

# **THE BAHAMAS – EUROPEAN COMMUNITY**

**Country Strategy Paper**

**and**

**National Indicative Programme**

**for the period 2002 - 2007**

**10 October 2002**

**The Government of The Bahamas and the European Commission hereby agree as follows:**

- (1) The Government of The Bahamas, (represented by <name and title>), and the European Commission, (represented by <name and title>,) hereinafter referred to as the Parties, held discussions in <place> from ..... to ..... with a view to determining the general guidelines for co-operation for the period 2002 – 2007. The European Investment Bank was represented at these discussions by <name and title>.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid for The Bahamas were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in The Bahamas.

*The Country Strategy Paper and the Indicative Programme are annexed to this document.*

- (2) The Community plans to make available to The Bahamas for the period 2002-2007 indicative programmable financial resources of € 3.9 for the allocation referred to in Article 3.2 (a) of Annex IV to the ACP-EC Partnership Agreement (A-allocation) and € 0.6 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement.
- (3) The A-allocation is intended to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community assistance. The indicative programme under chapter VI uses A-allocation resources, as well as uncommitted balances from former EDFs for which no projects and programmes have been identified under the respective National Indicative Programmes. It also takes into consideration financing from which The Bahamas benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is designed to cover unforeseen needs, such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to help mitigate the adverse effects of instability in export earnings.

The B-allocation will be triggered by specific mechanisms and procedures and does therefore not yet form part of the indicative programme.

- (5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership and within the framework of this Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of The Bahamas within the limits of the A- and B-allocations referred to in this

document and provided that sufficient resources are available in the general reserve of the eighth EDF.

- (6) The respective projects and programmes will be implemented according to the rules and procedures of the eighth EDF until entry into force of the Financial Protocol for the ninth European Development Fund.
- (7) The European Investment Bank may help to implement this Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3(a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement (see Paragraph 5.2 for further details).
- (8) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation will undertake an annual operational review of the Indicative Programme. They will also conduct a mid-term review and an end-of-term review of the Country Support Strategy and the Indicative Programme in the light of current needs and performance.

The mid-term review will be undertaken within two years and the end-of term review within four years of the date of signature of the Country Support Strategy and the National Indicative Programme. Following completion of these reviews, the Community may revise allocation of resources in light of current needs and performance.

- (9) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicates to the contrary before the end of this period.

## **Signatures**

**For the Government of The Bahamas**

**For the Commission**

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>6</b>
<b>PART A.....</b>	<b>7</b>
<b>COUNTRY STRATEGY PAPER.....</b>	<b>7</b>
REGIONAL MAP: THE CARIBBEAN AND THE BAHAMAS.....	8
<b>1.0 EC CO-OPERATION OBJECTIVES .....</b>	<b>10</b>
<b>2.0 THE POLICY AGENDA OF THE BAHAMAS.....</b>	<b>12</b>
2.1 INTRODUCTION .....	12
2.2 STRATEGIC OBJECTIVES.....	12
2.3 THE MACRO-ECONOMIC PROGRAMME.....	13
2.3.1 <i>Challenges</i> .....	13
2.3.2 <i>Strategy</i> .....	13
2.4 TRADE POLICY.....	13
2.4.1 <i>Challenge</i> .....	13
2.4.2 <i>Strategy</i> .....	13
2.5 PROMOTING PRIVATE SECTOR DEVELOPMENT .....	13
2.5.1 <i>Challenge</i> .....	13
2.5.2 <i>Strategy</i> .....	14
2.6 SOCIAL DEVELOPMENT.....	14
2.6.1 <i>Challenge</i> .....	14
2.6.2 <i>Strategy</i> .....	14
2.7 POVERTY REDUCTION.....	15
2.7.1 <i>Challenge</i> .....	15
2.7.2 <i>Strategy</i> .....	15
2.8 INFRASTRUCTURE DEVELOPMENT .....	15
2.8.1 <i>Challenge</i> .....	15
2.8.2 <i>Strategy</i> .....	15
2.9 NATIONAL SECURITY AND JUSTICE.....	15
2.9.1 <i>Challenge</i> .....	15
2.9.2 <i>Strategy</i> .....	15
2.10 ENVIRONMENTAL PROTECTION.....	16
2.10.1 <i>Challenge</i> .....	16
2.10.2 <i>Strategy</i> .....	16
<b>3.0 ANALYSIS OF THE ECONOMIC AND SOCIAL SITUATION.....</b>	<b>16</b>
3.1 SITUATIONAL ANALYSIS.....	16
3.1.1 <i>Political and Governance Context</i> .....	16
3.1.2 <i>Trade Relations</i> .....	17
3.1.3 <i>Economic Performance</i> .....	17
3.1.4 <i>Income, Consumption and Access to Social Services</i> .....	18
3.1.5 <i>Environmental Issues and Sustainable Development</i> .....	20
3.1.6 <i>Crime and Drugs</i> .....	20
3.2 CHALLENGES FOR ECONOMIC AND SOCIAL DEVELOPMENT.....	21
3.2.1 <i>Challenges for Economic Development</i> .....	21
3.2.2 <i>Challenges for Social Development</i> .....	23
3.2.3 <i>Challenges for Sustainable Development</i> .....	23

<b>4.0</b>	<b>ASSISTANCE BY THE EC AND OTHER DONORS.....</b>	<b>23</b>
<b>5.0</b>	<b>THE EC RESPONSE STRATEGY .....</b>	<b>25</b>
5.1	COMPONENTS OF THE RESPONSE STRATEGY .....	25
5.1.1	<i>Background.....</i>	25
5.1.2	<i>Overall Objective.....</i>	26
5.1.3	<i>Project Purpose .....</i>	26
5.1.4	<i>Results .....</i>	27
5.1.5	<i>Assumptions .....</i>	27
5.1.6	<i>Factors Ensuring Sustainability .....</i>	27
5.2	THE EUROPEAN INVESTMENT BANK .....	27
5.3	COMPLEMENTARITY WITH OTHER DONORS .....	28
5.4	COHERENCE WITH OTHER COMMUNITY POLICIES.....	28
<b>PART B.....</b>		<b>30</b>
<b>NATIONAL INDICATIVE PROGRAMME.....</b>		<b>30</b>
<b>6.0</b>	<b>THE NATIONAL INDICATIVE PROGRAMME.....</b>	<b>31</b>
6.1	INTRODUCTION .....	31
6.2	FINANCING INSTRUMENTS.....	31
6.2.1	<i>9<sup>th</sup> EDF, A-allocation (3.9 M Euro).....</i>	<i>31</i>
6.2.2	<i>9<sup>th</sup> EDF, B-allocation (0.6 M Euro).....</i>	<i>31</i>
6.2.3	<i>Investment Facility.....</i>	<i>31</i>
6.3	FOCAL SECTOR: CAPACITY BUILDING .....	32
6.4	MACROECONOMIC SUPPORT.....	32
6.5	OTHER PROGRAMMES .....	32
6.6	INTERVENTION FRAMEWORK: CAPACITY BUILDING FOR INTEGRATED DEVELOPMENT .	33
6.7	TIMELINE OF ACTIVITIES, 2002-2007 .....	34
6.8	INDICATIVE COMMITMENTS TIMETABLE, 2002 - 2007 .....	34
6.9	INDICATIVE DISBURSEMENTS TIMETABLE, 2002 – 2007 .....	34
<b>ANNEX I: EC COOPERATION WITH THE BAHAMAS .....</b>		<b>35</b>
<b>ANNEX II: DONOR MATRIX .....</b>		<b>36</b>
<b>ANNEX III: POPULATION OF THE BAHAMAS 1980, 1990, 2000 .....</b>		<b>37</b>
<b>ANNEX IV: PER CAPITA INCOME .....</b>		<b>38</b>
<b>ANNEX V: SELECTED ECONOMIC INDICATORS .....</b>		<b>39</b>

## EXECUTIVE SUMMARY

This Country Support Strategy (CSS) seeks to provide a framework within which assistance from the European Union enhances the efforts of the Government of The Bahamas to promote the development of the most vulnerable part of the archipelago, i.e. the Family Islands.

The national development strategy of the Government has been outlined in the annual budget speeches of the Minister of Finance. The fundamental objective of the Government has been to ensure sustainable economic growth, with the fullest participation of all Bahamians in the benefits of such growth. This has meant substantial infrastructure development in the Family Islands in the hope of promoting private sector expansion and reducing the considerable regional disparities of previous strategies, which have led to a massive exodus to the Islands of New Providence and Grand Bahama. The pattern of development followed in the past and the archipelago nature of the country create a challenge for equitable social development. Poverty reduction initiatives have to take account of all of these problems, including the special vulnerability in the Family Islands.

