

SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BAHAMAS

TRADE SECTOR SUPPORT PROGRAMME

(BH-L1016)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	POA http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36772511
2.	Monitoring and Evaluation Arrangements http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36773602
3.	Procurement Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36784168
OPTIONAL	
1.	Technical Options and Design
1.a	The Modernization of the Bahamas Customs Department (IDB) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36501579
1.b	Technical Analysis: Component II http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36785482
1.c	Technical Analysis: Component III http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36785571
2.	Analysis of Project Cost and Economic Viability http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36785397
3.	Operative Manual (Draft) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36773240
4.	Project Risk Management http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36773208
5.	Institutional Capacity Evaluation System http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36773623

ABBREVIATIONS

AEO	Authorized Economic Operator
AOP	Annual Operation Plan
APEC	Asia-Pacific Economic Cooperation
BCD	Bahamas Customs Department
CARICOM	Caribbean Community
CARIFORUM	CARICOM Countries plus Dominican Republic
CAS	Customs Automated System (Bahamas current customs system)
CAS2	New Customs Automated System
CP	Competition Policy
EPA	Economic Partnership Agreement
ESW	Electronic Single Window
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOBH	Commonwealth of The Bahamas
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IT	Information Technology
K9 Unit	Canine Unit
MOU	Memorandum of Understanding
OC	Ordinary Capital
OECD	Organisation for Economic Co-operation and Development
OM	Operation Manual
PMU	Project Management Unit
SAFE	Framework of Standards to Secure and Facilitate Trade - WCO
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TIM	Trade Information Management System
US	United States of America
WB	World Bank
WCO	World Customs Organization
WP	Working Party
WTO	World Trade Organization

PROJECT SUMMARY
THE BAHAMAS
TRADE SECTOR SUPPORT PROGRAMME
(BH-L1016)

Financial Terms and Conditions			
Borrower: The Commonwealth of The Bahamas (GOBH)		Flexible Financing Facility*	
		Amortization Period:	25 years
Executing Agency: The Bahamas Customs Department (BCD)		Original WAL	15.25
		Disbursement Period:	5 years
Source	Amount	Grace period	5.5 years
IDB (OC)	16,500,000	Supervision and	*
Total	16,500,000	Inspection Fee:	
		Interest Rate:	Libor based
		Credit Fee:	*
		Currency of Approval:	US Dollar - Ordinary Capital
Project at a Glance			
Project objective and description: <p>The overall objective of this programme is to improve the facilitation of trade while strengthening the ability of customs to collect revenue and protect the borders by the enhancement and modernization of customs operations and the international trade institutional platform of The Bahamas.</p> <p>These objectives will be met through the following components: (i) strengthening of customs management; (ii) modernizing of customs operations; and (iii) enhancement of the institutional trade platform.</p>			
Special contractual clauses: Conditions prior to the first disbursement: <p>The executing agency shall present evidence, to the satisfaction of the Bank, of the fulfillment of the following requirements: (i) the key members of the staff that will comprise the Project Management Unit (PMU) has been appointed; (ii) the Steering Committee has been created; and (iii) the Operations Manual has been approved by the executing agency. (Par. 3.2).</p> <p>Other special conditions: Prior to the issuance of any invitation to prequalify or bid for contracts, or any request for proposal to the consultants for the initiation of activities described in paragraphs 2.04, 2.05 and 2.06 of the Annex, the Executing Agency shall sign a Memorandum of Understanding (MOU) with the agencies that take part in the implementation of these activities. The MOU will include the elements necessary for the coordination and collaboration between these agencies (Par.3.2).</p> <p>Retroactive financing: the Bank may recognize as part of the portion to be financed with proceeds of the loan, expenses for an amount up to the equivalent of US\$200,000, incurred by the Borrower on or after March 8, 2012, provided that such expenses or commitments were incurred or assumed following procurement procedures that have complied with conditions substantially similar to those set forth in the Bank procurement policies. (Par.2.14)</p>			
Exceptions to IDB policies: <p>None.</p>			
Project qualifies for: SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/>			

(*) Under the Flexible Financing Facility (FN-655-1) the Borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions, in all cases subject to the final amortization date and original WAL. In considering such requests, the Bank will take into account market conditions and operational and risk management considerations.

