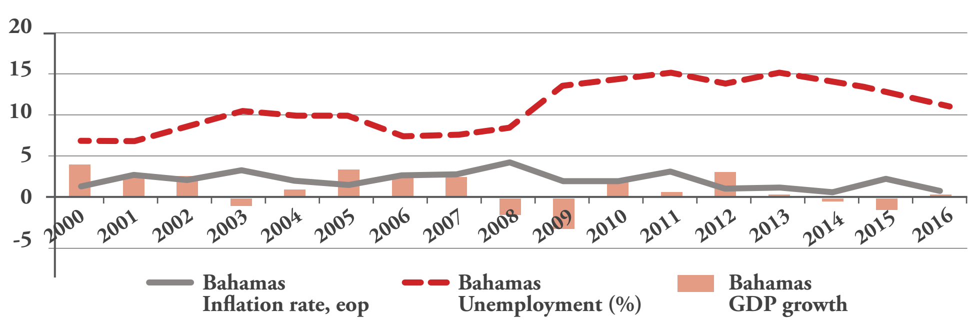
Industry and agriculture together contribute some 10% to GDP, with a few notable industrial firms that export to the U.S. and Europe. Most agricultural production is consumed domestically. Other services, particularly Government services, account for the remainder of GDP.

The pace of economic growth has slowed considerably over the past 15 years, although there are signs of recovery in the labor markets.[7] GDP growth averaged less than 0.6% a year over this period, barely exceeding population growth, while the unemployment rate has doubled over the past decade (to 14%-15%; see Figure 1.1). Historically, foreign direct investment (FDI) has been a key driver of economic growth and has supplemented the country's low savings rate, but it has dropped considerably since 2011 (Annex 2). However, there are some signs of a recovery. Data from the Department of Statistics' Labour Force Survey showed that the estimated unemployment rates for the general population and for youth (15-24) fell from peaks of 15.7% and 30.8% in 2014 to 11.6% and 25.1%, respectively, in late 2016.

**FIGURE 1.1**

**Real GDP growth, inflation and unemployment rates, 2000–2016 (%)**

*Source:* The Central Bank of The Bahamas.




The decline in GDP growth also reflects structural obstacles and a major deterioration in total factor productivity (TFP). In the 2017 Article IV consultation report, the International Monetary Fund (IMF) estimates that negative TFP growth (Figure

1.2) and smaller contributions from both capital accumulation and labor have resulted in a significant decline in potential growth since 2000.[8] The mismatch of skills in the labor market and other structural obstacles hamper economic activity and create a poor business environment.[9]

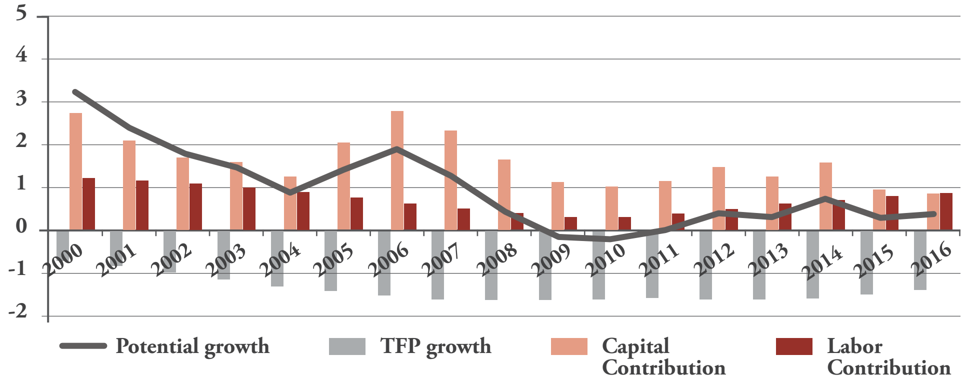



**Figure 1.2**

**Drivers of potential growth (%)**

*Source:* International Monetary Fund

Sluggish economic activity and a major increase in Government spending led to deterioration in public finances after 2008, though Government deficits have improved noticeably since 2012-13. The overall Government deficit rose from an average of about 2% of GDP during the 1990s and mid-2000s to a peak of 6.4% in 2012-13, followed by a drop to about 3.5% in 2015-16 (Annex 3). Despite continued large increases in spending, revenue increased by more than four percentage points of GDP because of effective implementation of a 7.5% value-added tax (VAT) (introduced on January 1, 2015) and other tax reforms that widened the tax base.

The weakening of public finances led to a considerable increase in gross central Government debt, from under 30% of GDP in 2007 to 69.9% at end-2016. Government-guaranteed debt of public corporations, such as The Bahamas Electricity Corporation (BEC), the Water and Sanitation Corporation (WSC), the Mortgage Corporation, and the Educational Loan Authority, has also grown rapidly and amounts to nearly 1.5 percentage points of GDP. When this debt is included, total national debt stood at about 77.9% of GDP by end-16 (Figure 1.3).

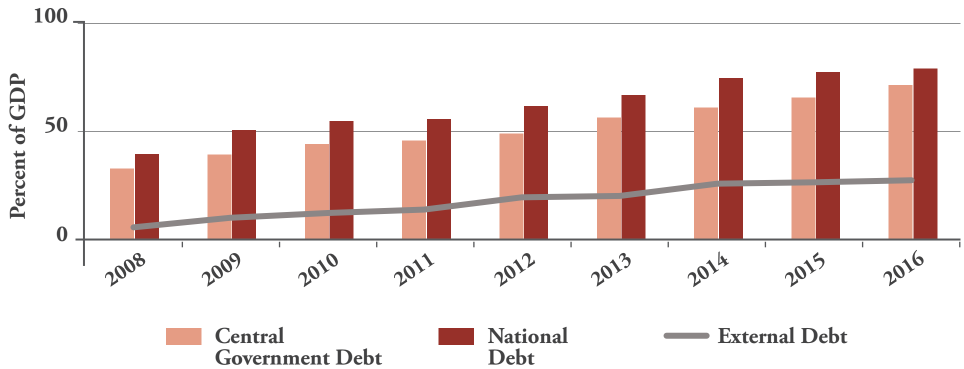



**Figure 1.3**

**Central government and national debt, 2008 – 2016**

*Source:* Annual Report – The Central Bank of The Bahamas (2011-2015), Quarterly Economic Review December 2016 – The Central Bank of The Bahamas.

Tourism is the largest sector of economy in The Bahamas. However, challenges in the energy, transportation, water, and citizen security sectors, as well as vulnerability to natural disasters present long-term challenges to this crucial sector of the economy.

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The combination of deteriorating public finances and weakening growth potential has led to a gradual downgrading of The Bahamas' credit risk. Standard & Poor's has downgraded sovereign debt markedly since the 2008 recession, from A- in January 2008 to BB+ (just below investment grade) in December 2016 (both with stable outlook). Moody's lowered its rating from A3 with negative outlook in August 2011 to Baa3 with a negative outlook in August 2017.[10]

## B. Development challenges

Although The Bahamas' poverty rate is among the lowest in the region, it has been growing in the context of inadequate social safety nets. The 2015 State of the Nation Report indicates an increase in the poverty rate from 9.3% in 2001 to 12.8% in 2013, with 45% of the poor gainfully employed but not earning enough to sustain their families. Unemployment contributes a great deal to poverty in The Bahamas. The Family Islands have a disproportionate share of the poor, with Eleuthera showing a rate of 17.3%, and Abaco and Andros showing 20.3%. Lorenz curves prepared by the Statistics Department indicate a significant deterioration in household income distribution since 1999, following a considerable improvement after 1973.[11] The Draft National Development Plan proposes a comprehensive plan to reduce poverty and social exclusion.

A key constraint on economic development and growth is the weakness of skills in the labor market. Although The Bahamas is a country of high human development,[12] gains in education have not produced strong human capital or an adequately skilled workforce. On the contrary, low graduation rates coupled with poor test performance are troubling indicators for the quality of future young professionals, and for key sectors of the economy such as tourism, finance and public service. The country's weak human capital base is compounded by the fact that an estimated 67% of tertiary-education graduates have emigrated to OECD countries to seek opportunities not found in a small economy.[13] To address the resulting skills gap, local and international companies pay hefty immigration fees to bring in talented individuals with niche qualifications. Large employers, like Atlantis and Baha Mar, have their own training facilities, but many small and medium-sized enterprises (SMEs) cannot absorb the cost of training. The Bank has provided substantial training to public servants, but results are not encouraging (more below).

The incidence of crime—especially violent crime—has risen. According to the Royal Bahamas Police Force, crime against property and persons has increased substantially since 2005, with New Providence being the epicenter. In 2015, the country saw an unprecedented level of murders—146, up from 123 in 2014. Rape and armed robbery also increased by 16% and 5%, respectively, during 2015. Violent crime and theft affect the business environment and tourism.

Important weaknesses in public financial management (PFM) affect the integrity of financial reporting and the quality of spending. Moreover, capital budgeting is not fully integrated into the annual budget planning process, and there is no legal framework for monitoring the implementation of policy priorities.[14] The authorities are taking steps to modernize the country's PFM system, but further efforts are needed to improve reporting and expenditure discipline. Completion of the Draft National Development Plan should help strengthen the PFM framework.

The Bahamas is heavily dependent on imported oil for electricity generation and transport, and thus very exposed to changes in international oil prices. The country has few local sources of renewable energy. The state-owned BEC, which controls the generation, transmission, and distribution of electricity through its subsidiary Bahamas Power and Light (BPL), has no regulatory incentives to operate on a profitable basis, and its supply is unreliable and insufficient,[15] with losses of up to 15% of output due to leakage. The regulatory framework does not allow alternative providers to enter the market, and BEC's subsidized prices discourage energy efficiency and conservation. The tourism sector must invest in generators to back their energy needs since BEC's supply is unreliable.