The EC response strategy recognises the challenges faced, is based on an economic and social analysis, and seeks to take into consideration donor co-ordination and local Government initiatives. The views of civil society derived in interviews and in consultative meetings have been taken into account.

The EC response strategy seeks to deliver a capacity building programme in the Family Islands. The fundamental purpose of the programme is to:

- strengthen local stakeholders, be they government, private sector or civil society organisations;
- render SMEs more competitive; and
- ensure better maintenance of local infrastructure.

The programme will be initiated on Andros, Eleuthera, San Salvador and Cat Islands (all part of the Family Islands). These four islands have been selected since they are among the least developed areas in the archipelago. Based on the process of devolution that has already taken place with the establishment of local government councils, the programme seeks to integrate the efforts of Central Government, Civil Society groups, local government agencies and the private sector in planning and in implementing new development activities in the Family Islands.

<b>The Bahamas</b>	<b>Indicative Total in million €<sup>1</sup></b>
Focal Programme <sup>2</sup> : Capacity building	3.9
Emergency Funds <sup>3</sup>	0.6
<b>Total allocation</b>	<b>4.5</b>

1) This indicative allocation may be increased by balances remaining under previous EDFs.

2) Envelope A: excluding EIB-administered investment facility and EC budget lines

3) Envelope B: indicative amount of up to €0.6m

**PART A**  
**COUNTRY STRATEGY PAPER**

## REGIONAL MAP: THE CARIBBEAN AND THE BAHAMAS

### The Caribbean



Source: European Commission Web Site



## 1.0 EC CO-OPERATION OBJECTIVES

According to Article 177 of the Treaty Establishing the European Community, Community policy in the sphere of development co-operation has to foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries.

These objectives are confirmed in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts the main emphasis on reducing and eventually eradicating poverty. Co-operation between the Community and The Bahamas will pursue these objectives, taking into account the fundamental principles laid down in Article 2 of the Agreement and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission selected a limited number of areas which can help reduce poverty where Community action can provide added value: linking trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity building, particularly in the area of good governance and the rule of law. The Statement also specifies that, in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community provides that the Community and the Member States must co-ordinate their policies on development co-operation and consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be taken to ensure that Community development policies are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account has to be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting issues: gender equality, environmental protection, institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the following Chapter form the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership.



## **2.0 THE POLICY AGENDA OF THE BAHAMAS**

The Bahamas consist of an archipelago of 700 islands and hundreds of cays, situated to the south east of the State of Florida, US. Only about 30 islands are inhabited. About half of the total population of 300,000 has settled on New Providence on which the Capital Nassau is located. The country enjoys a relatively high per capita income<sup>1</sup> derived mainly from tourism and financial services. Petroleum refining and transshipment are also important activities. The Bahamian dollar is pegged to the US currency on a one-to-one parity. Life expectancy is 73.9 years and adult literacy reaches 96 %.

### **2.1 INTRODUCTION**

In recent years the economic policy agenda of The Bahamas has been formulated mainly in the annual budgets of the Government. The policy objectives of the present Government, which took office in May 2002, are to a large extent reflected in the Progressive Liberal Party's policy document entitled "Our Plan" and in the Government's budget.

The Government is concerned at the fact that income, consumption and access to social services are not evenly distributed among all the many islands of The Bahamas. It is the Government's declared intention to address this problem.

### **2.2 STRATEGIC OBJECTIVES**

The Government of The Bahamas' programmes for social and economic development are to:

- i. continue to manage the overall economic development and ensure sustainable economic growth.
- ii. make existing economic policies harmonious, transparent and fair to all investors, while protecting the legitimate interest of Bahamian investors;
- iii. put in place the policies, strategies and programmes and ensure that the cost structure of the economy is competitive and employment opportunities are maximised for all Bahamians;
- iv. ensure the state of readiness and formulate the growth of the economy by making The Bahamas a major e-commerce centre;
- v. determine medium and long-term strategies and programmes for economic performance to sustain Family Islands development and formulate a National Plan of Action, which is both realistic and flexible and balances the competing claims of the various Family Islands, thereby bringing about equitable growth and development of Family Islands.

---

<sup>1</sup> Per capita income in 2000 was US\$ 16,443 (2000 Census of Population and Housing - Department of Statistics, Nassau)

## 2.3 THE MACRO-ECONOMIC PROGRAMME

### 2.3.1 Challenges

The primary challenge is to achieve sustainable growth while maintaining macro-economic stability to induce confidence among the domestic and foreign private sector to invest, and maintain revenues adequate to provide the infrastructure needed by the population which is compatible with economic development.

### 2.3.2 Strategy

The macroeconomic programme of the Government has been guided by the objectives of maintaining low inflation, efficient management of public finances, promotion of private sector growth and the provision of essential services consistent with increasing the competitiveness of the country.

**Fiscal balance** has been a primary objective of the Government. Other objectives included promoting social equity, and maintaining low levels of taxation, but with deficit reduction. The Government was also committed to customs tariff harmonisation in keeping with international trends, and duty rates were reduced from 130 to 29 in the late 1990s.

**Monetary Policy:** The maintenance of a fixed parity has been sustained with exchange controls. The Bahamas has had its currency pegged to the US dollar and the parity has been maintained at the same level since then. Exchange control restrictions enable the Central Bank to monitor capital investments and to ensure that they are in the interest of The Bahamas.

## 2.4 TRADE POLICY

### 2.4.1 Challenge

The Bahamas has to adjust to an increasingly liberalised trade environment.

### 2.4.2 Strategy

The Bahamas has applied for Membership of the World Trade Organisation (WTO), where it currently enjoys Observer status. It is a member of CARICOM but is not a signatory to the Caribbean Single Market and Economy. The Government participates in the negotiations for the formation of a Free Trade Area of the Americas (FTAA), as well as in the EU – ACP negotiations on Economic Partnership Agreements (EPAs), which started in September 2002.

## 2.5 PROMOTING PRIVATE SECTOR DEVELOPMENT

### 2.5.1 Challenge

The major challenge is to maintain and increase the attractiveness of the economy for the inflow of foreign investment, especially in the financial services sector, at the same time as the regulatory

environment is improved to deal with concerns raised about money laundering. A special challenge is the stimulation of business activity in the Family Islands.

### **2.5.2 Strategy**

The Government has promoted the entry of foreign firms into certain key sectors – large-scale tourism and financial services. Domestic capital is promoted by the provision of technical assistance, market development assistance and other forms of facilitation through the Bahamas Agricultural and Industrial Corporation, the Bahamas Development Bank, and Guaranteed Loan Schemes through the Private Banks. The sectors targeted have been agriculture, fisheries, tourism, manufacturing, services, and transportation industries. Generally, the Government seeks to improve the infrastructure in disadvantaged areas to allow for private sector growth, especially in the Family Islands.

## **2.6 SOCIAL DEVELOPMENT**

### **2.6.1 Challenge**

The main challenge of social development is to expand the services available to the population with equitable access across the islands of The Bahamas and to contain the spread of HIV/AIDS and drug addiction.

### **2.6.2 Strategy**

The Government is committed to expanding the human resource base of the country through an expansion in the provision of education at all levels. The country has attained universal secondary education and seeks, through the College of The Bahamas, The Bahamas Hospitality Training School and The Bahamas Technical and Vocational Institute, to increase the provision of education and training opportunities for all Bahamians. The Government has instituted a scholarship loan programme to allow poorer students to access higher education.

In the Bahamas 6900 people (4% of individuals aged 15-49) are infected with HIV.<sup>2</sup> In order to address the problem, the Government has developed a Strategic Initiative implemented by the Ministry of Health involving the United Nations and the private sector. The objectives of the initiative are to build capacity at all health levels in the national health care system for improved comprehensive HIV/AIDS care, to increase access to ARV medication for people living with the virus, to strengthen advocacy and resource mobilisation efforts that will ensure universal access to Bahamians in need of ARV medication, and to reduce the threat of the HIV/AIDS to economic and social development. Through these efforts The Bahamas have been able to record a declining annual infection rate and a decreasing death rate, notably because of improved access to and use of treatment. New challenges are, however, arising in the context of a growing migrant population, notably in some of the Family Islands. The Government intends to continue and intensify efforts of capacity building of health care institutions across the islands, as well as raising awareness among the population, including efforts to avoid discrimination.

---

<sup>2</sup> According to “Accelerating access to care and support for Bahamians living with HIV/AIDS – Strategy Document” Ministry of Health, May 2002

## **2.7 POVERTY REDUCTION**

### **2.7.1 Challenge**

The challenge is to reduce poverty across the country and especially in the Family Islands.

### **2.7.2 Strategy**

The Statistical Department, with assistance from the Inter-American Development Bank (IDB), is currently engaged in analysing the results of the 2001 Survey of Living Conditions. The results of this exercise should allow the country to target more directly those who have not benefited from the growth that the country has experienced over the last few years. Poverty alleviation is addressed specifically through programmes of public assistance and old age pensions, and a small ‘works programme’ for unemployed persons. The Government intends to enact legislation to eliminate discrimination against persons with disabilities.