(**) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the IDB's lending charges, in accordance with the applicable policies. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, lessons learned and justification

- 1.1 The Commonwealth of The Bahamas (GOBH) is an archipelago of over 700 islands and cays, spread over 100,000 square miles of Atlantic Ocean. Twenty two of the islands are inhabited by a total of 350,000 persons, and two islands –New Providence and Grand Bahama– account for 85% of the population and 88% of the economic activity. The country's per capita income is about US\$30,000, one of the highest levels in the hemisphere. The US\$8.6 billion economy is small in world terms but relatively large for a small developing state island. Gross Domestic Product (GDP) shrank 1.5% in 2008 and 5.5% in 2009 due to the global crisis, and rose again modestly in 2010 and 2011. According to International Monetary Fund (IMF) World Economic Outlook projections are 2% in 2011 and 2.5% in 2012. The central government public debt has risen to US\$3,790 million as of December 2011, which is equivalent to about 48% of GDP.
- 1.2 The economy¹ is dominated by services, particularly tourism, which is the mainstay and accounts for two-thirds of economic activity. The second main activity is financial services, accounting for the 12%. Major exports include polystyrene, lobster tails, rum and salt. Foreign Direct Investment² (FDI) remains high and is mostly focused on tourism development.
- 1.3 Despite its strategic location, The Bahamas remains somewhat disconnected from the rest of the world in terms of trade. The country is still not a member of the World Trade Organization (WTO)³ and while it is part of the Caribbean Community (CARICOM), it is not a partner of the Caribbean Single Market. The only major trade agreement negotiated is the Economic Partnership Agreement (EPA) signed between CARICOM Countries plus Dominican Republic (CARIFORUM) and the European Union (October 15, 2008), which replaced the unilateral preferences granted under the Cotonou Agreement. There are current negotiations between CARICOM and Canada for a plurilateral trade agreement. Preferential market access in the United States of America (US) and Canada is possible through the use of unilateral trade arrangements (Caribbean Basin Trade Partnership Act and Caribbean Canada Trade Agreement).
- 1.4 The WTO accession process and the implementation of EPA may be hindered by serious institutional and operational limitations at the Bahamas Customs Department (BCD) and other trade related institutions. At BCD, some of the main problems identified by the IDB's 2011 diagnostic include: (i) an obsolete information and communication technology management system to support modern customs operational processes given that the current information system, Customs Automated System (CAS), was designed in

¹ According to the Economist Business Unit 2011, the value of exports from goods was 709.7 million USD while the import value of goods was 2,858.8 million USD.

² According to Index Mundi, FDI in 2010 were 861.4 million USD.

³ Accession process is currently underway. The challenge is substantial given the late entrance, however, the government has the political will to walk the process.

the late 80's; (ii) very limited use of risk analysis model and its system, Trade Information Management System (TIM), with only 5% of efficiency in the positive hits, which leads to excessive use of physical inspections, up to 80% of the cargo, that affect the efficient and timely clearance of goods at the border; (iii) outdated institutional/operational framework and business processes; (iv) outdated organization structure and human resources model and management; (v) inefficient cargo clearance of 24 hour per import declaration and entry passenger processing and outdated operational processes; (vi) weak border control coordination and lack of an enforcement strategy; and (vii) strained relationship with the private sector. On the other hand, the institutional platform for international trade which has the exclusive responsibility for trade matters is underdeveloped and understaffed, relying on other ministries and institutions to carry out its work, making the negotiation and implementation of trade agreements, including the accession to the WTO, extremely challenging. Other countries in the region have moved substantially faster than The Bahamas in terms of modernizing customs operations and introducing Electronic Single Windows (ESW) for their export-import processes. For example, Barbados, Trinidad and Tobago, and Jamaica are already implementing substantial reforms in Customs. The lag with respect to Latin American is even greater, when compared to small countries like Uruguay, Costa Rica, and Honduras, where major reforms have already concluded.