The transportation sector is particularly affected by the country's geography. Air transport is critical for access to the remote islands, though some airports do not meet international standards. Road transportation is limited and roads are congested, reducing mobility. Congestion problems also increase the cost of moving tradable and non-tradable goods, and thus adversely affect the country's competitiveness and tourism.

The availability of fresh water is low in The Bahamas—by far the lowest in Latin America and the Caribbean.[16] The sole source of fresh water in New Providence is groundwater; however, development is depleting the aquifer, and over extraction can lead to saltwater intrusion. Therefore, the state-owned WSC has invested in the use of desalination processes to expand the water supply. Although reverse osmosis yields the highest-quality water, it is very expensive and has increased the cost of service for WSC. Many of the Family Islands lack centralized sewer and water service, and just 55% of all dwellings in New Providence have access to water provided by WSC. In the last decade, WSC has also experienced non-revenue water (NRW) levels of about 50%,[17] mainly related to the age and deteriorated condition of the network, the high cost of its expansion, the lack of maintenance, and inadequate commercial practices. Sewerage coverage in populated areas is also inadequate,[18] raising substantial risks of groundwater contamination. While this situation has improved in recent years, structural challenge (including a weak legal framework) affect WSC's financial sustainability.[19]

Infrastructure is currently inadequate to withstand frequent natural disasters and the effects of climate change. Natural disasters, particularly hurricanes, have repeatedly affected The Bahamas, with considerable physical and human costs. The combined losses of hurricanes Joaquin (2015) and Matthew (2016) are estimated at US$800 million,[20] and Hurricane Irma (2017) has recently added to that cost.

The Bahamas remains somewhat disconnected from the rest of the world in respect to trade, even though its imports represent one-third of GDP. The country is still not a full member of the World Trade Organization (WTO), and while it is a member of the Caribbean Community, it is not a partner of the Caribbean Single Market. Moreover, while The Bahamas has signed an Economic Partnership Agreement with the countries of the Caribbean Forum[21] and the European Union, implementation of the Agreement is lagging.[22] Tariff dispersion is high and barriers to entry are common. While the country's Customs Department is being modernized with Bank assistance, the previous outdated procedures led to inefficient cargo clearance and weak border control, as well as high logistics costs that hamper international trade. The Bahamas' trade-related institutional framework is being improved to facilitate trade policy formulation and WTO accession. Preferential market access in the United States of America and Canada is possible through bilateral trade arrangements.

## C. Medium-term outlook

The Bahamas is expected to grow relatively slowly over the medium term. As noted, the economy is showing some recovery, with modest growth in tourism and foreign-investment led activity in construction. On this basis and given the recent opening of the Baha Mar resort, real GDP is expected to grow some 0.8%-1% in 2017. In the near term, this resort may provide an important boost to the economy and employment. Looking ahead, the continuation of low TFP and sluggish growth in the United States suggest that growth potential will remain low, ranging between 1% and 1.5%. Determined efforts to strengthen public finances (which would lead to an upgrading of The Bahamas's credit rating) and education outcomes, address the problems and constraints in the energy and water sectors, and improve transportation would attract higher FDI and lead to higher growth. Some of these efforts could be supported by public-private partnerships, which would alleviate pressure on public resources and further encourage FDI.

2


The last CS identified education, food security, transport, and informal immigration as topics for continuing policy dialogue.
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# 2 The IDBG Program

## A. Country strategies

**The Bank approved two Country Strategies (CSs) between 2010 and 2017 in close consultation with the Government, which values the Bank not only as a source of finance but also as an important provider of technical assistance, sector knowledge, and project management support. The 2010 CS focused on four development objectives, and the 2013 CS identified five, some of which were the same in the two CSs (Table 2.1). Both strategies included a results matrix that set specific objectives for priority areas, and these objectives served as a reference for the Office of Evaluation and Oversight (OVE) to analyze program implementation and effectiveness.**

Table 2.1. Country Strategy Priorities

| | CS 2010 | CS 2013 |
|---|---|---|
| | Energy | Public Finance and Management |
| | Water and Sanitation | Citizen Security and Justice |
| | Transport | Energy |
| | SME Development | Private Sector Development |
| | | Coastal Risk Management & Climate Change Adaptation |
| Other areas for dialogue | | Education<br>Food Security<br>Transport<br>Informal Immigration |

*Source:* The Bahamas CS 2010-2013 and CS 2013-2017.

Coastal risk management and climate change adaptation was one of the five priority sectors included in the 2013-2017 CS.

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The 2010 CS sought to stimulate growth during a period of economic contraction by providing countercyclical support for Government's capital investment program in the key sectors of transport, energy, and water and sanitation, and for SME development. Transport was heavily emphasized, given the country's projected medium-term needs of approximately US$1 billion. The Bank also prioritized water and sanitation (W&S), which received the most financial support during the period after transport. With the change of government in 2012, W&S was no longer considered a priority sector, and thus the second CS envisaged no additional support. The 2010 CS also identified enhanced productivity as a strategic priority and included a program of actions to support SME development, including business climate reforms and trade logistics. No lending went towards the energy sector because of the absence of commitment to reform The Bahamas Electricity Corporation (BEC).

Despite its attention to growth, the 2010 CS was not fully aligned with the development needs of the country or with the recommendations from OVE's prior CPE. Although the CS responded to the Government's requests, it did not include citizen security as a priority area, despite rising crime and its detrimental effect on tourism and economic activity. Similarly, although the last (2009) CPE had recommended that the Bank work more deeply with the country to strengthen public sector investment planning and management, Bank support was limited to the strengthening of country systems through the US$1.5 million PRODEV

operation (Management for Results, BH-T1013) approved in 2010. While the work envisioned by PRODEV was a step in the right direction, it was too timid to address the revenue-and expenditure-side challenges. OVE also recommended to increase the Bank focus on the serious fiscal challenges the country was facing at the beginning of the period, the Family Islands, vulnerability to natural disasters, and laying the groundwork for future private sector engagement, but these were not reflected in the country strategy.[23]

Following the Progressive Liberal Party victory in the 2012 general election, the incoming Government asked the Bank to prepare a new CS to realign its support with the strategic priorities of the new Government, the five-year political cycle, some of the main development challenges the country was facing, and OVE's recommendations. The 2013-2017 CS was fully aligned with the Government's priorities: (i) reforming public sector finances and management to address fiscal and debt sustainability;[24] (ii) fostering social cohesion, with emphasis on preventing crime and violence and strengthening the criminal justice system; (iii) modernizing the electricity sector and diversifying the energy matrix; (iv) diversifying the economy and its trading partners by enhancing areas of comparative advantage and removing constraints to private sector activity; and (v) building resilience to natural disasters through improved coastal zone management, incorporating disaster risk reduction and climate change adaptation measures in development planning, control, and monitoring.[25] The CS also identified education, food security, transport, and informal immigration as topics for continuing policy dialogue and committed to generate non-sovereign-guaranteed (NSG) lending "aligned to the development and diversification of the private sector," with financing for renewable energy and energy efficiency. This CS also made a significant effort to address OVE's recommendations, such as increasing attention to investments in the Family Islands, fiscal concerns, vulnerability to natural disasters, and preparing the groundwork for private sector engagement (Annex 4).

The selection of the five priority sectors and areas of dialogue illustrated the Banks's flexibility in adapting to Government's changing priorities. It also reflected the potential impact of Bank investments; the comparative advantages of the Bank, including its regional experience and expertise and the strength of its analytical work; and "the considerable Bank-financed investments already made in infrastructure." Bank specialists prepared economic and sector notes in 12 areas. While the depth, scope, and quality of the notes varied across sectors, most included a sufficiently robust analysis to inform the dialogue.

The Bank's country program with The Bahamas was financially relevant. The Bank is the major multilateral lender to the country (as IDB does not have a graduation policy like the World Bank's), accounting for roughly 98% of debt to international financial institutions, 25-27% of central Government external debt, and 4% of total central Government debt.

## B. Operational program[26]

Over the eight-year review period, the IDB Group approved 56 new operations with an estimated total value of US$702.1 million (Table 2.2). Half of this total was accounted for by three regional NSG loan operations for a financial intermediary (FI), but the funds went to benefit Brazilian, Argentinian, Colombian, Chilean, Paraguayan, and Peruvian SMEs.[27] The other half (47%) financed 10 SG loans, of which the transport (US$150 million) and water (US$81 million) sectors received the largest amounts. Smaller amounts went to citizen security (US$20 million), labor market/skills (US$25 million), public financial management (US$30 million), social protection (US$7.5 million), and trade (US$16.5 million) (Annex 5). The active private-sector portfolio included two relatively-small Inter-American Investment Corporation (IIC) loans in energy (US$4 million) and three FYNPYME Credit Programs (US$2.73 million). The Multilateral Investment Fund (MIF)[28] financed six grants in science and technology, SME development, financial markets, tourism, and agriculture. The balance of funding was distributed across 32 technical cooperation grants (TCs) in eight sectors (Annex 5).

Table 2.2. IDBG amounts approved, by instrument and year (in US$ million)

| Instrument | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|
| SG Investment loans | | 81.0 | 89.0 | - | 33.0 | 20.0 | 25.0 | 35.0 | 283.0 |
| SG Hybrid (PBL+ Reimbursable TC Loan) | | 50.0 | | | | | | | 50.0 |
| FIs (NSG) | | | | | | | | | |
| Technical Cooperation | 1.9 | 1.5 | 0.2 | 2.1 | 0.8 | 2.3 | 1.9 | 0.2 | 10.8 |
| IIC | | | | 0.1 | 2.1 | 0.5 | 1.0 | 3.0 | 6.7 |
| MIF | 0.5 | 0.2 | | 0.2 | 0.1 | 0.5 | | | 1.5 |

*Source:* OVE using IDB Enterprise Data Warehouse.
*Note:* This table has been modified to exclude confidential information in accordance with the "Information Relating to Non-Sovereign Guaranteed Operations" disclosure exception in paragraph 4.1 j. of the Bank´s Access to Information Policy.