## **2.8 INFRASTRUCTURE DEVELOPMENT**

### **2.8.1 Challenge**

The challenge is to provide an infrastructure such that citizens in all parts of the country can be guaranteed a higher quality of life and all of the inhabited islands can participate meaningfully in economic development.

### **2.8.2 Strategy**

The strategy of the Government has been to expand the basic infrastructure across the entire country, with special emphasis on reducing disparities with the Family Islands. In addition to the regular services of roads, water, electricity, and telecommunications, the archipelago nature of the country renders harbours, airports and landing strips as critical infrastructure for the nation state.<sup>3</sup>

## **2.9 NATIONAL SECURITY AND JUSTICE**

### **2.9.1 Challenge**

The challenge is to maintain the integrity of the nation state of The Bahamas, to protect its shores from the persistent problem of illegal immigration and poaching of its fisheries, and to eliminate any use of its extensive coastline in drug-running by international narco-traffickers.

### **2.9.2 Strategy**

Through the provision of improved equipment for the protective and security services, the Government seeks to eliminate illegal immigration and to better police its waters and landing strips.

---

<sup>3</sup> For its population size, The Bahamas would lead the world in the number of international airports.

## **2.10 ENVIRONMENTAL PROTECTION**

### **2.10.1 Challenge**

The Bahamas archipelago is comprised of low-lying islands, some with rich fishery resources in their immediate waters, and many blessed with good beaches. The main challenge faced by the country is the sustainable use of its fragile eco-system, in the face of the need to develop the Family Islands, expand tourism, exploit fisheries and arrest the effects of more frequent hurricanes and episodes of sea-rise.

### **2.10.2 Strategy**

The Government is committed to pursuing a pattern of development in the Family Islands that is different to what has evolved in New Providence: the emphasis includes more eco-friendly tourism and greater involvement of locals in the transformation process.

## **3.0 ANALYSIS OF THE ECONOMIC AND SOCIAL SITUATION**

### **3.1 SITUATIONAL ANALYSIS**

#### **3.1.1 Political and Governance Context**

The Bahamas has a parliamentary system of government in which the Governor General is the Head of State, and represents the Queen of England. The Prime Minister is the Head of the Executive and is the leader of the party commanding the largest number of seats in the legislature. Independence was won from Britain in July 1973, ending 325 years of British colonial rule, and the domination of the polity, society and economy by a small elite that controlled it from its very foundation as a colony, based on plantation slavery. Universal adult suffrage was granted only in 1962, which was much later than in any other part of the Commonwealth Caribbean.

National elections are contested at least once every five years. The Progressive Liberal Party that took the country to independence, and was in power for 25 years, was defeated at the polls in 1992, and replaced by the Free National Movement. On 3 May 2002, the PLP returned to power by gaining 29 out of the total 40 parliamentary seats. While there are also other political parties, the PLP and the FNM remain the two dominant parties on the political landscape.

The Government has instituted the process of devolution with the establishment of local government councils, elected by the people in the respective communities, which have been in operation for some six years now. An active independent trade union movement also forms part of the political environment. There is a vigorous press with daily newspapers providing a wide range of views to the general public. The Government owns a radio station but there are several independent radio stations on the main island and in the Family Islands.

The country has scored highly in the management of its affairs by the main independent rating agencies like Moody Investor Services. Banking secrecy rules are very carefully observed. State corporations are required to publish their accounts consistently with good financial practice. The

Bahamas cooperates with the United States in the control of drug trafficking within its territorial waters. It has also instituted legislation to protect the country from being used for money laundering.

### **3.1.2 Trade Relations**

The Bahamas has applied for Membership of the World Trade Organisation (WTO), where it currently enjoys Observer status. It is a member of CARICOM but is not a signatory to the Caribbean Single Market and Economy. The Government participates in the negotiations for the formation of a Free Trade Area of the Americas (FTAA), as well as in the EU – ACP negotiations on Economic Partnership Agreements (EPAs), which started in September 2002. The Government is sensitive to the fact that the thrust of the international and regional trade agreements runs counter to many aspects of its fiscal regime.

In 2000 the EU was the destination of 51% of Bahamas' goods exports, followed by the United States with 29%. The Bahamas obtained 31% of its goods imports from the US and 26% from the EU.

Principal Exports to the EU in 2001 were undenaturated ethyl alcohol: 52%; and cruise ships, boats, yachts: 41.5%. Principal Imports from the EU were cruise ships, boats, yachts: 73%; aircraft: 7%; and tugs, pusher craft and fishing vessels: 2.5%. Apart from the aforementioned, the EU is an increasingly important market for the export of fish and fish products, an area which experienced fast growth in the 1990s.

### **3.1.3 Economic Performance**

While the commitment to fiscal balance worked in setting the economy on the path to recovery in the 1990s, recent decline in the US economy will impact the Bahamas and, for 2002, economic growth is not expected to exceed 1.5 %. The foreign assets of the Central Bank fell from US \$382m in March 2001 to US \$306 in September 2001, underlining weakening conditions, even before the events of 11 September 2001.

The fiscal regime in The Bahamas is founded on indirect taxes. Import and export duties have regularly constituted approximately 50 percent since the late 1990s. This will pose a problem in the light of forthcoming trade liberalisation requirements deriving from WTO, EPA under Cotonou, and FTAA. The Bahamas does not have any income taxes.

According to the 2001 IMF Article IV Consultations, tourism, financial services, construction and shipping have led in the recovery. The Bahamas undertook considerable refurbishment of its tourism plant in the mid 1990s and was able to improve room rates for its hotels and benefit from expanded demand from a booming US economy in the late 1990s. Employment in the Financial Services Sector has remained stable, with 410 institutions providing 4000 jobs to Bahamians, and contributing US \$350m to the economy. Although the number of 'brass plate' banks will fall, as a result of more exacting regulatory requirements, the sector's contribution may not be reduced substantially.

The Government has to encourage the formation of domestic capital and ensure that domestic entrepreneurs develop the level of competitiveness by which they can survive without protection. There are a few large domestic firms involved in distribution, and in agency arrangements for foreign suppliers. There is a dominant foreign presence in the key growth sectors of the economy – tourism and financial services.

### **3.1.4 Income, Consumption and Access to Social Services**

The Bahamas ranks at 41 in the United Nations Human Development Index<sup>1</sup> and its per capita income was US\$ 16,443<sup>4</sup> in 2000, the third highest in the Western Hemisphere, after the US and Canada. The good ranking in the development index and high average income conceal, however, that access to employment, the level of incomes, consumption, as well as access to social services vary considerably among the 30 inhabited islands of the archipelago.

#### *Population*

At the time of the 2000 household census the population of the Bahamas stood at 303,611 (147,765 men and 155,896 women), of which roughly 85% live on the Islands of New Providence (where Nassau is located) and Grand Bahama. The rest of the population inhabit the so-called “Family Islands”, some of which are home only to a few hundred persons (see map of The Bahamas and table in Annex III). Since the beginning of the last century there has been an ongoing movement in population from the Family Islands to the economic centres of New Providence and Grand Bahama. This has led to a steady decrease in the share of the Family Islands in the total population of the Bahamas. While population growth has been strong on the two larger islands it has been negative or very low for most of the Family Islands.

#### *Employment*

At the time of the 2001 Household Survey<sup>5</sup> the total labour force of the country was 164,675 (84,505 men and 79,870 women). In 2001 the unemployment rate was 6.9%, having decreased from 7.8% in 1999. For women the unemployment rate had come down to 7.1% from 9.7% in 1999 and for men it had gone up to 6.8% (6% in 1999). The situation in the Family Islands deviates from the general picture. In the Family Islands the participation of women in labour force is generally lower than in New Providence and Grand Bahama.

#### *Income<sup>6</sup>*

Per capita income in New Providence was US\$ 17,355, well above the national average of US\$ 16,443. Income on Grand Bahama was slightly higher as well. As for the Family Islands, per capita income is quite diverse: two rather small islands are above the national average (because of the high percentage of retired US and European citizens living there), while the rest is below, the lowest average being US \$ 7,087 (see Annex IV).

---

<sup>1</sup> Human Development Report 2002

<sup>4</sup> Report of the 2000 Census of Population and Housing (Department of Statistics, Nassau, April 2002)

<sup>5</sup> 2001 Household Survey (Department of Statistics)

<sup>6</sup> All income figures are based on 2000 Census of Population and Housing (Department of Statistics, April 2002) for inter-island comparison purposes

The national household income average stands at US\$ 40.170. New Providence reaches US\$ 43.416 and Grand Bahama 38.698. In the Family Islands, income levels are significantly below both figures and go down as far as US\$ 13.180.