- 1.5 Moreover, the current cumbersome, manual and lengthy procedures, together with a legacy⁴ Information Technology (IT) system at BCD, produce a twofold impact: (i) allows for frequent data entry errors and provides an opportunity for improper classification/valuation and incorrect and unaccountable use of government exemptions; and (ii) negatively affects the time and cost of movement of goods across borders. All of the above, together with limited tools for enforcement and anti-smuggling control, adversely affect the revenue collection capacity of BCD which currently stands at 50% of the total income collected by the government.
- 1.6 As the geography of The Bahamas is of an archipelagic nature, the BCD in its quest towards the modernization process is cognizant of the fact that border control and patrol must play a synergistic role in its development. The BCD current border control and security strategy relies on to joint operations by the defense force and the harbor control. Due to the limitations of these agencies to give support on a sustained basis, the customs department is left handicapped in times of need particularly in New Providence, Grand Bahama and Exuma.
- 1.7 The Bahamas remains ill-prepared to compete in the international markets. Tariff dispersion is high⁵ and absolute barriers to entry are common when imports compete with national production. The country exports relatively few industrial (polystyrene) and agricultural products (lobster tails, rum and salt) with small profit margins, which

⁴ The current IT system at customs (CAS) was built in 1989.

⁵ The tariff structure in The Bahamas is a policy issue that can not be changed through this investment programme. It is very likely that the major trading partners of The Bahamas will request a modification as part of the WTO accession process.

reinforces the importance of having reduced logistics costs,⁶ which in some cases will determine overall profitability. On the other side, The Bahamas tourism industry imports most of the goods it needs to provide services. An important part of their operational cost is also associated to the logistics costs. Given the described shortcomings at customs, the performance and profitability of tourism is at risk, and if not resolved promptly, it could also affect the flows of FDI, which is a major engine for economic growth.

- 1.8 The BCD, through the signature of a letter of intent to implement the Framework of Standards to Secure and Facilitate Trade (SAFE) of the World Customs Organization (WCO) is committed to incorporate the provision and standards necessary to bring the customs administration and operations to international good practices that will secure and facilitate trade. Moreover, the EPA contractual commitments as well as WTO accession requirements with regard to customs modernization also explain the need for reform. The GOBH also engaged with the Inter-American Development Bank (IDB) in the provision of technical assistance⁷ for capacity building and conducting a sector diagnostic⁸ of BCD.
- 1.9 To implement structural reforms, the GOBH has requested an investment programme that will improve the facilitation of trade while strengthening the ability to collect revenue and to protect the borders by the enhancement and modernization of customs operations and the international trade institutional platform. This investment loan is key to the ongoing efforts of the IDB and the GOBH to launch the aforementioned initiatives. The programme is consistent with the 2010-2014 Country Strategy (GN-2558-1, par. 3.15) to provide support in improving and facilitating access to trade through: (i) the establishment of an ESW; (ii) the improvement of customs procedures; and (iii) support for the implementation of the country's trade-policy agenda. The project qualifies as supporting structural reforms within the meaning of the trigger of the upper lending scenario.
- 1.10 Also, the programme is framed under the IDB's new Competitive Global and Regional Integration Strategy (GN-2565) that considers trade facilitation efforts and customs strengthening as vehicles for economic growth and improved competitiveness. The customs modernization (components I and II) and the enhancement of the trade institutional platform (component III) will add up to the 15% goal of projects with integration components set by the GCI-9.
- 1.11 One of the main lessons learned from other similar programmes are: (i) the strong emphasis on business process reengineering and the need for all the IT related investments to follow the business process as a roadmap and guide; (ii) the IDB's role in bringing together all the different border agencies participating in the ESW; and

⁶ Costs of logistics vary substantially among countries, from 8% in the US to 69.5% in the Dominican Republic. See "*Impacto del Transporte y Logística en el Comercio Internacional de la República Dominicana* " at <http://competitividad.org.do/wp-content/uploads/2009/07/transporte-y-la-logistica-en-el-comercio-internacional-de-rd.pdf>

⁷ Bahamas Customs Modernization (BH-T1020).