The composition of the Bank's loan financing that directly benefited The Bahamas[29] was heavily skewed toward infrastructure and did not address some of the other strategic priorities mentioned prominently in both CSs (Figure 2.1). Of the US$352.1 million approved that directly benefited The Bahamas, almost half (43%) went to finance four transport projects. PFM received 9% followed by labor (7%), citizen security (6%), trade (5%), and social protection (2%). SME development received only 0.8% for three projects. Because of the difficulties in tackling BEC reform, no loans were given to address important structural constraints in the energy sector, to diversify the energy matrix, or to strengthen BEC's institutional and policy framework. The only lending for energy was US$4 million (1%) to finance two solar energy projects. Similarly, no loans addressed pressing issues in the tourism sector or social equity and poverty. Despite previous OVE recommendations and CS priorities, lending for the Family Islands was small.

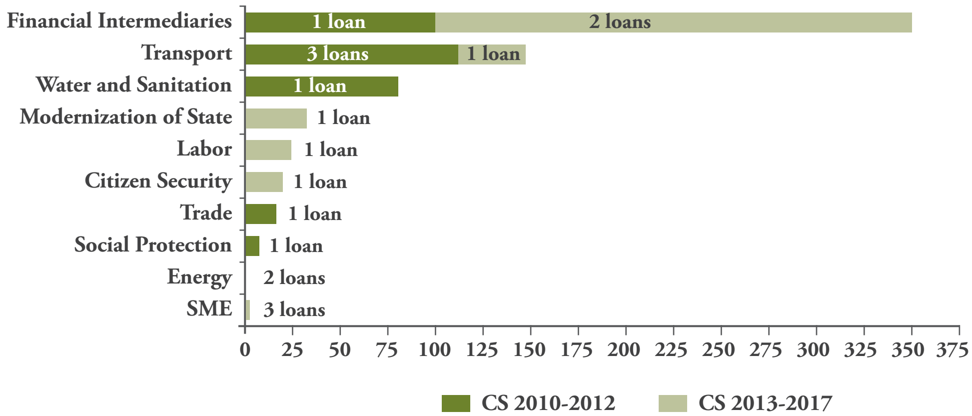


**Figure 2.1**

**Loan approvals (US$ million) by sector and Country Strategy (IDB-IIC)**

*Source:* OVE using IDB Enterprise Data Warehouse.

In addition to the operations approved between 2010 and 2017, the portfolio under evaluation also included nine inherited operations (three investment loans, two investment grants, and four TCs) with an undisbursed balance of US$106.7 million as of January 1, 2010. All nine were approved during earlier CS cycles and were completed during the current evaluation period (Annex 6).

While the cost of preparing investment loans fell during the period (Table 2.3), implementation of investment loans took on average 93 months (over seven years) rather than the four or five years originally planned. Inadequate analysis of institutional capacity,[30] staff skills,[31] equipment, and coordination[32] contributed to implementation challenges (Box 2.1), and the Bank often underestimated the time required.[33] Project designs could be highly complex and require technical capacity and political commitment that was not always available.[34] Slow decision-making also affected the speed of disbursement and implementation.[35]

**Table 2.3 Cost of preparing investment loans**

| Group | Approved 2004-2009 | Approved 2010-2016 | % Change |
|---|---|---|---|
| BH | 12,392 | 7,639 | -38% |
| CCB | 7,963 | 5,152 | -35% |
| BID | 3,334 | 3,068 | -8% |

Average preparation costs for investment loans in US$ million approved.

*Source:* OVE using IDB Enterprise Data Warehouse.

Operational delays have been costly to The Bahamas. For example, in the case of INSPIRE, the Government paid the Bank over US$100,000 in commitment fees because of delayed procurement. Purchasing power fell due to inflation (averaging 2%) and implementation delays (2.5 years on average). The impact was most extreme in the New Providence Transport Program (NPTP). Originally approved in 2001 for US$46 million, the program received two rounds of supplementary loan funding (totaling US$165 million) and multiple extensions to complete the original objectives. According to project documents, the second and third rounds

of supplementary financing (in 2008 and 2012) were required because significant delays sharply added to the cost of execution, demand outgrew the original design, and the cost of doing business in Nassau increased in terms of time, money, and environmental impact. The project was completed in 2016.[36]

In accordance with the 2013-2017 CS and OVE's recommendations, the Bank made significant efforts to support project implementation units (PIUs) but they were not always successful. Implementation of these efforts, as with the rest of the portfolio, tended to be slow and incomplete (Box 2.1).

***Box 2.1. Assessment of institutional strengthening in investment loans***

OVE assessed the IS activities in investment loans that were active during the evaluation period. IS was defined as any Bank-financed activity to enhance the capacity of a Government institution to effectively perform its mandated functions, whether strategic or operational.

**Emphasis on IS.** Virtually all operations included some form of IS.[a] Two loans were completely devoted to strengthening national institutions (BH-L1016 and BH-L1035), and the rest included IS as a project component. Financing approved for IS totaled US$88.9 million, or 20% of Bank financing through investment loans, though actual disbursements were below originally planned levels. The Performance Monitoring and Public Financial Management Reform accounted for 34% of total IS support, followed by the Trade Sector Support Program and the Citizen Security and Justice Program, with 17% and 15%.

**Relevance.** Most projects identified issues associated with low institutional capacity, though few included a full analysis of these issues. The main problems identified were inadequate staffing, skill set and lack of equipment, lack of coordination within and among institutions, and insufficient monitoring/oversight capacity. IS activities typically included training, studies, equipment, and computer systems. In principle, interventions appeared relevant to address the identified problems, though issues of coordination were less often addressed.

**Implementation and results.** Implementation of IS activities was slow during the CPE period, consistent with the pace of the overall portfolio. As of mid-2017, 15% of approved IS funding had been disbursed. The three inherited loans disbursed all approved funds, but none achieved all expected outcomes. Among new approvals, the New Providence Water Supply and Sanitation Systems Upgrade and the Social Safety Net Reform Program achieved the highest proportion of there IS results. Operations approved post-2013 disbursed minimal resources for IS.

*Note:* [a] The only exception was the New Providence Transport Program Supplementary Financing II, which provided supplementary financing—mainly for civil works—to the original New Providence Transport Program.

The Bank adequately identified some risks during the review period but fell short in mitigating them in some instances. For example, the Bank identified reputational risks for the Bank and Government alike related to road closures and disruptions from the NPTP, but the hiring of a public relations consultant was not enough to mitigate the negative public perception of the project. Likewise, the Bank correctly identified the risks of low stakeholder support for and interest in the reforms in the energy sector, but mistakenly believed that the Bank-financed technical assistance implemented since 2010 could mitigate them. Similar situations were common in other projects (e.g., chapter 3, sections E -water and sanitation-, F -energy- and I -social protection-).

There have been some positive results in the fiscal area, trade, W&S, and citizen security, but limited or negligible results in other areas.
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# 3 Results and Sustainability

## A. Fiscal management

| Expected outcomes of the CS: | 1. A transparent and streamlined framework for tax administration.<br>2. Improvements in the allocative efficiency of expenditure.<br>3. Improved quality of the country's investment program.<br>4. Improved public-sector management. | | | | |
|---|---|---|---|---|---|
| **Operation** | | **Approval year** | **Amount (US$)** | | **Disbursed %** |
| | | | **Approved** | **Current** | |
| BH-L1035 | Performance Monitoring & Public Financial Management Reform | 2014 | 33,000,000 | 33,000,000 | 0% |
| BH-T1034 | Strengthen Institutional Capacity: Prime Minister's Office | 2013 | 450,000 | 450,000 | 100% |
| BH-T1022 | Conditions for a Sustainable Fiscal Balance | 2011 | 612,000 | 527,791 | 100% |
| BH-T1013 | Management for Results | 2010 | 1,500,000 | 1,500,000 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.

**The technical assistance provided by the Bank on fiscal management was well received, and two of the three TCs delivered all expected outputs. The US$1.5 million PRODEV Management by Results TC contributed to the preparation of the draft procurement law and to the design and partial implementation of the integrated financial management information system, which will be implemented with resources from the US$33 million "Performance Monitoring and Public Financial Management Reform" investment loan. The "Strengthening Institutional Capacity of the Prime Minister" TC financed the first National Development Plan, created the office of economic planning within the OPM, improved the legal framework for the planning**

function, and helped design the performance monitoring component of the investment loan. Unfortunately, the second component of this TC (enhancing the decision-making capacity of the Bahamas Investment Authority) was not completed, and its resources went to finance the first component.[37] The Bank had a policy-based loan (PBL) on tax policy and administration in the pipeline, but the Government decided to undertake the reforms by itself, greatly benefiting from the technical assistance the Bank had provided earlier in the "Conditions for a Sustainable Fiscal Policy in The Bahamas" TC, which helped study and assess several relevant revenue and expenditure issues (property tax, fiscal risks, pensions, macroeconomic risks, public enterprises, revenue expenditures, etc.). The single most important contribution of this TC was the assistance in helping design and implement the VAT, including an analysis of the impact of the reform on macro variables. The successful implementation of the VAT in 2015 contributed to increasing revenues from 16% of GDP to about 20% of GDP between 2014 and 2016. For the "Performance Monitoring and Public Financial Management Reform" investment loan, it is too early to assess the results because there have not been any disbursements yet.

