



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 23-Nov-2020 | Report No: PIDC30759



BASIC INFORMATION

A. Basic Project Data

Country Bahamas, The	Project ID P175490	Project Name The Bahamas COVID-19 Response and Recovery DPF (P175490)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Mar 25, 2021	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Government of The Bahamas	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The Development objective is to support COVID-19 relief and lay the foundation for resilient economic recovery in The Bahamas

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The Bahamas is a small island developing state that has recorded years of successive economic growth since its IBRD graduation in 1989 but continues to display high macroeconomic and fiscal vulnerabilities. The Bahamas is a chain of over 700 islands and keys in the North Atlantic Ocean. It has a population of 389,482, most of it urban and with two-thirds living on New Providence Island where Nassau, the capital, is located. As of 2019, The Bahamas GNI per capita stood at \$31,780. The Bahamas is a high-income service economy heavily dependent on tourism and financial services. Its GDP



has risen steadily over the past four decades from US\$3.1 billion in 1990 to US\$13.4 billion in 2019. Nevertheless, poverty was around 13 percent, and unemployment was almost 10 percent before the COVID-19 crisis started. Further, the country's economic position remains vulnerable due to its small size, high dependence on tourism, and vulnerability to natural disasters like hurricanes. The Bahamas remains one of the most tourism dependent countries in the world. This sector has been particularly hard hit by COVID-19 both in terms of revenue and employment since about half of the labor force works directly or indirectly in tourism. The economy also includes a significant financial sector.

The COVID-19 pandemic comes on the heels of the devastation from Hurricane Dorian. In early September 2019, Category 5 Hurricane Dorian, the strongest storm in The Bahamas' history, caused widespread social, economic, and personal costs in two major centers of economic activity—the islands of Abaco and Grand Bahama. Correspondingly, these developments exerted an extraordinary burden on the public finances at a time when the government, having enacted a fiscal responsibility law in November 2019, was achieving its targets to reduce the fiscal deficit to GDP and debt to more sustainable levels. A Damage and Loss Assessment on the four primary sectors (social, infrastructure, productive and environment) on the affected islands estimated the cost of damages at US\$2.5 billion¹ (20 percent of GDP). Economic growth slowed down to 1.2 percent in 2019 compared to 3.0 percent in 2018.

The Bahamas is highly exposed and vulnerable to climate change and natural hazards, with the disaster and destruction from Hurricane Dorian as a preview of potential future events. Climate change and global health risks, such as the current COVID-19 pandemic, increase the country's exposure to shocks and stresses, while the underlying vulnerability, particularly the socioeconomic aspects, to climate change and disasters has been exacerbated by the 2019 hurricane and the 2020 economic downturn. Sea-level rise associated with increasing temperatures due to climate change threatens The Bahamas' low-lying islands. Climate change impacts, including anticipated increases in temperatures and changing precipitation patterns, are expected to worsen the frequency, intensity, and impacts of extreme weather events. Extreme weather events, in particular hurricanes, are common and can significantly impact economic growth and social development. In addition to the severe impacts of Hurricane Dorian in 2019, the country faces an average annual loss from windstorms of US\$850 million and a probable maximum loss for a 250-year event of US\$20.5 billion – nearly 45 percent of the country's capital stock. At the same time, climate change may interact with other shocks, such as the COVID-19 pandemic, as it impacts the wellbeing of the poor and vulnerable population disproportionately, undermines environmental determinants of health, and places additional stress on health systems and infrastructure. In addition, as the frequency, intensity, and impacts of extreme weather events is likely to worsen due to the high climate change exposure of The Bahamas, firms need to adapt to observed and anticipated risks, including by making organizational changes, adjusting their investment choices, and climate-proofing their business practices.

The COVID-19 crisis led to an unprecedented sudden stop in tourism and a deep reduction in economic activity, with an expected GDP contraction of 14.8 percent this year. In response, the government announced various support measures totaling US\$121.7 million (1 percent of GDP). As of November 22, 2020, The Bahamas had 7,413 confirmed COVID-19 cases, with 163 deaths (1,903 cases and 41 deaths per 100,000 of population), making the country among the hardest hit in the Caribbean.