⁸ Preparation of an Action Plan for Customs (BH-T1011).

(iii) supporting technical missions to several countries, especially in Asia Pacific, which have already implemented an ESW.

B. Objective, components and cost

1.12 The overall objective of this programme is to improve the facilitation of trade while strengthening the ability to collect revenue and protect the borders by the enhancement and modernization of customs operations and the international trade institutional platform. This objective will be achieved through the implementation of the following project components:

1.13 **Component I. Strengthening of customs management (US\$2,100,000).** This component will finance:

- a. **The modernization of the organizational structure, human resource management and corporate affairs,** through: (i) technical assistance to review and develop a new organizational structure for BCD with new functions and the creation of new units⁹ (such as the customs workforce development unit, recourse unit, internal affairs unit, origin unit, intellectual property rights unit, client services, valuation, risk analysis, and post clearance audit, among others); (ii) the strengthening of the customs human capital through the implementation of a new human resource development model, including an executive programme, the establishment of a comprehensive capacity building programme and the renovation of training locations in New Providence and Grand Bahama; and (iii) the implementation of an external/internal corporate communication strategy.¹⁰
- b. **Strengthening the monitoring and evaluation function.** That will include: (i) developing a strategic planning capacity; and (ii) implementing an operational and management performance measurement system.¹¹

1.14 As a result of this component, the BCD will undergo the modernization of its institutional framework, the enhancement of its management capacity, and the professionalism of its human capital.

1.15 **Component II. Modernizing customs operations, including Information and Communications Technology Systems (US\$11,845,000).** This component will finance:

- a. **Business process reengineering.** This includes: (i) mapping all current customs processes, as well as processes of other agencies that will be included in the ESW; (ii) reengineering of the processes based on best international practices; and (iii) developing technical specifications for all the IT platforms.

⁹ Units were identified by IDB's 2011 diagnostic. See footnotes 7 and 8 above.

¹⁰ Any process of institutional change and modernization requires a steady and good flow of communication both internally and externally. It is important for the employees and for stakeholders to learn about what the change is going to bring about, which will be the major changes; and what is the necessary involvement of each one to make it successful.

¹¹ The IDB with the resources of RG-T1487 developed a customs performance indicators system, already implemented in Honduras, Uruguay, Peru, Dominican Republic and Costa Rica, which is available for BCD. Resources of this loan will cover the adaptation of the system to BCD.

- b. **Customs automated management system.** This includes: (i) the design of a new customs network to support the new volume of information and data and the need for increased reliability and security; (ii) the purchase and installation of equipment for the new customs network based on the recommended design to improve the local area network, wide area network and wireless networks as well as create a dedicated network (value added network) for electronic data interchange traffic; and (iii) the design and implementation of a new customs automated system (CAS2) to replace the outdated current system.
 - c. **Strengthen border control and security.** This includes: (i) designing and implementing a risk management system and IT platform for cargo and passenger in tandem with the development and deployment of CAS2; (ii) developing an enforcement strategy and strengthening of coordination with other border control agencies; (iii) procuring of equipment for customs enforcement and border control, such as portable communication and small vessels for the marine unit;¹² (iv) setting up of a K9 Unit (canine unit) and its necessary specialized training; and (v) implementing an active enforcement investigation case management software to collect and manage the enforcement action data.
 - d. **Trade facilitation.** This includes: (i) implementing an ESW in other trade agencies outside customs;¹³ and (ii) developing a strategic alliance with the private sector through an Authorized Economic Operator programme (AEO).¹⁴
- 1.16 As a result of this component, BCD will have an upgrade of its operational procedures, a cutting edge automated system, and the service oriented technological platform and programmes in place to increase measures of trade facilitation while balancing control and security. These improvements will benefit the private sector and other government agencies involved in import and export operations by reducing the direct and indirect costs of international trade in The Bahamas.

¹² The portable communication equipment and small vessels for the marine unit (two small boats) as well as the setting up the K9 unit (in c (iv) above) are exclusively for the use of the non-military officials of the Customs Department in their tasks of customs and border control.