The design of these operations was based on good sector diagnosis. The PRODEV operation was built on 2009 analysis using a PRODEV tool, which described the state of implementation of management for results in the country and delivered an implementation plan. The "Conditions for a Sustainable Fiscal Policy" TC was based on several studies undertaken by the Government, the Bank,[38] the IMF, and the Caribbean Community.[39] The "Performance Monitoring and Public Financial Management Reform" investment loan benefitted greatly from the technical assistance provided by the PRODEV TC and a PEFA assessment.[40] OVE found no diagnosis supporting the preparation of the "Strengthening Institutional Capacity of the Prime Minister" TC.

However, little measurable progress has been made to date toward the stated CS objectives. More work is needed to achieve a transparent and streamlined tax administration and improved public-sector management in general. Improvements in PFM and the quality of the country's investment program are so far negligible.

## B. Trade

| Expected outcomes of the CS: | 1. Improved trade logistics and trade facilitation, establish an Electronic Single Window.<br>2. Strengthened sector capacity to develop and implement a trade strategy. | | | | |
|---|---|---|---|---|---|
| Operation | | Approval year | Amount (US$) | | Disbursed % |
| | | | Approved | Current | |
| BH-T1054 | Exchange for Strengthening the Caribbean Banking System | 2016 | 11,744 | 11,744 | 100% |
| BH-L1016 | Trade Sector Support Program | 2012 | 16,500,000 | 16,500,000 | 68% |
| BH-T1020 | Bahamas Customs Modernization | 2010 | 18,286 | 14,929 | 100% |
| BH-T1011 | Strengthening Customs Department | 2010 | 199,183 | 169,182 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.

Although just 68% of the Trade Sector Support Program loan has been disbursed, the program's objectives are being achieved. Changes in the Customs Department (BCD) are quite visible, with some notable interim results. The time to complete various customs procedures has been reduced, and Customs has increased its ability to catch smugglers, confiscate goods, and apprehend illegal immigrants. More specifically, the time needed to clear imported goods has been reduced from 72 hours in 2012 to 30 hours in June 2016 (the target is 24 hours); the personnel-cost-to-revenue-collection ratio has been reduced from 2.8 to 2.1 (target 2.1); the average time to fill the import clearance declaration has been reduced from 24 hours to 3 hours (target 7.2 hours); the percentage of Customs import and export declarations submitted electronically has increased from 2% to 70% (target 100%); the percentage of import declarations assigned to physical and hard-copy document verifications has fallen from 80% to 40% (target 10%); the number of seizures has increased from 60 to 94 (target 120); and the number of permanent staff in the Trade unit at the Ministry of Financial Services has increased from 2 to the target of 10.[41]

The program was well designed, as it benefited from a thorough analysis of the main problems at the BCD and two TC operations approved in 2010. The analysis and TCs helped focus the program on the key issues and provided much-needed training. Moreover, this preparatory work was critical to understanding the archipelago nature of The Bahamas and the associated issues of border control and security. The program was appropriately framed under the Bank's competitive Global and Regional Integration Strategy (GN-2565), which considers trade facilitation efforts and customs strengthening as vehicles for economic growth and improved competitiveness.

Progress towards the CS's objectives is mixed. The implementation of the Electronic Single Window is moving forward and trade logistics and trade facilitation are improving, as mentioned in the previous paragraph. However, there is no evidence that there is greater capacity to develop and implement a trade strategy than at the beginning of the period.

The outlook for sustainability is positive. It is clear the program will help strengthen the Government's ability to collect revenue by increasing the efficiency of customs operations and strengthening an important base for VAT revenue. The operation is considered cost-efficient, in that it will pay for itself during the five years of execution through trade transaction cost savings, regulatory agency efficiency savings, and improved ability to collect revenue. Indeed, the reported improvements in Customs efficiency suggest savings of some US$3 million a year, and additional important benefits will be derived once the Electronic Single Window is fully operational. There is also widespread support for the program across Government and the private sector and a consensus that it will bring considerable benefits to the country, including the ratification of the Economic Partnership Agreement with the European Union and WTO accession. An extension to complete the work of the program may be necessary.

## C. Citizen security

| Expected outcomes of the CS: | 1. Reduction in levels of crime.<br>2. Increased numbers of youth enrolled in programs that foster social cohesion.<br>3. Strengthened strategic planning capabilities of the criminal justice sector.<br>4. Improved perception of security, safety, and order. | | | | |
|---|---|---|---|---|---|
| Operation | | Approval year | Amount (US$) | | Disbursed % |
| | | | Approved | Current | |
| BH-L1033 | Citizen Security and Justice Programme | 2015 | 20,000,000 | 20,000,000 | 12% |
| BH-T1046 | Community Re-entry System for Former Offenders | 2015 | 345,907 | 345,907 | 41% |
| BH-T1037 | Pilot Project for a Swift Justice System | 2013 | 250,000 | 249,954 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.

The TC "Pilot for a Swift Justice System in The Bahamas" provided the information to design evidence-based solutions to reduce court backlogs. This TC equipped the justice system to identify the causes of criminal court delays for the first time, and provided the expertise to design solutions to speed up court proceedings while strengthening legal protections for defendants. Since 2013, the Office of the Attorney General has made more progress on tackling the backlog of criminal cases than at any time in the prior two decades. Conviction rates went from 31% in 2012 to 66% in 2016; the number of cases disposed before the Supreme Court went from 118 in 2018 to 232 in 2016; the time for presentation of a Voluntary Bill of Indictment went down from 344 days in 2012 to 68 days in 2016;[42] and seven murder cases were concluded within one year, 2015, compared to none in 2012.[43] Although the "Design of a Community Re-entry System for Former Offenders" TC has not fully disbursed (41% disbursed), the technical cooperation provided so far is another step in the direction of designing evidence-based crime prevention policies. The parole and reentry systems being designed and implemented have been based on a thorough diagnosis of the situation in The Bahamas, taking into consideration successful experiences from other parts of the world.

It is too early to assess the direct results of the "Citizen Security and Justice Programme" investment loan because it has only disbursed 12% of the resources. The loan was based on sound diagnosis gathered through the two previous TCs, though the assessment of the Government's institutional arrangements and capacity for implementation and agency coordination was incomplete. The loan aimed to reduce violent behavior among youth by improving behaviors for nonviolent conflict resolution, increasing employability of at-risk youth, strengthening the institutional capabilities of the court and correctional systems, and reducing recidivism rates. Under the loan a steering committee was created, but its usefulness has been limited at best, and agency coordination remains a major concern. Some participant agencies seem to lack adequate institutional capacity and expertise to fully engage in the implementation of the loan. Given the Bank´s experience (as documented in the last CPE[44]), the Bank could have made a greater effort to assess and mitigate the risks.

Progress towards two of the CS strategy objectives has been slow but should accelerate as implementation of the loan moves ahead; progress towards the other two CS objectives will be elusive under the current program design. The Citizen Security and Justice Program can help strengthen the strategic planning capabilities of part of the criminal justice system (Office of the Attorney general and the Supreme Court) and reduce violent behavior among youth by improving behaviors for nonviolent conflict resolution, increasing employability of at-risk youth, strengthening the capacity of the correctional systems, and reducing recidivism rates. However, the scope of the loan is not extensive enough to have population-level outcomes, which are usually achieved with more comprehensive approaches that target the criminal justice system (police, courts, penitentiaries, bar associations, prosecution, the law, etc.) at all levels of risk, including individuals, families, and communities.

## D. Transport

| Expected outcomes of the CS: | 1. Traffic capacity of main road network expanded/upgraded.<br>2. Public transport services and road safety improved.<br>3. Transport sector planning capability and institutional capacity in road maintenance management strengthened.<br>4. Increased participation of private contractors in provision of routine road maintenance services.<br>5. New institutional, legal, and regulatory structure in place for air transport.<br>6. Improved participation of private operators in airport infrastructure mgmt. | | | | |
|---|---|---|---|---|---|
| Operation | | Approval year | Amount (US$) | | Disbursed % |
| | | | Approved | Current | |
| BH-L1041 | Airport Infrastructure Programme | 2017 | 35,000,000 | 35,000,000 | 0% |
| BH-T1048 | Sustainable Infrastructure Upgrade Family Island Airports | 2016 | 500,000 | 500,000 | 0% |
| BH-T1047 | Sustainable Urban Bus System Planning and Design | 2016 | 500,000 | 500,000 | 17% |
| BH-T1044 | National Airlift Diversification Plan | 2015 | 500,000 | 500,000 | 62% |
| BH3338A-01 | Southern Air Charter Company Limited | 2014 | | | |
| BH-L1029 | New Providence Transport Supplementary Finance II | 2012 | 65,000,000 | 65,000,000 | 100% |
| BH-L1027 | Air Transport Reform Program (PBL) | 2011 | 47,500,000 | 47,500,000 | 32% |
| BH-L1040 | Air Transport Reform Program (TC Loan) | 2011 | 2,500,000 | 2,500,000 | 99% |
| BH-L1024 | Supplementary Financing New Providence Transport Program | 2008 | 100,000,000 | 100,000,000 | 100% |
| BH0029 | New Providence Transport Program | 2001 | 46,200,000 | 43,400,000 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.
*Note:* This table has been modified to exclude confidential information in accordance with the "Information Relating to Non-Sovereign Guaranteed Operations" disclosure exception in paragraph 4.1 j. of the Bank's Access to Information Policy.

There is no documented evidence that the Bank was effective in its support to the transportation sector, as measurable outcomes have not been reported. The delays in the implementation of the transportation projects hampered the Bank's effectiveness in this sector. The New Providence Transport Programme (NPTP), approved in 2001, needed supplementary financing from IDB twice (in 2008 and 2012). Although the physical works funded by NPTP were concluded, there is no reporting to date about whether the development objectives were achieved. The Air Transport programmatic PBL, launched in 2011, is awaiting completion of certain conditions, such as the full adoption of the necessary legal framework. The legislation for the Civil Aviation Authority (CAA) was approved, the CAA staff appointed, and human resources procedures adopted. However, the CAA budget's is still pending in the House of Assembly, and tasks needed to make the Family Islands Aviation Authority operational are still pending.