### *Consumption*

The Bahamas Living Conditions Survey conducted in 2001,<sup>7</sup> revealed the following preliminary results on distribution of annual consumption:

<b>Stratum</b>	<b>Total Consumption*</b>	<b>Per Capita Consumption*</b>	<b>Mean Household Consumption*</b>
All Bahamas	3,090,738,262	9,983.28	37,657.70
New Providence and Grand Bahama	2,721,728,628	10,095.50	38,252.70
Abaco, Andros and Eleuthera	266,460,820	9,504.68	34,616.40
Exuma and Long Island	49,801,493	8,789.07	33,426.20
Other Family Islands**	52,747,321	8,382.97	29,524.80

\*) B\$, preliminary data (1B\$ = 1 US\$)

\*\*) BLCS2001 survey conducted in Acklins, Bimini, Cat Island, Eleuthera, Inagua and San Salvador to represent the "Other Family Islands". Berry Islands, Crooked Island, Mayaguana, Ragged Island are not included. Eleuthera included Harbour Island and Spanish Wells.

Spending patterns on food, housing, durable goods, health, clothing, education, transportation and recreation vary significantly. Inhabitants of the Family Islands tend to spend more on food, less on durable goods, more on health, much less on education, and less on transport and recreation than inhabitants of New Providence and Grand Bahama.

### *Access to Amenities*

The majority of households on all the islands have access to television, but not all: 80% on Andros, 84% on Eleuthera. Of all households 28% enjoy access to a computer and 15% can access the internet. In New Providence these percentages are 30% and 18%. On Eleuthera the percentages for computer and internet access are 14% and 7%, respectively. For Andros they are 13% and 5%. For Cat Island, Mayaguana and San Salvador the percentages of households with access to the internet are 4%, 1% and 3%, respectively.

### *Access to Transportation*

Due to the geographic set-up of the Bahamas as an archipelago of hundreds of islands and cays, transportation between the islands, but also on the islands themselves, is a special problem. The small populations on the 30 inhabited islands make it difficult to create economic systems of transportation that operate at a reasonable frequency. In general scheduled services do not even exist between neighbouring islands. This means that travellers normally have to travel first to New Providence (Nassau) in order make a connection to another Island. This problem of transportation is also reflected in the fact that consumer goods are generally higher priced in the Family Islands than in New Providence and Grand Bahama.

---

<sup>7</sup> Department of Statistics, Nassau

Not surprisingly, the costs associated with travelling to see a health clinic/doctor or a hospital are significantly higher for people living in the Family Islands than for those living in New Providence and Grand Bahama.<sup>8</sup> Inhabitants of the Family Islands will also pay higher travel costs for attending secondary school.

#### *Access to Health Care*

Of the three major hospitals in the Bahamas two are located on New Providence and one on Grand Bahama. The Family Islands rely on health centres and clinics. For complicated treatment, inhabitants of the Family Islands have to travel to New Providence.

#### *Educational Qualification*

Inhabitants of the Family Islands tend to be less well educated: while 14% in New Providence finished school with an 'O' level diploma this figure stands at 8% in the peripheral islands. As to university education the gap is even bigger: only 3.3% in the Family Islands hold a bachelor degree against 7% in New Providence.

### **3.1.5 Environmental Issues and Sustainable Development**

Some of the key income-generating sectors of the economy of The Bahamas are based on the natural endowment of the country. Sun, sea and sand, for over a century, have established its credentials as a resort location. The rapid expansion of tourism in the island of New Providence has brought problems of congestion, urban decay, pressure on sanitation, garbage disposal and environmental and noise pollution.

There is an emerging watchdog agency - The Bahamas Environment, Science and Technology Division - with authority to monitor the problem. The Bahamas National Trust, which has been in existence for over 40 years, is dedicated to the preservation of the natural and historic resources of the country. Legislative machinery has been introduced for the determination of areas as national parks and for their management. The Ministry of Agriculture, in particular, has employed a community-based programme to inculcate and improve sensitivity to the need for the practice of a 'closed season' in respect of lobster, but has not been as successful in respect of conch, crab and scale fish.

The Government of The Bahamas has, through budgetary allocations, signalled its intention to develop the Family Islands and to encourage a more balanced pattern in the physical development of the country.

### **3.1.6 Crime and Drugs**

Given its massive coastline, and with some 700 islands, and its close proximity to the United States and its convenient location vis-à-vis the North Atlantic, The Bahamas has been a major base for drug traffickers from South America, targeting the major markets of North America and Europe. Citizens of the country have been implicated in the trade, evidenced in an increase in the incidence of drug abuse and in drug related criminal activity.

---

<sup>8</sup> According to data obtained in the context of the 2001 Household Survey, the cost of travelling to a clinic/doctor can be up to 15 times higher. Travelling to one of the hospitals in New Providence or Grand Bahama can be 26 times costlier for inhabitants of the Family Islands.

The Government of The Bahamas has entered into a working relationship with the Government of the United States through a bilateral narcotics control agreement. Legislation has been upgraded to eliminate money laundering in The Bahamas and the internal narcotics control machinery has been strengthened to fight the internal trade in narcotics. The Government has also established treatment programmes and has mounted campaigns to arrest the spread of drug use in the country.

## 3.2 CHALLENGES FOR ECONOMIC AND SOCIAL DEVELOPMENT

### 3.2.1 Challenges for Economic Development

The Government will face a period of uncertainty for the economy. In addition to longer-term problems from structural changes and transformation, the country faces some short-term problems. The Bahamas, like the rest of the international economy, has been severely tested by the events of 11 September 2001. Tourism suffered in particular. In a sector that contributes so much to GDP, employment, and Government Revenue, the effects of a massive decline has immediate national impact. To add to the country's woes, hurricane Michelle caused considerable devastation in November 2001 on one of its islands (US\$ 120m damage estimated): while it is a high-income country, it figures prominently on the vulnerability index.

**Revenue Base:** A challenge that the country faces is in pursuing a set of objectives with contradictory implications. It has to maintain the investment climate that makes The Bahamas an attractive location in tourism, financial services, and other services, as well as in other focused industries that could contribute to diversification of the economy in a liberalised trade environment. Trade liberalisation will further reduce the role of export and import duties and thus the revenue base. In order to stimulate private sector activity, access to credit has to be improved so that SMEs, including firms owned and managed by Bahamians, can emerge and contribute to the balanced development of the islands of The Bahamas. All of this has to be accomplished with fiscal rectitude and the avoidance of crowding-out effects, which would ensue from excessive Government borrowing in the domestic economy.

**Financial Services:** In compliance with the Financial Action Task Force (FATF), The Bahamas is one of the countries to implement a new regulatory framework for its offshore financial centre. Several Acts with regards to the prevention of money laundering were made law in 2000. The Financial Intelligence Unit was established with responsibility for enforcing various anti-money laundering provisions and for applying the Regulations under the Financial Intelligence Unit Act, 2000. The enabling environment is being created for e-business with concern for addressing the issues raised in the FATF.

The sequel to the terrorist attack is that offshore financial locations like The Bahamas have come under even greater scrutiny, and the nervousness in this industry has led to the departure of a few operations. In this new scenario, an option for The Bahamas is to create a capability to manage money actively by on-lending in activities, or in economies – e.g. the neighbouring Caribbean economies or Latin America where its nationals could develop special expertise and knowledge.

**Private sector:** It is recognised that a major challenge remains in the psychological preparation of Bahamians to engage in entrepreneurial activity. One of the limitations facing would-be entrepreneurs is the inability to access credit, which is not least due to a lack of business skills. At present commercial banks much prefer the safer lending for consumption to providing risk capital. This is in particular true for the Family Islands. The absence of opportunities on those islands is the main reason for the continuing exodus to the centres of New Providence (Nassau) and Grand Bahama. While there exists some access to credit through The Bahamas Development Bank, there is a need for further venture capital to assist prospective entrepreneurs, which has to be accompanied by measures to improve business skills.

In this context another challenge for the Government is to expand the domestic entrepreneurial base, without succumbing to the protective devices that applied under a regime of import substitution.

**Tourism:** For decades The Bahamas has been engaged in traditional tourism, in which it has sought to upgrade itself to be at the high end of this market. Nevertheless, it should explore niches in the tourism industry.

The following markets seem to have potential:

- The bone fish market for anglers, which is possible in locations like Andros Island
- Deep sea game fishing, which requires marinas and other specialised facilities, possible for Bimini and Eleuthera
- Eco-lodge market appealing to those seeking remoteness and serenity in locations such as in Inagua.

There will be a need for some level of commitment to planning and to the maintenance of market differentiation to maximise income that can be derived from this kind of expansion in the industry. It is not altogether clear whether the recent amendment to the Hotels Encouragement Act to provide concessions to Family Island Hotels provides sufficient impetus for product differentiation.