¹³ The ESW is a trade facilitation idea. As such, the implementation of an ESW enables international (cross-border) traders to submit regulatory documents at a single location and/or single entity. Such documents are typically customs declarations, applications for import/export permits, and other supporting documents such as certificates of origin and trading invoices. For this project, the ESW is the name utilized to define the investment in IT involved into upgrading control agencies outside customs to be able to electronically integrate their reporting, management, licensing and permits and exemptions issuing tasks with the CAS2 to be developed also under this project.

¹⁴ AEO is an operator that provides evidence of compliance with supply chain security standards by adopting practices for the improvement of and compliance with security requirements as well as of a satisfactory tax and customs record, all of which resulting in the granting of an authorization or recognition as AEO by the customs authority, which may provide the operator with additional benefits in its trade operations at Customs. The IDB with resources of RG-T1325, RG-T1705 has been assisting the LA region in the implementation of AEO programmes. The IDB is currently developing a strategy to implement the AEO programme in the Caribbean with resources from RG-T1458 and RG-T1985.

1.17 **Component III. Enhancement of the international trade institutional platform (US\$1,295,000).** This component will finance:

- a. **Strengthening the institutional framework of trade related institutions.** This includes: (i) assessing and preparing recommendations for the legislative and regulatory framework and institutional capacity for technical standards; (ii) assessing and preparing recommendations for the administrative management of Intellectual Property Rights (IPR); (iii) assessing and preparing recommendations for the legislative and regulatory framework and institutional capacity for competition policy (CP); and (iv) developing draft legislation for the implementation of the European EPA Mode 4 commitments, including operational manuals.
- b. **Capacity building for trade related institutions.** This includes: (i) carrying out awareness and training activities for government officials and private sector on the implementation of trade agreements and the accession to the WTO; and (ii) implementing capacity building/training activities in Sanitary and Phytosanitary (SPS) issues, technical standards, and IPR.
- c. **Technical support to increase ability to manage Technical Barriers to Trade (TBT), SPS, IPR and CP.** This includes: (i) assessing the needs on SPS testing and lab equipment; (ii) developing regulation and operational manuals for the implementation of SPS legislation; (iii) developing national standards methodology including mutual recognition and third country standards; and (iv) hiring two national project managers, one for the standard bureau and another one for IPR register.
- d. **Technical and logistic support for the WTO accession process.**¹⁵ This includes: (i) training of officers on WTO issues; (ii) participation of official (s) in the working group and bilateral country accession negotiations; (iii) procuring support services for Geneva based administrative office; (iv) hiring a Geneva based trade consultant; and (v) procuring the basic office furniture and IT equipment for Geneva office.

1.18 This component supports an action plan to strengthen the trade related institutions¹⁶ and the capacity for trade strategy formulation and policy-making, including negotiation and

¹⁵ The successful accession to WTO falls outside the scope of this programme. The accession has two parallel negotiating processes. One negotiating process is the bilateral (goods and services) market access negotiations with each individual interest member (normally around 30 members establish negotiations with the acceding country). The second one is the multilateral negotiations of the Working Party (WP) where The Bahamas will have to negotiate with the full membership the text of the WP report where the legal reform process, the assessment of compliance and The Bahamas commitments will be reflected. Is not possible to guarantee the accession to the WTO given the time and political implications that are involved in the accession process, sometimes they are outside of the control of the acceding member. A distinction must be made between assistance given for the negotiations of the accession to the WTO and the successful accession to the WTO.