The Bahamas' macroeconomic framework is appropriate for development policy financing. The authorities' policy responses to two major external shocks have been appropriate. The proposed operation will support a set of measures to further enhance debt and fiscal sustainability as well as financial stability, further strengthening this framework. Prior to COVID-19, the government implemented notable structural fiscal reforms. In October 2018, the authorities adopted

¹ Of which approximately 9% or \$225 million was attributed to the public sector. The total revenue and other income losses were estimated at \$717.3 million, with the public sector accounting for 16% or \$114.8 million. Additional costs, mostly for clean-up, were estimated at \$220.9 million.



the Fiscal Responsibility Act (FRA) and other Public Fiscal Management (PFM) initiatives aimed at improving fiscal transparency and guiding fiscal policymaking. The government activated the FRA's escape clause after Hurricane Dorian hit the country. This allows the authorities to postpone the implementation of their fiscal consolidation targets by four years. Various measures are expected to resume as the pandemic fades, including reviews of state-owned enterprise (SOE) governance, investment incentives and the pension system, enhancement of PFM to increase expenditure control and efficiency, and reform of revenue administration.

Relationship to CPF

There is no Country Partnership Framework for The Bahamas because it is a high-income country and an IBRD graduate. However, the proposed operation is consistent with the World Bank's COVID-19 crisis response approach paper and The Bahamas' own sector strategies. This operation is complementary to and seeks to build on the work already undertaken by the Government of The Bahamas. Access to IBRD funding is therefore on an exceptional basis to respond to the COVID-19 crisis.

C. Proposed Development Objective(s)

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

This will be achieved through several prior actions across three mutually reinforcing pillars.

Pillar 1 – Enhancing COVID-19 relief and resilience

Pillar 2 – Strengthening financial stability and the business environment

Pillar 3 – Improving fiscal sustainability and resilience

Key Results

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

D. Concept Description

This proposed operation seeks to support the Government of The Bahamas (GoB) in responding to the COVID-19 crisis and laying the foundation for resilient recovery. The operation aims to support The Bahamas in its response and recovery to COVID-19 by: (i) protecting lives and saving jobs and livelihoods; and (ii) strengthening policies, institutions, and investments for a resilient and sustainable recovery.

The proposed operation directly addresses three of the most critical challenges facing The Bahamas. Firstly, it supports COVID-19 relief efforts for the poor and vulnerable by providing unemployment benefits and social and health assistance; secondly, it enhances financial stability and the business environment to support inclusive growth; and, thirdly, it strengthens the institutional and governance frameworks for public financial management, debt sustainability, and fiscal responsibility. In doing so, the operation will contribute to implementation of the overarching five-year strategic plan of the GoB as outlined by the Governor General in the Throne Speech to Parliament on May 24, 2017.



The operation's three pillars are closely aligned with the World Bank's COVID-19 crisis response approach paper that focuses on helping countries address the crisis and transition to recovery through a combination of saving lives threatened by the coronavirus, protecting the poor and vulnerable, maintaining the foundations for the private sector, and strengthening the policies and institutions for resilience based on transparent, sustainable debt and investments. The actions supported relate to the following national outcomes: effective social and health assistance, a stable financial sector and enabling the business environment, effective governance in public financial management, debt transparency and fiscal responsibility.

The first pillar supports providing relief to the poor and vulnerable and saving lives through the expansion and increase in individuals' access to income support, food security, social assistance, and COVID-19 vaccines.

The second pillar supports reforms geared towards financial stability and strengthening the business environment for inclusive growth. These measures will be key to underpin the Government of The Bahamas' strategy for economic growth and development. A stable financial sector that efficiently intermediates savings into investments and supports private sector growth is critical to sustainable economic growth. Equally important is the need to create a business-friendly environment to support private sector productivity, competitiveness, and growth.

The third pillar supports the reforms geared towards strengthening the institutional mechanisms that underpin fiscal responsibility, attenuates fiscal risks associated with SOEs, and improves transparency and sustainability of public financial management and public debt. Policy measures supported by this pillar are crucial for the government's ongoing fiscal consolidation and debt sustainability agenda.

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

Poverty and Social Impacts

The operation's prior actions related to mitigation of the COVID-19 crisis are expected to have immediate positive social impacts and to contribute to poverty alleviation in the short run. The prior actions aimed at promoting and facilitating resilient recovery are expected to have similar impacts in the medium term.

Environmental, Forests, and Other Natural Resource Aspect

The proposed operation is not expected to have any significant negative impacts, and may have positive impacts, on The Bahamas' environment, forests, and natural resources. The enhancement of social protection, as well as the resources expected to flow to vulnerable communities, will increase these populations' resilience to climate-related risks which are compounded by the COVID-19 pandemic. The operation's prior actions related to public financial management are expected to have a positive impact on the economy's resilience to climate change.

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APPROVAL

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Approved By

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