**Knowledge-based Society:** The Government is seeking to convert The Bahamas into a knowledge-based society. Thus, human resource development is one fulcrum in the process of transformation. The Government has upgraded the College of The Bahamas and has allowed the full devolution of responsibility to it in respect of its developing programmes geared to transform the human resource base of the country.

There is also The Bahamas Technical and Vocational Institute, which focuses on expanding technical and craft level training. As another plank in the programme of human resource development, the Government is proceeding ahead with the expansion of opportunities for computer training for all Bahamians. The major challenge the country faces is in upgrading the existing work-force, especially among the residents of the Family Islands who have not had equitable access to post-secondary education.

### **3.2.2 Challenges for Social Development**

A major challenge for the country is to ensure access of a basic level of social service to the population dispersed often in small communities over this considerable geographic space. It has made great strides in delivery of some services: education, health, and physical infrastructure services like roads, harbours, landing strips, water, sanitation, electricity, and communications. On the other hand, failure to deliver such services in the Family Islands encourages the drift to New Providence and depopulates the Family Islands, thereby putting them at greater risk of entry by illegal immigrants (thousands of illegal Haitian immigrants have been seeking refuge in The Bahamas during the past few years) and of being used by narco-traffickers.

Another critical challenge that the country faces is to arrest the spread of HIV/AIDS, which is one of the leading causes of mortality in The Bahamas, and its incidence is one of the highest in the Caribbean.<sup>9</sup> The country has mounted a vigorous programme of public education, which has brought the rate of new infections down. There is a need to strengthen efforts of capacity building, notably in the health centres on the Family Islands, which are essential in the effort to increase awareness in the remoter areas of The Bahamas.

### **3.2.3 Challenges for Sustainable Development**

While improved regulatory machinery is necessary for ensuring environmental sustainability in the highly fragile eco-system that The Bahamas islands are for the most part, it is not a sufficient condition. Priority has to be given to deepening public education on environmental matters. For example, Andros Island has considerable possibilities in organic farming, which is highly compatible with its being an important source for fresh water supply. The realisation of the twin objectives is possible only if residents of Andros Island are all committed to the renunciation of the use of chemical fertilisers and pesticides in undertaking any farming activity.

Another challenge for The Bahamas relates to the application of standards for buildings and infrastructure to render them capable of withstanding storms, hurricanes and sea surges, which may occur in the hurricane season – June to November. In the face of greater frequency in hurricane and storm episodes, there is clearly a requirement for upgrading generally. Building codes are high but their observance may need to be more rigorously enforced. Disaster management is therefore an important cross-cutting issue. Also, the maintenance of roads, verges, drainage, sea walls and other protection, as well as other basic maintenance, are all critical issues in infrastructure development for The Bahamas.

## **4.0 ASSISTANCE BY THE EC AND OTHER DONORS**

Because of its perceived status as a higher income developing country, The Bahamas has not had a large number of donors providing assistance in its development and transformation: it was formally graduated by the World Bank in 1988 and does not qualify for assistance from DFID.

---

<sup>9</sup> According to the Pan American Health Organisation, the incidence was 1321.6 per million in The Bahamas in 1996 (PAHO, Basic Indicators).

The IDB has been a very important partner, with the widest range of programmes, covering loans and technical assistance for private sector development, strengthening of environmental regulation, improvement in the supply of electricity, improvement in potable water supply, and waste management and the improvement of the regulatory framework for public utilities. It has also assisted in the institutional strengthening of the credit union movement and in capital market modernisation. The Bank is also assisting in the assessment of poverty in The Bahamas, following which a poverty eradication strategy can be developed.

There are a few bilateral arrangements from which the country has received benefits. It has benefited from the US Caribbean Basin Initiative and the successor arrangement – the Caribbean Basin Trade Partnership Act (2000). The British High Commission has provided limited technical assistance and training arrangements. Bahamian medical students have been able to receive training in Cuba. Tertiary care services are available by way of long-standing arrangements with health authorities in the United States.

The Ministry of Trade and Industry is the coordinating agency for the Government in respect of some of these arrangements with external agencies, including the European Commission. At the end of 2001, EC-Bahamas cooperation, which had been in place for a quarter of a century, had provided a total of 70.8 M€ allocated as shown in the following table.

**Table 1: Funding from the European Community, 1975-2001**

Item	Amount in M EURO
National Indicative Programme	16.8
EIB Special Loans	1.1
EIB Own Resources	51.6
ECHO	0.3
Total	70.8

Under the 8<sup>th</sup> EDF the following objectives have been targeted:

- development of the infrastructure of the Family Islands to help stem the tide of migration to the more developed islands of New Providence and Grand Bahama
- strengthening of social and economic development through human resource development
- privatisation of government utilities, with worker participation in share ownership
- poverty alleviation with special regard to conditions in the Family Islands.

€2.2m has been allocated to the Road Rehabilitation Programme, which has been implemented on Acklins Island. This island is one of the least developed and most remote among the Family Islands, but it is deemed to have considerable tourism potential. The NIP funds committed have not been fully utilised, with about €3.1m still remaining from the previous EDF. The authorities failed to agree on further infrastructure projects initially foreseen under previous EDF allocations.

The last annual country review of December 2000 concluded that programme planning and project preparation in general experienced delays. Insufficient institutional capacity has been highlighted as a major bottleneck in this context.

Apart from EDF funding, The Bahamas has availed itself of loans from the European Investment Bank largely to support developments undertaken by The Bahamas Electricity Cooperation and the Water and Sewerage Corporation in expanding the reach of their services.

The Caribbean Development Bank has assisted mainly through a line of credit to The Bahamas Development Bank for on-lending. The OAS has contributed to cultural development by organising the recording and compilation of cultural information. It has run clinics for the owners of small hotels and guest-houses and has also promoted the establishment of public libraries. PAHO contributes largely by way of grant support to the Government for health promotion and for disease prevention and control programmes and has focused specifically on HIV/AIDS, given the high incidence in The Bahamas.

## **5.0 THE EC RESPONSE STRATEGY**

The EC response strategy is based upon the economic and social analysis, taking into account donor activities and local Government initiatives. Considerable consultation has been conducted in the course of the present exercise. The Ministry of Economic Development (now Ministry of Trade and Industry) had initiated the process earlier in 2001, with meetings in the Family Islands and in Nassau. In addition to the workshops that were held, interviews were conducted with a number of agencies in the public and private sectors and among civil society organisations to solicit their views on a range of issues relating to the development of The Bahamas. A final workshop was held on 28 November 2001, at which Government organisations, the private sector and non-State actors participated.

The Family Islands were selected on the basis that there seemed to be nascent development potential, which, if supported at this stage, would help in the realisation of the objective of the Government to develop the disadvantaged regions and stem the exodus to Nassau, the capital, and to the island of New Providence, where it is located. The islands selected for the continuation of the consultation exercise were Andros, Eleuthera and San Salvador.

In total, taking into account unspent EDF balances and the amount under the 9<sup>th</sup> EDF, some €7m is available. The EC will contribute by way of an integrated development programme in the Family Islands targeting capacity strengthening, private sector development and infrastructure maintenance.

## **5.1 COMPONENTS OF THE RESPONSE STRATEGY**

### **5.1.1 Background**

The Government has instituted the process of devolution with the establishment of local government councils, which have been in operation for some six years now. While there are clear lines of demarcation between the responsibilities of central and local government, there remain areas of

ambiguity. The financial resources necessary to create new poles of growth in the Family Islands are of considerable magnitude. Given the fiscal situation that the Government has faced, it is difficult to secure the level of taxes necessary to stimulate development in the Family Islands, without increasing the deficit.

The development of the Family Islands is contingent on the growth of entrepreneurship among residents of the Islands and/or on an inflow of capital from outside. The Government is committed to the fullest participation of nationals in the transformation of the economy. However, the Family Islands lack the institutions to promote their economic and commercial development generally. There is a relative absence of commercial banks, for example.

Civil Society groups and local government agencies will engage in planning and in the identification of new activities in the Family Islands. The project will be initiated on Andros, Eleuthera, San Salvador and Cat Islands. These four islands have been selected since they are among the least developed areas in the archipelago.

Many of the Family Islands seem well endowed with resources for a different tourism product than the one prevailing on the island of New Providence, namely eco-lodges, bone fishing and marinas. The Local Government agency in Central Andros recognises the need to ensure farming in the area is restricted to organic farming, to preserve water quality and to avert any danger to flora and fauna. The agency in North Andros has already conceived of and marketed North Andros as 'Andros Unspoilt'.