Little progress has been made towards any of the six CS strategic objectives. Though the NPTP project contributed to expansion of the traffic capacity of the main road network, there are no indicators showing improvements either of public transport services and road safety or of sector planning capability and institutional capacity in road maintenance management. The new institutional, legal and regulatory structure for air transport (The Civil Aviation Act), passed in 2016, provided for the reform of the sector, and the new institutions commenced operations in July 2017, but its full adoption is still work in progress. Finally, the government is at an early stage in outsourcing road maintenance to the private sector and has not yet done so for airport infrastructure management, as envisaged by the CS.

## E. Water and sanitation

| **Expected outcomes of the CS:** | **1.** WSC improves financial and operational performance in the medium term.<br>**2.** Reduction of non-revenue water.<br>**3.** Legal and regulatory framework in place. | | | | |
|---|---|---|---|---|---|
| **Operation** | | **Approval year** | **Amount (US$)** | | **Disbursed %** |
| | | | **Approved** | **Current** | |
| BH-L1028 | New Providence Water Supply and Sanitation Systems Upgrade | 2011 | 81,000,000 | 81,000,000 | 89% |
| BH-T1017 | Legal and Regulatory Framework (Water) | 2009 | 250,000 | 249,980 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.

While the Bank has contributed to the reduction of non-revenue water (NRW) levels, there was only moderate progress toward achieving the rest of the strategic objectives set out in the CS. The Bank's financial support totaled US$81.3 million, with one TC operation and one investment loan. Approved in 2011, "New Providence Water Supply and Sanitation Systems Upgrade" was focused mainly on improving the efficiency and quality of water provision (60% of loan resources) and addressing immediate sanitation problems in New Providence through the rehabilitation of sewerage infrastructure

(19%). The operation also included institutional strengthening support for the WSC and for the upgrade of the sector's legal and regulatory framework. In line with that upgrade, the inherited TC supported preparation of legislation to protect groundwater resources and enhance the economic efficiency of utility providers. With roughly one year remaining to disburse, the decrease of NRW has exceeded its expected targets;[45] however, the WSC's operating cost recovery and Government subsidy targets have not been achieved as expected, even though WSC operational costs have improved in recent years.[46] The legislation developed under the Bank's program, including the establishment of the needed economic and environmental regulators,[47] has been presented to the Cabinet but is not yet approved.

Project design benefited from a thorough analysis of the main problems in the sector and incorporated lessons learned from previous failures. The loan's components also showed coherence and vertical logic between activities and objectives, as well as some interconnection between them. Cost-benefit analyses and technical evaluations were conducted for the rehabilitation of sewerage infrastructure and the reduction of NRW. In general, the operation's design was consistent with the Government's institutional arrangements and capacity for implementation. The executing agency, WSC, is considered a strong counterpart, with experience in previous investment programs with the IDB and other donors. To strengthen WSC's capacity, project design considered consultancy services to supervise the implementation of the NRW reduction component. The only design weakness was the relatively short timing allowed for project completion (five years).

Sector risks and mitigation measures were well identified, and some risks materialized. Lack of stakeholder commitment and ownership, particularly related to the strengthening of the legal and regulatory framework in the sector, was recognized as an important risk in the CS and during project design. This risk materialized during project implementation, as the changed priorities of the new administration and unwillingness to implement new tariff structures and restructure the WSC led to delays in Parliament's approval of new legislation for the sector. Despite the implementation of mitigating measures[48] and IDB's continued engagement with the Government and key stakeholders, political realities in the country proved a challenge.

The long-term sustainability of the results is threatened by financial, operational, and institutional risks. Despite a considerable reduction of NRW, WSC's financial sustainability is still limited because of its low capacity to generate sufficient revenues to cover its operational and maintenance expenses. This situation is not likely to change until an adjusted tariff policy is adopted and new legislation approved to regulate the sector. There are also financial risks related to the rehabilitation of sanitation infrastructure in New Providence. Available funds fall about US$17 million short of what is needed to cover the works prioritized by the Wastewater Master Plan, and new financial sources will be needed for completion. In general, WSC also needs to further strengthen maintenance practices for all its physical assets to guarantee their long-term sustainability. Finally, legislation reform is key to ensuring the long-term sustainability

of interventions in the sector. As the legislation prepared under the project has yet to be approved by Parliament, there is a risk that—considering the time elapsed since its preparation—it will need to be updated or, more important, that this effort will be completely abandoned after the project's closure.

## F. Energy

| Expected outcomes of the CS: | | | | | |
|---|---|---|---|---|---|
| | **1.** Increased use of energy efficiency (EE) and conservation, including installation of solar water heaters.<br>**2.** Increased contribution of renewable energy (RE) sources such as photovoltaics.<br>**3.** Increased level of financing to support EE and RE projects.<br>**4.** Institutional capacity for energy sector planning, including RE and EE; policy formulation strengthened.<br>**4.** BEC achieves financial and operational sustainability in the medium term.<br>**5.** Energy matrix includes RE alternatives. EE programs implemented.<br>**6.** Participation of independent power producers in energy matrix. | | | | |
| **Operation** | | **Approval year** | **Amount (US$)** | | **Disbursed %** |
| | | | **Approved** | **Current** | |
| BH-X1001 | Implementing Sustainable Energy Projects | 2009 | | | |
| BH-X1002 | Energy Efficient Residential Lighting | 2009 | | | |
| BH-T1016 | Promoting Sustainable Energy | 2009 | 750,000 | 747,788 | 100% |
| BH-T1012 | Strengthening the Energy Sector | 2008 | 700,000 | 690,730 | 100% |
| BH11914-04 | Caribbean Bottling Solar PV Project | 2016 | | | |
| BH12081-01 | Arawak Port Expansion & Energy Efficiency Project | 2017 | | | |

*Source:* OVE using IDB Enterprise Data Warehouse.
*Note:* This table has been modified to exclude confidential information in accordance with the "Information Relating to Non-Sovereign Guaranteed Operations" disclosure exception in paragraph 4.1 j. of the Bank's Access to Information Policy.

There is little progress toward achieving the strategic objectives set out in the CS for the energy sector. The main deliverables of the Bank in the sector were studies that identified alternatives for renewable energy (RE) and conservation measures, estimated potential cost savings for the country with their implementation, diagnosed the BEC's financial situation, and recommended an action plan for transforming the electricity sector. The four TCs were inherited by the CS 2010-2013 strategy and had implementation problems. The GoB has not incorporated the majority of the Bank's recommendations so far, and the strengthening of the country's institutional capacity for energy sector planning (including RE and EE) and policy formulation are still unmet challenges. Finally, it is unlikely that BEC will achieve financial and operational sustainability in the medium term or that the participation of independent power producers in energy matrix will materialize.

IIC has recently approved two new solar power projects, but it is too early to assess results. The first, the Caribbean Bottling Company (CBC) Solar PV Project, was approved in December 2016 and represents the new IIC's first transaction in the

Caribbean region.[49] The second, the Arawak Port Development (APD) project, was approved on June 21, 2017.[50] Both projects aim to increase energy reliability and reduce $CO_2$ emissions by replacing electricity consumption from the grid with solar power. The replication of these projects has the potential to reduce fuel imports during peak periods, reduce power loads, and bring cost-efficient energy solutions to larger consumers. However, as such projects can draw away part of BEC's most profitable clientele, it is important to adopt a holistic approach that considers the BEC's financial and operational sustainability, which is one of the main objectives of the Bank's CS.[51] Thus, strong SG-NSG coordination is needed as the IDBG moves forward to consider how these IIC projects mesh with the country's goals, including energy availability, environmental sustainability, and financial and operational sustainability for BEC.

There is no evidence of sustainability in the public energy company. BEC represents a drain on public finances, not only because of the transfers it receives from the central government but also because of the contingent liabilities it generates. The private sector management of BEC has not been able so far to reverse this situation, as it has no autonomy to raise tariffs and generate revenues to implement the needed investments. The regulatory framework does not allow new entry in generation, and the recently created regulatory authority is still untested and weak.

## G. Coastal risk management and climate change

| **Expected outcomes of the CS:** | **1.** Improved capacity for coastal risk management (risk assessment, prevention and mitigation, financial risk management, disaster preparedness/response). | | | | |
|---|---|---|---|---|---|
| **Operation** | | **Approval year** | **Amount (US$)** | | **Disbursed %** |
| | | | **Approved** | **Current** | |
| BH-L1043 | Climate Resilient Coastal Management and Infrastructure Program | 2017 | 35,000,000 | 35,000,000 | 0% |
| BH-T1053 | Emergency Assistance due to Hurricane Matthew | 2016 | 200,000 | 200,000 | 100% |
| BH-T1052 | Support Climate Resilient Tourism in San Salvador | 2016 | 360,000 | 360,000 | 6% |
| BH-T1049 | Emergency Assistance due to Hurricane Joaquin | 2015 | 200,000 | 200,000 | 100% |
| BH-T1040 | Ecosystem-based Development for Andros Island | 2014 | 600,000 | 900,000 | 83% |
| BH-T1038 | Feasibility Studies: Climate Risk-resilient Coastal Zone Management | 2013 | 150,000 | 282,244 | 100% |
| BH-T1032 | Emergency Assistance due to Hurricane Sandy | 2013 | 200,000 | 200,000 | 100% |
| BH-T1029 | Feasibility Studies: Climate Risk-resilient Coastal Zone Management | 2013 | 500,000 | 469,037 | 100% |
| BH-T1024 | Emergency Assistance due to Hurricane Irene | 2011 | 200,000 | 200,000 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.