¹⁶ Component III of the programme is directed to address the capacity constraints of trade related institutions of The Bahamas. The following institutions have been identified in consensus with the government: The Economic Unit of Ministry of Finance, the proposed SPS Bureau of the Ministry of Agriculture and Marine Life, the new Standards Bureau, the agency responsible for competition authority and the Intellectual Property Office. The enhancement of these institutions is crucial for the participation of The Bahamas in trade

implementation of liberalization agreements and support to trade related institutions. Increased market access obtained by the implementation of the trade agreements will greatly benefit importers and exporters. Accession to the WTO will open markets and contribute to prepare The Bahamas to compete in the world market. To effectively participate in the WTO accession process the GOBH needs not only to enhance its trade related institutional platform as described in 1.17 above (institutional strengthening, training and technical support), but also, it must have a permanent representation to the WTO in Geneva, Switzerland. This would be of a crucial importance once the bilateral process starts. The expenses related to the operation of the office in Geneva that are attributable to the project, constitute a minimal percentage of the resources of the loan, and they are necessary to obtain the project development objectives. The actual length of the WTO accession process can not be controlled by the project, but given the importance of obtaining WTO membership, the government will maintain the financial support to the office in Geneva if necessary after the conclusion of this programme. The government is completely committed to this goal and has already been investing around \$400,000 per year in the process during the last 3 years, including the hiring of a Trade Law consultant, attendance to working party meetings, training, and drafting of legislation. The financing proposed in this project will further boost this effort.

C. Key results indicators

- 1.19 The key outcomes indicators of this programme are: (i) reduce the negative impact of revenue-related offenses such as misclassification, valuation and contraband; (ii) reduce average time to clear an import declaration from 24 to 7.2 hours; (iii) reduce the cost to prepare an import-export declaration by use of electronic submission from US\$20 to US\$0; and (iv) reduce the total clearance time of imported goods from the time of physical arrival to exit from Customs facilities from 72 to 24 hours. (See Annex II: [Results Framework Matrix](#)). The key indicators to be achieved at the end of the programme execution (estimated to be in 2017) are:
- a. **Customs institutional capacity strengthened.** This includes: (i) increase the level of competence and confidence of customs officers from medium to high in delivery of services; (ii) increase the level of satisfaction by the users of the customs' services from low to high; and (iii) reduce the cost of collecting revenue by 15%.
 - b. **Customs operations modernized.** This includes: (i) an increase from 25% to 85% of the cargo manifests submitted electronically and in advance; (ii) an increase from 2% to 80% of the customs declaration submitted electronically; (iii) an increase from 0% to 80% of the duties and taxes paid electronically; (iv) a reduction from 80% to 10% of the import declarations assigned to physical verifications; (v) an increase in the number of positive results (i.e. seizures) from physical inspection from 5% to

negotiations and for the implementation of EPA with the European Union and other trade agreements. Most of these institutions take part in the border management reform of The Bahamas, an important part of this programme.

50% based on the usage of the new risk management system;¹⁷ (vi) an increase in the number of post clearance audits conducted annually by customs from 0 to 25 (100% of all major importers); and (vii) an increase in the number of seizures made annually (customs interdictions) from 60 to 120.

- c. **The international trade institutional platform enhanced.** This includes: (i) an increase from 0 to 5 in the number of participant trade related institutions in the implementation of trade agreements and the accession to the WTO;¹⁸ (ii) the increase on the level of expertise of officials handling trade related issues, from low to high; and (iii) increase the capacity to negotiate and administer trade agreements using a methodology developed by the IDB's Trade and Investment Unit.¹⁹

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The total cost for the project is US\$16.5 million, which will be financed with resources from the Ordinary Capital (OC). The following table provides a breakdown by investment category and source of financing.

Table II.1 Costs by Components / Subcomponents (Millions of US\$)

Description	IDB	%
1. Strengthening of Customs Management	2,100,000	13
1.1 Modernization of the organizational structure, human resource management and corporate affairs	1,920,000	12
1.2 Strengthening the monitoring and evaluation function	180,000	1
2. Modernizing Customs Operations	11,845,000	72
2.1 Business processes reengineering	700,000	4
2.2 Customs automated management system	6,945,000	42
2.3 Strengthen border control and security	3,085,000	19
2.4 Trade facilitation	1,115,000	7
3. Enhancement of the International Trade Institutional Platform	1,295,000	8
3.1 Development institutional and technical capacity at the International Trade Unit/Ministry of Finance and trade related agencies	195,000	1
3.2 Technical support to increase the country's ability to manage TBT, SPS, IPR and Competition	670,000	4

¹⁷ In the context of customs, risk management refers to the way of determining specific cases and methods of customs intervention that would, on the one hand, ensure compliance and, on the other, facilitate legitimate trade.