Since large-scale foreign investment is not a necessary condition for the stimulation of the market niches mentioned above, domestic entrepreneurship needs to be encouraged and assisted. The Bahamas Agricultural and Industrial Corporation has been engaged, to some extent, in the encouragement of entrepreneurship. Having regard to historical factors, the promotion of entrepreneurship within the society requires well-structured and sustainable programmes that reach both existing and future micro-entrepreneurs, e.g. students, young adults.

### **5.1.2 Overall Objective**

The overall objective of the EC contribution is to reduce regional socio-economic imbalances in The Bahamas.

### **5.1.3 Project Purpose**

The purpose of the capacity building programme is:

- to strengthen local stakeholders, be they local government, private sector or and civil society organisations;
- to render SMEs more competitive; and
- to ensure better maintenance of local infrastructure.

#### **5.1.4 Results**

As a result of this project, the Local Government agencies and civil society organisations in the Family Islands will be able to participate efficiently in planning and in implementation of development programmes, including efforts in capacity building to better address the issue of HIV/AIDS in the Family Islands. The greater devolution of power and authority will allow the country to take better advantage of assistance from the EC than has been the case with the more centralised process of decision-making of the past. More persons will be capable of establishing SMEs in the Family Islands and developing new niches of growth in Tourism, Organic Agriculture, Aquaculture, Mariculture and other activities that are potentially viable on the Family Islands. In respect of infrastructure, a new maintenance management system will be adopted, with important island infrastructure, such as roads, ports, runways, drainage systems, and sea walls with continuous and on-time maintenance schedules.

#### **5.1.5 Assumptions**

Financial resources from the EC will be matched by funds from the Government of The Bahamas, with the latter increasing its share over the five-year period. The Government will develop coherent strategies and mid-term public investment plans for the sectors concerned and adhere to the adopted maintenance strategy for the infrastructure. It is assumed that interest rates for SMEs are affordable and that there is a demand for the new services and activities to be created. The Government commits itself to reducing administrative barriers and simplifying investment incentives. Local authorities participate effectively in the implementation of the programme. The NAO undertakes all necessary efforts to speed up the implementation of available EDF resources.

#### **5.1.6 Factors Ensuring Sustainability**

The programme will actively promote the respect for environmental standards and the introduction of sustainable technologies. Disaster management has to be done in an integrated manner by inter-linking the three key aspects of preparation, mitigation and prevention. The focal sector programme will also encourage the creation of employment of young people and women. An essential component of this project is the commitment of matching funds on an annual basis by the Government for the eventual absorption on its part of the full range of maintenance functions relating to roads and other infrastructure in the Family Islands.

### **5.2 THE EUROPEAN INVESTMENT BANK**

The contribution of the European Investment Bank to the development of financial cooperation with The Bahamas in the framework of the Cotonou Agreement will be the provision of long-term financial resources other than grants to assist in promoting growth in the private sector and in helping to mobilise domestic and foreign capital for this purpose. The support will be in the form of risk-capital from the Investment Facility or loans from the Bank's own resources.

Traditionally the Bank provides financing, loan and equity for investments for expansion and refurbishment by small and medium-sized enterprises through lines of credit (global loans) with local financial intermediaries. Based on the Cotonou Agreement, the EIB will establish such a line of credit with one or more local financial intermediaries meeting the financial and operational requirements of the Bank. Financing under this facility could be integrated into the proposed development programme

of the EC Country Support Strategy for the Family Islands and may, where appropriate, be combined with the technical assistance proposed by the Commission. The facility features will depend on requirements identified and market conditions and may include equity/quasi-equity in addition to loans. In addition to this the Bank will continue to consider direct financing to larger projects, private or public, considered to be financially viable and of economic priority to The Bahamas. The exact size, timing and sectors for such interventions will be determined when and where the need arises.

### **5.3 COMPLEMENTARITY WITH OTHER DONORS**

The Bahamas - EC Country Support Strategy complements the assistance that is available from the IDB, and the Caribbean Development Bank, which along with the EU are the most important donors. The proposed initiative, with its concentration on the Family Islands, permits greater geographic balance in the pattern of development and, ipso facto, contributes to equity in the society by creating a stimulus in the outer islands and stemming the exodus to New Providence. In other words, the EC Country Support Strategy closes an important gap by correcting the bias in the contribution of other development partners cooperating with The Bahamas.

### **5.4 COHERENCE WITH OTHER COMMUNITY POLICIES**

The EC response is consistent with the overall objectives of the European Community Development Policy as highlighted in chapter 1 of this document. It is also consistent with the European Policy to support rural development as described in the European Commission Policy Orientation Paper of February 2000, complemented by the Agricultural Sub-Sector Strategy Paper of October 2000. The support planned under the EC response for The Bahamas will also combine traditional institutional support (both central and local) with more innovative approaches aimed at establishing partnerships with local communities and the private sector, as recommended by the EC policy guidelines.

As far as trade policies are concerned, The Bahamas' effective participation in international trade forums and agreements, in particular WTO, is encouraged. At bilateral level, efforts are undertaken to promote the trade dimension in national development policies. In this connection, The Bahamas' active involvement in the preparation and negotiation of the Economic Partnership Agreement (EPA) under the CARICOM framework is envisaged. This specific support will be consistent with and complementary to existing and available all-ACP programmes designed to prepare the ACP States for negotiating EPAs with the EU (€20m geared towards shorter-term needs), to promote their integration into the multilateral trading systems (€10), and to increase their sanitary capacity in the fisheries sector (€42m).

Wherever relevant, EC policies/strategies concerning cross-cutting issues such as human rights and democratisation, gender and environment have been taken into consideration. This also includes building strategic and operational links between related development aspects. Synergies exist between the country support strategy and other relevant Community policies in the fields of communicable diseases, bio-diversity, and sustainable development and information society. The same applies to the approaches and activities of the forthcoming Caribbean Regional Strategy to be supported by the EC, where, inter alia, disaster preparedness has been identified as an element of the EC response.

Coherence between development co-operation policy and other EC policies (trade, fisheries, agriculture, environment, research, etc.), relevant to The Bahamas, will be assessed on a permanent basis. In this context, NIP resources may be used to complement resources from the Regional Indicative Programme, EC budget lines and trade-specific operations, according to the needs and availability of funds.

**PART B**  
**NATIONAL INDICATIVE PROGRAMME**

## **6.0 THE NATIONAL INDICATIVE PROGRAMME**

### **6.1 INTRODUCTION**

Based on the Co-operation Strategy presented in Part A, and in accordance with the provisions of Art 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up in a series of tables presenting the support framework for the focal sector, the indicative timetable for commitments and disbursements and a detailed timeline of activities for all programmes envisaged within a multi-annual rolling period.

Amounts mentioned in this chapter indicate the global allocation of funds between the focal sector and other programmes. This allocation may be modified in the context of operational, performance or ad hoc reviews.

### **6.2 FINANCING INSTRUMENTS**

Implementation of the response strategy of the EC will be financed through a number of financing instruments. The following allocations are foreseen on an indicative basis:

#### **6.2.1 9<sup>th</sup> EDF, A-allocation (3.9 M Euro)**

This indicative allocation is intended to cover the long-term development activities identified in the context of the response strategy. The following programme has been identified under the A-allocation:

Capacity building in the Family Islands (100%)

Balances remaining from previous EDFs at the date of entry into force of the Financial Protocol, as well as de-commitments made at a later stage, will be added to the above-mentioned indicative allocation. These funds will be used for projects and programmes already identified under Indicative Programmes of preceding EDFs, for which no financial decision was taken before the entry into force of the 9<sup>th</sup> EDF. Remaining balances should be used to support projects and programmes in line with the priorities set out in this Indicative Programme.

#### **6.2.2 9<sup>th</sup> EDF, B-allocation (0.6 M Euro)**

This allocation is designed to cover unforeseen needs such as emergency assistance where support cannot be financed from the Community budget, contributions to internationally agreed debt relief initiatives and support to help mitigate the adverse affects of instability in export earnings.

#### **6.2.3 Investment Facility**

Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9<sup>th</sup> EDF also includes the "Investment Facility" as a financing instrument managed by the European Investment Bank. The Investment Facility does not form part of the Indicative Programme.

### **6.3 FOCAL SECTOR: CAPACITY BUILDING**

The specific objective is to stimulate development in the Family Islands through a comprehensive capacity building programme, thereby reducing the need for residents to migrate to New Providence in search of opportunity for employment and income. The islands of Andros, Eleuthera, Cat Island and San Salvador will be the focus of the key initiatives in this project.

For indicative purposes, approximately €3.9m will be reserved for this sector.

The major areas of support envisaged are: capacity strengthening for local government agencies, civil society organisations and the private sector in the Family Islands so that infrastructure development programmes, key services (in particular health) and productive endeavours can be achieved in tourism, agriculture, aquaculture, fishing and food processing.