The Bank's program in the sector consisted of four TC projects to help achieve three main objectives: (i) ensure that natural capital is mainstreamed in the design and implementation of development strategies, including those for the Family Islands; (ii) establish a fully endorsed framework for Integrated Coastal Zone Management (ICZM); and (iii) help build the capacity to deliver an ICZM investment program. Important deliverables included the "Andros Sustainable Development Master Plan," which modeled different development scenarios using trade-offs in ecosystem services (BH-T1030); a draft "Policy Framework for Climate-resilient Integrated Coastal Zone Management" (BH-T1038, BH-T1039); and the design and feasibility analysis of a US$35 million ICZM investment program, recently approved. These initiatives were complimented by a baseline vulnerability analysis of Nassau and New Providence Island, which recommended a sustainable growth scenario for the future urbanization of Nassau as part of the Bank's Emerging and Sustainable Cities Initiative (BH-T1045, US$1.1 million), and by the development of a Community Adaptation Plan for Andros supported by MIF. While most of the actions taken to date have been small, the Government has estimated that the cost of mitigation will exceed US$900 million through 2030.[52]

In the aftermath of hurricanes Irene, Sandy, Joaquin, Matthew, and Irma the Bank agreed to the Government's request for emergency assistance to mitigate the impacts on affected populations. Four TCs were approved between 2011 and 2016 for US$200,000 each to support the efforts of the National Emergency Management Agency in the provision of emergency relief – food, medication, water, and shelter operation costs– to the most vulnerable groups in the affected islands.

## H. SME development and the financial sector

| **Expected outcomes of the CS:** | 1. Enhanced capacity for coordination between public and private sectors.<br>2. Improved business climate, innovation, and access to finance by SMEs.<br>3. Improved relevance of and access to training programs for SMEs.<br>4. Regulatory/institutional framework in place for SME development.<br>5. Public-private action plan to support SME development. | | |
|---|---|---|---|
| **Operation** | **Approval year** | **Amount ($)** | |
| | | **Approved** | **Current** |
| BH3343A-01 Kenuth Electric | | | |
| BH3341A-01 Bahamas Neurological Center | | | |

*Source:* OVE using IDB Enterprise Data Warehouse.
*Note:* This table has been modified to exclude confidential information in accordance with the "Information Relating to Non-Sovereign Guaranteed Operations" disclosure exception in paragraph 4.1 j. of the Bank's Access to Information Policy.

There is no evidence of IDBG achievements towards CS objectives for SME development and financial sector. The Bank Group's private sector windows supported two operations with SMEs through the recently discontinued IIC's FYNPYME Credit Program and three regional operations with financial intermediaries (FIs).[53] The

FYNPYME operations funded working capital for Kenuth Electric[54] and Bahamas Neurological Center,[55] and the regional operations targeted FIs. The projects' implementation reports do not provide information on development results. The regional operations did not benefit Bahamians, and the two FYNPYME credit lines were too small to have sectoral impact. Finally, there is no regulatory framework in place for SME development or documented public-private action plan to support SME development specifically for Bahamas.

IDBG's NSG products have been costlier than other local banking alternatives. IIC loans are more expensive than those of its competitors, in part because of the applicable fee structure, and the incorporation of IDBG standards and requirements as part of the financing structure.[56] This hampers the origination of NSG operations in the country. It is also difficult to charge fees, since the local banks do not charge for supervision or analysis.

Access to finance is a main issue for The Bahamas' SMEs. Since local financing is scarce, the IIC's support has high financial additionality.

The Bank also supported SME development through MIF. This evaluation does not cover MIF in depth.

## I. Social protection

| Operation | | Approval year | Amount (US$) | | Disbursed % |
|---|---|---|---|---|---|
| | | | Approved | Current | |
| BH-L1030 | Social Safety Net Reform Program | 2012 | 7,500,000 | 4,100,000 | 100% |
| BH-T1024 | Strengthening Social Protection Programs | 2011 | 500,000 | 498,007 | 100% |
| BH-T1015 | National Health Services Strategic Plan 2010-2020 | 2009 | 400,000 | 382,610 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.

The Bank's CS did not identify social protection as a priority, but reacted to include this sector as social conditions deteriorated. As macroeconomic indicators (including rising unemployment) worsened following the recession, the Cabinet decided to prioritize improvements in the country's social safety net, including the rationalization of public social expenditure. Hence, in 2012, IDB approved a US$7.5 million investment loan to "reduce poverty and improve human capital accumulation through the consolidation of existing programs into a Conditional Cash Transfer (CCT) targeting the poor." The outcomes of the loan focused on improved educational achievement and a healthier lifestyle among children from poor households, and strengthened effectiveness of program administration in the Ministry of Social Services. A companion TC (US$0.5 million) was approved to finance project preparation and develop important inputs, including the design of a household survey to determine the poverty line, and a proxy

means test to improve targeting efficiency. There is some evidence that the program's design was weak. Although the social protection operation had all the elements of the Bank's preferred technical thinking on CCTs, it lacked practical thinking about what was possible in The Bahamas given the political economy issues surrounding the necessary challenging reforms.

The Social Safety Net Reform Program did not achieve any of its planned outcomes. The rotation of senior staff (including three Permanent Secretaries) and limited initial oversight by the Ministry of Finance further conspired against developing a deep institutional sense of ownership of the reforms and commitment to their execution. Insufficient expertise and slow decision-making led to significant procurement delays (of up to two years), the withdrawal of qualified candidates from multiple consultancies, and retendering. Despite the Bank's significant investment of money and time in loan supervision, project management support, and consultant resources (including external procurement support), the PIU's performance remained low. In 2016, the Ministry of Finance assigned two people to oversee the project and help the PIU with planning and logistics. A new timeline was prepared with targets, but the PIU did not follow the plan. In August 2017, the balance of US$3.4 million in undisbursed loan financing was cancelled and the project was closed.

The loan did, however, achieve 5 of 12 output targets. These include (i) the mobilization of expert technical assistance to support the design and targeting of the CCT component; (ii) the implementation of a public information campaign to promote the new program; (iii) the introduction of a new payment system to enhance the flexibility of the CCT stipend; (iv) the completion of the household expenditure survey; and (v) the design and installation of an MIS to facilitate program management. According to the most recent Project Monitoring Report (9/2017), just 81 of 300 planned households received cash grants under the program, and 5,803 of 12,000 households were enrolled under the program and incorporated in the Beneficiary Management Information System. While the sustainability of these programs is unknown—and, indeed, could even be at risk since they are not grounded in legislation—the proxy means test, household survey data, and MIS system developed for the loan remain important tools that can be used in the future to bring technology and improved efficiency to the management of social programs.

## J. Education

| Operation | | Approval year | Amount (US$) | | Disbursed % |
|---|---|---|---|---|---|
| | | | Approved | Current | |
| BH-L1003 | Investing in Students and Programmes for Innovative Education Reform | 2005 | 18,000,000 | 12,774,888 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.

The Bank's program in education was consistent with the objectives of the Bank's previous country program, but design problems led to implementation delays, restructuring, and partial cancellation. The INSPIRE program (formerly named Support Program for Transforming Education and Training) was intended to align the education and training systems with the demands of the economy for skilled human resources. It aimed to "improve the relevance of and access to training programs for SMEs" (2010 CS), and "improve the alignment between the labor supply and the needs of employers" (CS 2013). Nonetheless, the original project design was too complex[57] and had an inadequate execution mechanism.[58] As the program was approaching its end date, slightly more than 24% of the total budget had been spent (of which approximately 60% was for administration) and no milestones achieved. In 2010, at the request of the Government, BH-L1003 was reformulated, rebranded INSPIRE, the logical framework was retrofitted, a new results framework was approved and US$5.1 million were cancelled. Although the program's objectives remained the same, implementation was streamlined and realigned with the core functions of MOE technical units. Because of these changes, the full balance of loan financing had been committed by September 2013, and a final six-month extension was granted through March 2014 to allow for the completion of all activities.

Although several outcomes and outputs were achieved, results were mixed. The goal of establishing a national framework for Technical Vocational Education and Training (TVET) was not achieved.[59] The number of students obtaining at least one career or technical certification increased by 76%, but this indicator fell short of its original goal in absolute terms.[60] Instructional technology has been distributed to all 55 secondary schools in the country and is being used (higher than the 50% planned). Students and teachers observed by OVE during site visits were comfortable with the technology and actively engaged in instruction. While these resources have become an important tool for teacher professional development and networking,[61] keeping the equipment in good working order remains a challenge, particularly in the more remote Family Islands.

The Bahamas Technical and Vocational Institute (BTVI) has become a semi-autonomous technical and vocational training institution with standards. It has established an industry-specific advisory board to ensure that its programs are relevant, expanded its menu of accredited programs, signed articulation agreements with international institutions, and developed online programs that can lead to technical certifications and reach Family Island residents. The objective of increasing the transition rate from secondary to BTVI (to 3%) has been achieved, and overall enrollment increased by over 33% between 2008 and 2013. More Bahamians are attending BTVI than ever before, and the local business community is also investing in the expansion of BTVI's programs and facilities.

Regulations for the operation of preschools (a project output) have been approved and are expected to contribute to the learning readiness of children entering primary school. Likewise, the development and implementation of the national screening

program for preschool students is expected to positively affect student learning and system efficiency. In a survey conducted for the final evaluation of INSPIRE,[62] nearly 60% of the respondents indicated that they are "confident in identifying students with learning challenges"; however just 10% believe that their school regularly responds with the appropriate resources.

The fact that the institutional strengthening component of the program has not yielded significant results could hamper the sustainability of program results. OVE's interviews with Bahamian authorities indicate that institutional policies remain outdated, internal systems need improvements, and management capacity in the MOE remains a challenge.