The major policy measures to be taken by the government to help implement the response strategy in this sector are the provision of administrative and other mechanisms that:

- empower local government agencies in the Family Islands to plan and implement infrastructure projects and to institutionalise infrastructure maintenance;
- allow local government agencies to help the private sector to take advantage of opportunities for economic expansion in the Family Islands;
- assist local government agencies to support the development of entrepreneurship among residents in the Family Islands.
- enable the Government to commit resources to match disbursements by the EU, with the quantum to increase from the fourth year, and to replace funding by the EU from the sixth year.

### **6.4 MACROECONOMIC SUPPORT**

The Indicative Programme does not provide for macroeconomic support. However, in the light of current needs, it may be decided to reallocate funds from other headings in the Indicative Programme to this type of support. Such a decision may be taken through a specific agreement between the Chief Authorising Officer and the National Authorising Officer or in the context of an operational performance or ad hoc review.

### **6.5 OTHER PROGRAMMES**

Specific activities may be supported through the various Community budget lines, including, inter alia, NGO co-financing, decentralised co-operation, European Initiative for Democracy and Human Rights, food security and disaster prevention. Humanitarian and emergency assistance will be accorded to the Bahamian population concerned in the event of serious economic and social difficulties resulting from natural disasters or man-made crises. Approval of proposals and implementation of support measures under the available budget lines will be decided in accordance with the procedures in place for each respective financing instrument and are subject to the availability of funds.

## 6.6 INTERVENTION FRAMEWORK: CAPACITY BUILDING FOR INTEGRATED DEVELOPMENT

	<b>Performance indicators</b>	<b>Sources of verification</b>	<b>Assumptions</b>
<b>Overall objective</b> To reduce regional socio-economic imbalances in The Bahamas	<ul style="list-style-type: none"> <li>• Social indicators</li> <li>• Increase in employment in the region</li> <li>• HDI improvement between 2002 and 2007</li> <li>• GDP and per capita growth</li> </ul>	<ul style="list-style-type: none"> <li>• Department of Statistics</li> <li>• National Accounts</li> <li>• Labour Force Survey</li> </ul>	
<b>Project purpose</b> Improving local capacities for the management of economic and infrastructure development in the Family Islands	<ul style="list-style-type: none"> <li>• Growth in Income and Employment in Family Islands</li> <li>• Increased value added in Tourism, Agriculture, Fishing, Aquaculture, and Food Processing in Family Islands</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Trade and Industry</li> <li>• Ministry of Public Works</li> <li>• Local Government Councils</li> <li>• Ministry of Finance</li> </ul>	<ul style="list-style-type: none"> <li>• There is domestic and international demand for expanded output of Family Islands</li> <li>• The Government introduces and continuously updates mid term public investment planning</li> <li>• The Government develops coherent sector strategies</li> </ul>
<b>Results</b> Capacity in local Government, including health services, and civil society organisations strengthened to plan and implement programmes	<ul style="list-style-type: none"> <li>• Community Empowerment Indicators</li> <li>• Number of staff trained</li> <li>• Number of studies conducted</li> <li>• Number of services accessible in communities</li> <li>• Reduction of new HIV infections</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Public Works,</li> <li>• Ministry of Trade and Industry and Local Councils</li> <li>• Project Monitoring Unit (PMU)</li> <li>• Ministry of Health</li> </ul>	<ul style="list-style-type: none"> <li>• Ministries and Local Councils engage in coordination of their activities</li> </ul>
SME sector has become stronger	<ul style="list-style-type: none"> <li>• Number of SMEs established</li> <li>• Production/export/employment increase in SMEs receiving support</li> <li>• Loan default rate of SMEs by size</li> <li>• Number of entrepreneurs receiving management training</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Trade and Industry and Local Councils</li> <li>• BAIC reports on training in Family Islands</li> <li>• Bahamas Cooperative League Reports</li> <li>• Schools Records on students participating in Training</li> <li>• Local Government Records on start-ups in Family Islands</li> <li>• Program evaluations</li> </ul>	<ul style="list-style-type: none"> <li>• The Government reduces administrative barriers and simplifies investment incentives</li> <li>• Credit will be extended through DFID, BDB, Commercial Banks or other local entities like Credit Unions</li> </ul>
Improved quality of Roads, Sea Defences, Airstrips and other infrastructure on Family Islands	<ul style="list-style-type: none"> <li>• Km of Roads: Paving and verges maintained to accommodate normal traffic during the period of the budget cycle</li> <li>• Number of Sea Defences: Maintained to provide protection against surges during the period of the budget cycle</li> <li>• Number of Airstrip: Maintained to provide safe landing facilities for normal aircraft traffic</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Transportation and Works</li> <li>• Ministry of Public Works</li> <li>• Ministry of Trade and Industry</li> </ul>	<ul style="list-style-type: none"> <li>• Financial resources from EC will be matched by Government funds</li> </ul>
New maintenance scheme applied which is consistent with prevailing local weather, coastal and other conditions	<ul style="list-style-type: none"> <li>• Maintenance scheme in place</li> <li>• km of infrastructure in rehabilitated</li> <li>• % of funding allocated for rehabilitation and repairs</li> <li>• financial management audit and procurement schemes in place</li> <li>• number of staff trained</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Transportation and Works</li> <li>• Ministry of Public Works</li> <li>• Ministry of Trade and Industry</li> </ul>	Authorities adhere to adopted maintenance strategy

## 6.7 TIMELINE OF ACTIVITIES, 2002-2007

Titles	Amounts	Identification	Appraisal	Financing decision
Focal Programme Capacity Building	3.9	February 2003	June 2003	November 2003

## 6.8 INDICATIVE COMMITMENTS TIMETABLE, 2002 - 2007

### *Commitments time table (million €)*

The Bahamas	Indicative Total	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2
EDF co-operation programmes										
Capacity Building (1)	3.9				3.9					
Emergency Funds (2)	0.6					0.6				
<b>Grand total allocation</b>	<b>4.5</b>				<b>3.9</b>	<b>0.6</b>				

<sup>1</sup>Excluding EIB-administered investment facility and EC budget lines

<sup>2</sup>Envelope B: indicative amount of up to €0.6 million

## 6.9 INDICATIVE DISBURSEMENTS TIMETABLE, 2002 – 2007

### *Payments time table (million €)*

The Bahamas	Indicative Total	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2	2007/1
EDF co-operation programmes										
Capacity Building	3.9			0.2	0.8	1.0	0.8	0.7	0.4	
Emergency Funds <sup>1</sup>	0.6				0.6					
<b>Grand total allocation</b>	<b>4.5</b>			<b>0.2</b>	<b>1.4</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.4</b>	

<sup>1</sup>Envelope B

## ANNEX I: EC COOPERATION WITH THE BAHAMAS

	Lomé I	Lomé II	Lomé III	Lomé IV	Lomé IV Bis
Indicative Programme	1.8	2.1	4.0	4.4	4.5
EIB loans and risk capital	1.1	-	18.6	34.0	-
ECHO (1999)	-	-	-	0.3	-
Total	2.9	2.1	22.6	38.7	4.5

### EIB financing: Active projects as of December 2001

Region / Country	Project Name	Status	Convention	Contract number	Amount signed (m)		Date of signature	Amount outstanding (m)		Beginning Repayment
					OR	RC		OR	RC	
Caribbean										
Bahamas	WSC WATER SUPPLY AND SEWERAGE	Disbursed	Lome - 3	12705	8,500,000.00		20/11/86	3,253,141.06		15/5/92
	BEC - FAMILY ISLANDS	Disbursed	Lome - 3	13164	9,100,000.00		8/12/87	1,034,206.71		5/6/90
	BAHAMAS WSC II	Disbursed	Lome - 4	18399	14,000,000.00		19/12/95	15,577,298.56		10/6/01
	BEC (POWER)	Disbursed	Lome - 4	19302	20,000,000.00		20/12/96	19,872,478.70		10/6/00
	Total				51,600,000.00			39,737,125.03		
Total					51,600,000.00			39,737,125.03		

## ANNEX II: DONOR MATRIX

Donor/Lender	Sector Economic Development	Social Development	Activity	Thematic/cross cutting issues
European Community	<ul style="list-style-type: none"> <li>▪ Economic reform</li> <li>▪ Privatisation of Utilities</li> <li>▪ Infrastructure</li> <li>▪ Sustainable tourism development</li> <li>▪ Private Sector Development</li> </ul>	<ul style="list-style-type: none"> <li>▪ Electricity and Water</li> <li>▪ Human resource development</li> <li>▪ Poverty reduction</li> </ul>	<ul style="list-style-type: none"> <li>▪ Road Rehabilitation in Acklins Island</li> <li>▪ Rural Electrification (EIB)</li> <li>▪ Potable Water in Family Islands (EIB)</li> <li>▪ Construction of new building for Bahamas Law School</li> </ul>	<ul style="list-style-type: none"> <li>▪ Balanced development</li> <li>▪ Poverty reduction</li> <li>▪ Worker participation in share ownership</li> <li>▪ Human resource development</li> <li>▪ Improvement in delivery of services in key utilities</li> </ul>
IDB	<ul style="list-style-type: none"> <li>▪ Reform of Regulatory System</li> <li>▪ Development of Credit Unions</li> <li>▪ Private Sector Development</li> <li>▪ Economic Diversification</li> </ul>	<ul style="list-style-type: none"> <li>▪ Health Sector Modernisation</li> <li>▪ Social Equity</li> <li>▪ Electricity and Water</li> </ul>	<ul style="list-style-type: none"> <li>▪ Capital Market modernisation</li> <li>▪ Improvement in Public Utilities</li> <li>▪ Institutional Strengthening of Credit Union Movement</li> <li>▪ Strengthening of Environmental Regulation</li> <li>▪ Reduction of incidence of HIV/AIDS through public education</li> <li>▪ Standard of Living Assessment</li> <li>▪ Electricity generation and expansion of supply</li> <li>▪ Water supply in Family Islands</li> <li>▪ Improvement of solid waste management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Poverty reduction</li> <li>▪ Improvement in delivery of services in key utilities</li> <li>▪ Balanced development</li> <li>▪ Improvement in the supply of credit</li> </ul>
CDB	<ul style="list-style-type: none"> <li>▪ SMEs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Poverty Reduction</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strengthening of Bahamas Development Bank</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improved access to credit</li> <li>▪ Poverty reduction</li> </ul>
UK	<ul style="list-style-type: none"> <li>▪ Improvement in regulatory Environment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Training Improved capacity to monitor white collar</li> </ul>	<ul style="list-style-type: none"> <li>▪ Police Service</li> <li>▪ Customs Department</li> </ul>	<ul style="list-style-type: none"> <li>▪ Human resource development</li> <li>▪ Improved transparency in operation of financial system</li> </ul>
OAS	<ul style="list-style-type: none"> <li>▪ Sustainable Tourism Development</li> <li>▪ Education and Training</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cultural Development</li> <li>▪ Protection of Archival Information</li> <li>▪ Dissemination of Cultural Information</li> <li>▪ Reduction in Drug Abuse</li> </ul>	<ul style="list-style-type: none"> <li>▪ Public Library Development</li> <li>▪ Scholarships</li> <li>▪ Development of Small Hotel and Guest Houses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Human Resource Development</li> <li>▪ Poverty Reduction</li> <li>▪ Reduction in Drug Abuse</li> <li>▪ Strengthening of Civil Society</li> </ul>
PAHO	<ul style="list-style-type: none"> <li>▪ Health</li> </ul>	<ul style="list-style-type: none"> <li>▪ HIV/AIDS Prevention</li> </ul>	<ul style="list-style-type: none"> <li>▪ Services of Ministry of Health</li> </ul>	<ul style="list-style-type: none"> <li>▪ Poverty Reduction</li> </ul>

### ANNEX III: POPULATION OF THE BAHAMAS 1980, 1990, 2000

Island	1980			1990			2000		
	male	female	total	male	female	total	male	female	total
<b>Total</b>	<b>101774</b>	<b>107731</b>	<b>209505</b>	<b>124958</b>	<b>130091</b>	<b>255049</b>	<b>147765</b>	<b>155896</b>	<b>303661</b>
New Providence	64861	70576	<b>135437</b>	83515	88681	<b>172196</b>	101558	109274	<b>210832</b>
Grand Bahama	16694	16408	<b>33102</b>	20060	20838	<b>40898</b>	23024	23970	<b>46994</b>
Abaco	3746	3525	<b>7271</b>	5201	4802	<b>10003</b>	6711	6459	<b>13170</b>
Acklins	281	337	<b>618</b>	186	219	<b>405</b>	277	201	<b>478</b>
Andros	3981	4326	<b>8307</b>	4109	4068	<b>8177</b>	3780	3906	<b>7686</b>
Berry Islands	298	211	<b>509</b>	349	279	<b>628</b>	416	293	<b>709</b>
Biminis	751	660	<b>1411</b>	850	789	<b>1639</b>	886	831	<b>1717</b>
Cat Island	1075	1140	<b>2215</b>	875	823	<b>1698</b>	854	793	<b>1647</b>
Crooked Island	246	272	<b>518</b>	204	208	<b>412</b>	172	178	<b>350</b>
Eleuthera	4199	4132	<b>8331</b>	4019	3974	<b>7993</b>	3933	4066	<b>7999</b>
Exuma & Cays	1786	1884	<b>3670</b>	1836	1720	<b>3556</b>	1875	1696	<b>3571</b>
Harbour Island & Spanish Wells	1079	1221	<b>2300</b>	1286	1305	<b>2591</b>	1555	1611	<b>3166</b>
Inagua	462	462	<b>924</b>	518	467	<b>985</b>	476	493	<b>969</b>
Long Cay	19	16	<b>35</b>	0	0	<b>0</b>	0	0	<b>0</b>
Long Island	1641	1763	<b>3404</b>	1503	1446	<b>2949</b>	1533	1459	<b>2992</b>
Mayaguana	220	244	<b>464</b>	145	167	<b>312</b>	129	130	<b>259</b>
Ragged Island	82	82	<b>164</b>	52	37	<b>89</b>	44	28	<b>72</b>
San Salvador & Rum Cay	353	472	<b>825</b>	250	268	<b>518</b>	542	508	<b>1050</b>

## ANNEX IV: PER CAPITA INCOME

	Population*	Total Income (B\$)**	Per capita Income (B\$)**
<b>All Bahamas</b>	207,720	3,415,548,885	16,443
<b>Islands</b>			
New Providence	144,220	2,502,910,231	17,355
Grand Bahama	32,423	533,782,995	16,463
Abaco	8,878	129,125,646	14,544
Acklins	287	2,793,662	9,734
Andros	4,880	40,100,886	8,217
Berry Islands	505	9,054,493	17,930
Biminis	1,185	14,059,557	11,865
Cat Island	1,112	9,009,662	8,102
Crooked Island	243	2,765,054	11,379
Eleuthera	5,439	52,293,989	9,615
Exuma and Cays	2,485	39,283,897	15,808
Harbour Island	1,152	25,705,767	22,314
Inagua	652	8,101,392	12,425
Long Island	2,196	21,183,304	9,646
Mayaguana	176	1,247,313	7,087
Ragged Island	58	773,607	13,338
San Salvador & Rum Cay	748	8,257,526	11,039
Spanish Wells	1,081	15,099,904	13,968

\*) Note: these data are based on the 2000 Household Census. The population number includes those persons who provided information during the census.

\*\*\*) 1 B\$ = 1 US\$.

## ANNEX V: SELECTED ECONOMIC INDICATORS<sup>10</sup>

The Bahamas: Selected Economic Indicators					
	1996	1997	1998	1999	Prel. 2000
GDP (in millions of Bahamian Dollars)	3,742	3,940	4,190	4,573	4,920
Nominal GDP per capita (in US\$)	13,232	13,694	14,314	15,203	15,901
(Annual percentage changes; unless otherwise indicated)					
<b>Real sector</b>					
Real GDP 1/	4.2	3.3	3.0	5.9	5.0
Tourist expenditure	3.9	1.3	-4.4	16.9	14.6
Consumer price index (annual average)	1.4	0.5	1.3	1.3	1.6
Unemployment rate (in percent of labour force)	11.5	9.8	7.8	7.5	...
<b>Financial sector</b>					
Broad money 2/	6.2	11.2	15.2	10.1	7.5
Credit to the private sector 2/	9.9	12.7	11.2	11.2	14.7
(In percent of GDP at market prices)					
<b>Central government finances</b>					
Central government overall balance 3/	-3.3	-1.7	-1.6	-0.8	-0.2
Central government savings 3/	0.5	1.3	1.3	2.1	2.4
Total public sector debt 2/	43.6	45.7	44.5	42.9	39.7
(In millions of U.S. dollars; unless otherwise indicated)					
<b>External sector</b>					
Current account balance	-271	-666	-996	-406	-414
Overall balance	-8	56	120	65	-62
Net international reserves 2/	163	219	339	404	343
(In percent of base money)	71.6	85.4	109.3	108.2	94.1
External debt of public sector (in percent of GDP) 2/	7.6	8.4	8.2	7.8	7.2
Real effective exchange rate appreciation 2/	0.0	3.7	-0.9	4.7	2.8

Sources: The Central Bank of The Bahamas; Ministry of Finance; and IMF staff estimates.

1/ Estimated by Fund staff on the basis of partial indicators.

2/ End of period.

3/ Corresponds to the fiscal year beginning July 1.

<sup>10</sup> Source: IMF 2001 Article IV Consultations Staff Report