## K. Labor

| Operation | | Approval year | Amount (US$) | | Disbursed % |
|---|---|---|---|---|---|
| | | | Approved | Current | |
| BH-L1037 | Skills for Current and Future Jobs | 2016 | 25,000,000 | 25,000,000 | Not signed |
| BH-T1051 | Building Capacity for Skills for Current and Future Jobs | 2016 | 120,000 | 120,000 | 23% |
| BH-T1036 | Visit National Employment Service in Riviera Maya | 2013 | 11,350 | 11,350 | 100% |
| BH-T1035 | Advancing Skills and Employment | 2013 | 400,000 | 400,000 | 71% |
| BH-T1021 | Bahamas Labor Markets Study | 2010 | 170,000 | 160,970 | 100% |
| BH-L1003 | Investing in Students and Programmes for Innovative Education Reform | 2005 | 18,000,000 | 12,774,888 | 100% |

*Source:* OVE using IDB Enterprise Data Warehouse.

The Bank supported the Government's efforts to identify and address binding constraints in the labor market through TC financing for advisory services and upstream work. Between 2010 and 2016, four TCs were approved (total value of US$0.7 million) to advance knowledge building in the Ministry of Labour and National Insurance and to inform the Bank's policy dialogue with the Government in the sector. The TCs were relevant in that the Ministry had never received multilateral financing, and had limited program and policy experience in expanding active labor market policies. The operations were also directly aligned with the Bank's strategic priorities in private sector and SME development. Among other activities, the TCs financed technical assistance to identify training and skills needs (BH-T1021); strengthen employment services and monitoring systems for skills training (BH-T1035); facilitate a study tour to the National Employment Service in the Riviera

Maya (BH-T1036); and finance products as inputs for a future loan in the sector. Based on the results of these efforts, in 2016 the Bank approved a US$25 million loan, Skills for Current and Future Jobs in The Bahamas. As of November 2017, the loan had not yet been signed by the Government.

4


For the future it is important to engage in an in-depth dialogue with the Government to address the country´s weak institutional capacity and define an action plan to strengthen it.

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# 4 Conclusions and Recommendations

**The Bahamas has the highest per capita GDP of all Bank borrowing countries, but it also faces major development challenges: significant income inequality, high unemployment, an inefficient public sector, and inadequate infrastructure. The dispersion of the population across dozens of islands creates unique challenges for transportation, public administration, and employment. Addressing these challenges will require sustained effort by the Government, and the IDBG could play an important role.**

The current fiscal trajectory underscores the need to control public spending and increase public revenues to create fiscal space for necessary expenditures. The successful implementation of a VAT in 2015 contributed to increasing revenues, but further tax reforms are needed. Reforms are also needed on the spending side, as recent economic contractions have pushed expenditures above the medium-term target, adding to public deficits and debt.

Private sector investment is critical in meeting investment needs. Even with a stronger fiscal position, public investment will not be sufficient to cover investment needs. Thus, the business climate needs to be improved to attract sufficient private investment. Despite recent progress in the area, the Bank Group has not engaged significantly with the private sector and needs to do more, with strong SG-NSG coordination and attention to the cost of its products vis-à-vis those of competitors.

The relevance of the Bank's strategy and programming was mixed during the evaluation period. This evaluation covers two CS periods, 2010-2013 and 2013-2017. Though only the second strategy formally focused on fiscal objectives, several useful fiscal TCs and one loan (still in an early stage of implementation) were provided by the

Bank over both periods. Both strategies addressed challenges in the energy sector, but meaningful lending in the sector did not materialize. The Bank engaged heavily in transport and in water and sanitation, while programming was modest in trade, labor, social protection, natural disaster prevention, citizen security and SMEs. Half of total lending went to support a local branch of a Brazilian Bank lending to SMEs in other LAC countries.

There have been some positive results in the fiscal area, trade, W&S, and citizen security, but limited or negligible results in other areas. Bank technical assistance supported implementation of the VAT and the Electronic Single Window for trade. There has been progress in reducing NRW but little in improving the financial performance of WSC or adopting a new regulatory framework. Citizen security became a priority in the second strategy, and the Bank's contribution has been substantial. Bank support is designed to strengthen planning capacity in the Government and the integrated financial management system, but it is too early to assess results. Although almost half of the lending that benefited The Bahamas went to transportation, little progress toward achievement of CS goals is evident. Similarly, support to social protection and education had limited verifiable results. The Bank Group engaged little with the private sector for most of the evaluation period, other than a couple of small projects through FINPYME and MIF, though IIC has recently approved financing for two Renewable Energy loans.

Overall, the Bank's support was hampered by the country's limited institutional capacity to implement projects and by the lack of political consensus to move ahead with key sectoral reforms. Although the Bank made a significant effort to strengthen PIUs in its operations, implementation of these efforts was slow and results mixed. Some common issues appear to have included (i) overestimation of the Government's capacity to implement, (ii) inadequate ability of PIUs to coordinate complex projects, and (iii) inadequate identification of risks and corresponding mitigating measures.

Many people interviewed for this evaluation stressed several aspects of working in The Bahamas. First, successful project origination and implementation require the development of trust through frequent personal interactions with Government authorities, which calls for the presence of Bank staff in the field office and/or frequent travel from HQ to the country. Second, Bahamians tend to favor local expertise over foreign expertise, which creates challenges as local expertise is scant in certain areas; local authorities sometimes need to be persuaded of the need of foreign expertise, and foreign experts need to have adequate knowledge of and sensibility to local realities. Third, PIU staff often lack knowledge of Bank procedures, and effective training is essential. Finally, mechanisms and incentives for interagency coordination are weak, and projects need to recognize and account for this.

Based on the above findings, OVE has the following four recommendations for Bank Group management:

1. Explore with the Bahamian authorities the possibility of providing broader and deeper support for tax policy and administration and public expenditure management, using a strategic mix of Bank instruments.

2. Foster greater SG-NSG coordination in energy and transport, including in strengthening regulatory frameworks and attracting private sector investments.

3. Engage in an in-depth dialogue with the Government to help diagnose the factors underlying the country's weak institutional capacity and define an action plan to strengthen it.

4. Explore with the Bahamian authorities the possibility of focusing some work on the Family Islands, given their greater poverty and unique challenges.

# Notes

1 According to the 2016 Human Development Report of the United Nations Development Program, The Bahamas' Human Development Index was 0.792 in 2015—above the averages of 0.746 for countries in the high-human-development group and 0.751 for Latin American and Caribbean countries.

2 According to the World Economic Outlook databank of the International Monetary Fund (IMF), per capita GDP was US$24,310 in 2014.

3 Department of Statistics of The Bahamas. The Commonwealth of The Bahamas, Population Projections 2010-2040, March 2015.

4 Annex 1 presents selected economic indicators.

5 Department of Statistics of the Ministry of Finance, The Bahamas.

6 Central Bank of The Bahamas, Financial Stability Report, January-June 2015.

7 IMF staff report for the 2016 Article IV consultation.

8 IMF reduced its estimated potential growth to 1-1.5% over the medium term, from close to 3% at the start of the century.

9 The Bahamas' ranking in the World Bank Doing Business Report has fallen considerably, from 68th of 189 countries in 2010 to 121st of 190 countries in 2017.

10 Moody's report also cited energy reform and improvements to the "ease of doing business" as essential developments. In its response, the Central Bank pointed to fiscal responsibility legislation and reforms to public sector financial management as changes that were needed on the Government side. http://www.tribune242.com/news/2017/sep/01/moodys-cuts-bahamas-gdp-growth-below-1/.

11 GINI coefficient data range widely and are unreliable.

12 While the 2016 Human Development Report ranked The Bahamas 58th out of 188 countries, that marks a considerable decline from 43rd in 2010 (out of 169) and 33rd in 2000 (out of 174). Although the country's overall rank fell dramatically relative to the performance of other countries, its score in the human development index improved somewhat from a baseline of 0.784 in 2010 to 0.792 in 2015.

13 The Bahamas Development Challenges, growth diagnostic prepared by IDB, 2017.

14 The Bahamas faces important institutional and management challenges that limit the Government's ability to improve the efficiency and effectiveness of public spending. Budget formulation is incremental, based on the previous year's execution and largely irrespective of line ministries' sectoral plans. Longer-term debt sustainability analysis is carried out, but no serious medium-term planning matches resources to sector strategies. Meaningful discussion about where to allocate resources is practically impossible if the objectives and outputs are neither stated nor measured. Many perceive staffing to be excessive, but cannot easily be reduced or redirected in the absence of performance measures.

15 In February 2016, the Government of The Bahamas signed a five-year management services agreement with Power Secure International to run BPL.

16 Average available renewable water per capita in The Bahamas is 59.2 m3 compared to 68,000 m3 in Latin America and the Caribbean.

17 Non-revenue water (NRW) is water that has been produced and is "lost" before it reaches the customer.

18 According to WSC, sewer coverage has remained steady at 13% since 2011, with 16% of coverage in New Providence and 4% in Abaco.

19 The country's legal framework does not define an independent entity for economic and environmental regulation of the water and sewerage sector. In the absence of an independent regulator, WSC makes decisions more on a political than a commercial basis. The WSC is assigned regulatory functions for service provision and water resources, but these functions exceed its capacity. Tariffs are not linked to WSC's financial sustainability. Because there are no rules for groundwater abstraction, the sustainability of groundwater resources is threatened.

# Notes

[20] Prime Minister Christie: "Hurricanes Mathew and Joaquin losses estimated at hundreds of millions." Press Release of October 2016. (2) According to the growth diagnostic prepared by IDB (2017), over the past 30 years, there have been 12 major storms and one flood, which resulted in approximately US$2.5 billion in losses.

[21] The Caribbean Forum comprises 15 Caribbean States and serves as a base for economic dialogue with the European Union.

[22] Through loan BH-L1016, the IDB is assisting The Bahamas in this regard.

[23] Annex 4 contains a summary of OVE's previous CPE recommendations.

[24] The Bank-supported Trade Sector Support Program was highly relevant for the country and was directly aligned with the objective of the 2010 CS to "improve and facilitate access to trade through improved trade logistics, including the establishment of an Electronic Single Window." Similarly, PFM strengthening could help address some of the fiscal challenges through better planning and allocation of resources.

[25] The strategic priorities of the incoming government are outlined in the Progressive Liberal Party's "Charter for Governance" (2012).

[26] This evaluation reviews all loan and TC operations approved between January 2010 and June 2017 and the portfolio of inherited operations that were active at the beginning of 2010 (Annexes 5 and 6).

[27] The TFFP Loans RG-L-1066 and RG-L-1073 were approved as part of the Access to Banking pillar of IDB/SCF's beyond Banking initiative, and were also defined as regional transactions. The Bahamas is a mere booking center, due to the financial advantages of The Bahamas for cross-border finance.

[28] For a total amount of US$1.5 million.

[29] This CPE evaluates only the universe of loans assigned to The Bahamas as beneficiary country. Therefore, the three regional loans assigned to Banco Itaú in Brazil, that amount to 50% of the total lending to The Bahamas during the period, are not evaluated.

[30] Changes in Government administration and the rotation of Ministry staff have also contributed to the loss of momentum and ownership of important institutional reforms, as in the case of the New Providence Water Supply, and increases in the cost of project execution due to slow decision-making processes.

[31] For example, the Social Safety Net Reform Program, which fell short of achieving its beneficiary targets, was cancelled when the executing agency was unable to present a plan to get the program back on track.

[32] For example, the Trade Sector Support Program had been in the pipeline since September 2007, but it took 54 months to first disbursement. Currently 68% disbursed, the loan took a long while to start and experienced significant initial delays. The program also faced implementation difficulties because many responsibilities fell under other agencies. Once a shared view emerged that meeting the requirements of the Economic Partnership Agreement with the European Union and WTO accession were critical for the country, progress picked up.

[33] Most implementation units have limited direct executing capabilities and need to carry out activities through international and local contractors and consultants. The loans approved in water and social protection experienced lags of up to two years due to protracted procurement. Program INSPIRE was designed to be completed in 42 months but required an extension of an additional 42 months to close, despite the cancellation of 30% of its approved resources. A review of the 2007-2013 procurement plans for this operation revealed a total of 153 planned purchases of goods and services, of which 71 remained on the plans for two or more years, and 22 for more than three years (MindBloom Consulting. 2014. Final Program/Operational Evaluation of Project INSPIRE).

[34] For example, the Air Transport Reform Program suffered implementation problems because of the complex high-level coordination needed to review, approve, and implement a new institutional structure, including the creation of new agencies and the separation of responsibilities and roles among policymakers, regulators, and operators. The Citizen Security and Justice Programme experienced delays because of the lack of adequate implementation capacity and of commitment to the loan on behalf of several of participating agencies.

[35] In The Bahamas, an extensive chain of approvals is often required for even low-level administrative tasks, procurements tend to be retendered, proposals are revised over and over, and reporting requirements can be duplicative.

[36] The delays were mostly associated with the termination of the initial civil works with the contractor after the firm went into receivership. This was followed by two unsuccessful attempts to retain another contractor. Ultimately, all road works were completed by end-2014, having used 91.5% of loan resources, leaving a balance of US$5 million. The Bank agreed to extend the project by 24 months (to October 2016) to use this balance to enhance the environmental and social components of the project at Big Pond Park.

[37] The investment loan will finance the implementation of this component.

[38] Kelly, R., Glenday, G., & Forde, W. (2011). *Conditions for Improving the Property Tax in The Bahamas.* Washington, DC: Inter-American Development Bank.

[39] Dos Santos, P., & Bain, L. (2004). CARICOM - Survey of the Caribbean Tax Systems. Turkeyen, Guyana: CARICOM Secretariat.

[40] The Commonwealth of the Bahamas. 2010. Public Expenditure and Financial Accountability Assessment: Public Financial Management Performance Report.

[41] Semi-annual progress report, September 2016.

[42] Voluntary Bills of Indictment are a process to reduce the time it takes to bring an accused person to trial, eliminating the lengthy preliminary inquiry process.

[43] Office of the Attorney general. 2017. Office of the Attorney General 2014-2017 Report. Office of the Attorney General and Ministry of Legal Affairs. Nassau.

[44] OVE. 2009. Country Program Evaluation: The Bahamas 2001-2008 (RE-358). Inter-American Development Bank. Washington, DC.

[45] NRW levels decreased from 55% in 2008 to 37% in 2015, exceeding the expected target of 45%. Performance-based contracts seem to have been instrumental to achieve this objective. Under component 1, WSC signed a 10-year performance-based contract to reduce NRW in New Providence, which included a US$24 million fee to be paid only for actual NRW reduction achieved. Given the results-oriented nature of the contract, the incentives to reach objectives and minimize delays during implementation were correctly placed. The reduction of NRW component was the only component that did not experience major delays during project execution; in fact, its targets were exceeded.

[46] WSC's operating cost recovery, which is currently around 68%, was expected to improve from 64% in 2008 to 84% at the end of the project. At the same time, annual Government transfers to the WSC, which were expected to decrease from US$24 million to zero, remained at US$24 million in 2015 (despite a reduction compared to 2012-2014 levels of more than $40 million).

[47] Without a regulatory framework for the sector, people will not have incentives to stop using private wells and join WSC as their water supply company. Likewise, the improvement of WSC's financial position will require that a new tariff structure be put in place, and possible downsizing measures adopted to increase WSC's efficiency. All those activities have been advanced under BH-L1028 (draft legal and regulatory framework prepared, tariff study prepared and presented, and WSC Business plan prepared and in execution for some activities like NRW reduction and Employee Engagement Program).

[48] Mitigating measures included the creation of a committee to oversee the implementation of component 4 and to support and facilitate the process of approval of the new legislation. This committee included representatives from the WSC, the Ministry of Finance, the Utilities Regulation and Competition Authority, and the Attorney General's Office, and was chaired by the Ministry of the Environment. The establishment of that committee and the submission of draft legislation to the Cabinet were contractual conditions for execution prior to first disbursement.

[49] CBC is a distributor for Coca-Cola products in the country. This project consists of a senior secured loan of up to US$1 million to fund the installation of a rooftop photovoltaic system at CBC's main bottling factory in Nassau, Bahamas. The project will result in the addition of 1,153 kW of solar photovoltaic panels on the rooftop of CBC's factory. The total project cost is approximately US$1.8 million. The system will be one of the first and largest photovoltaic installations in The Bahamas, and it is expected to reduce CO2 emissions by 24,530 tons over 25 years of operation.

[50] Private sector companies own 40% of APD, the Government owns 40%, and the remaining 20% of shares are now being made available to the Bahamian public. The project is a loan to finance the installation of a photovoltaic system on the roof of APD's main building at the port and to retrofit the port's terminal lights to LED, along with other energy efficiency activities at the port. Because the estimated annual energy production would exceed the needs of the terminal facility, APD sought BPL's permission to connect the system to the grid.

[51] See Annex 10 of the APD Loan Document – DELTA and Evaluability APD Credit Proposal, June 2017.

[52] Climate Home News. http://www.climatechangenews.com/2015/03/10/paris-tracker-who-has-pledged-what-for-2015-un-climate-pact/

[53] MIF also implemented two operations in The Bahamas: Revitalization of the Sponging Industry ATN/ME-15441-BH US$535,450 and Empowerment of the Fly Fishing Guides ATN.ME-14853-BH US$149,750. Moreover, MIF developed two regional operations related to The Bahamas: De-Risking US$1,351,158 and Strengthening Bird-Based Tourism as a Conservation and Sustainable Dev. Tool RG-M1238.

[54] Kenuth's Electric Co. is an electrical company that specializes in plumbing sales and electrical sales and services. It is a full-service electrical contractor providing services for large-scale commercial and Government buildings. The loan (approved in March 2015) intends to support business expansion to attract more customers to a large inventory, which would increase Kenuth's annual income and new jobs.

[55] Bahamas Neurological Center is an SME that offers assessments in neurology, psychology, physical therapy, and occupational therapy; neurodiagnostic testing; medical treatment; and rehabilitation therapy. The loan (approved in August 2013) will be used to purchase equipment/supplies. Exports (trips and services to other countries such as Turks and Caicos) are also expected to increase by over 25%.

[56] IIC has been working on streamlining the processes to facilitate origination of transactions.

[57] The loan included three ambitious components: (i) a national framework for technical education and vocational training (TVET); (ii) improved efficiency and equity in the education system through investments in early childhood development and the enhancement of inclusive education; and (iii) strengthened institutional policies, internal systems, and management capacity in the MOE. The range of activities included in this complex program placed heavy incremental demands on an already extended educational management system.

[58] The large PIU was designed as a separate unit that was led by an external consultant rather than integrated into the core functions of MOE. This decision, which was mistakenly identified as the preferred option in the risk analysis, significantly weakened MOE's ownership of the program.

[59] Although the secondary/TVET curriculum was revised and is being implemented in all schools, it is not fully competency-based (IDB Project Completion Report, Annex III: Final Program/Operational Evaluation. 2013).

[60] TVET magnet programs have been upgraded in five secondary schools, and a Career Academy has been established with industry inputs (all program targets). The fact that the most substantial investments in the secondary TVET program happened during the final two years of project execution may have influenced this outcome.

[61] An unanticipated benefit is the active online community of teachers who share best practices in the pedagogical use of technology.

[62] Mindbloom Consulting (2014). Final Program/Operational Evaluation of Project INSPIRE. A final report prepared for the Ministry of Education, Science and Technology, Commonwealth of The Bahamas.