¹⁸ The objective of the programme is to strengthen the trade related institutions and to better prepare them for the negotiation and implementation of trade agreements. It must be understood that this indicator is directed to measure the increase in the capacity of institutions and officials for the negotiation and implementations of trade agreements, including the negotiations for the accession to the WTO.

¹⁹ The methodology for this indicator has been elaborated by the IDB (INT/TIU) and it has been applied in other IDB projects, such as NI-L1016.

Description	IDB	%
3.3 Technical support for the WTO accession process	430,000	3
4. Administrative Costs	1,160,000	7
4.1 Project management	960,000	6
4.2 Evaluation and auditing	200,000	1
5. Other Costs	100,000	1
5.1 Contingencies	100,000	1
Total	16,500,000	100

B. Environmental and social safeguard risks

- 2.2 This programme has been classified as a category “C” according to the safeguard classification tool. The activities financed will not have direct or significant impacts on the environment or on the country’s natural resources.

C. Fiduciary risk

- 2.3 The Institutional Capacity Assessment System was used to assess the BCD in the capacity of executing agency to carry out the project’s fiduciary execution. The department’s assessment showed a medium-high implementation risk due to medium-low capacity, with special deficiencies in the procurement area, planning, human resource management and financial management system. Institutional capacity workshops will be necessary prior to starting the programme, as well as the hiring of a fiduciary specialist.

D. Other key issues and risks

- 2.4 **Institutional viability.** For BCD, this will be the first experience in implementing an investment programme with the IDB, and therefore, for a successful execution of this project, a strong Project Management Unit (PMU) will need to be established with modern and effective planning, contracting and administration capacity. Proper arrangements have been made to structure the PMU as a way to have both external and in-house expertise necessary to ensure the institution viability and sustainability of the project.
- 2.5 **Political risk.** Notwithstanding the identification of a political risk during the preparation of the project given the general elections held in May the new administration has conveyed its support for the project which also has the backing of the private sector.
- 2.6 **Development risks.** The Risk Matrix has identified several development risks, including implementation of IT solutions at customs and the readiness of trade related institutions for implementing the ESW. The team has identified mitigating actions, including focusing on performance and not on predetermined technology solutions and the completion of a readiness assessment for the ESW.
- 2.7 **Technical viability.** The proposed technical solutions fully meet the needs for improvement of BCD and the International Trade Platform. The works defined are based on a comprehensive set of diagnostics carried out by the IMF, the WCO and the IDB. The diagnosis contemplated a set of recommendations base on international best practices, the

WCO SAFE Framework, Kyoto Convention, WTO regulations and extensive experiences in the implementation of trade agreements. All the IT implementations are contemplated within the business process reengineering and are accompanied by the necessary investments in network and hardware infrastructure, software license support and specialized training with the final aim of obtaining an ESW environment. This ESW process is now at a mature stage, with an increasing number of countries adopting this approach. The necessary tools and knowledge are available to successfully implement this environment.

- 2.8 **Economic viability.** This programme will mostly finance the deployment of the necessary IT infrastructures (Software and Hardware) to launch an ESW environment in The Bahamas for international trade. This investment proposed is expected to pay for itself during the 5 year implementation period through trade transaction costs savings, regulatory agency efficiency savings, and improved ability to collect revenue. In addition the reduction in trade transaction costs could have a direct impact in boosting exports and reducing operating costs for the private sector.
- 2.9 There is a generally accepted view that implementing trade facilitation measures and improving regulatory processes can bring significant tangible benefits. Based on a minimum of gains and reductions indicated in the various studies conducted by The Organisation for Economic Co-operation and Development (OECD), World Bank (WB) and Asia-Pacific Economic Cooperation (APEC) on current value of imports and GDP, the following savings and potential additional trade increases can be estimated with these different trade facilitation scenarios: (i) a total transaction cost reduction of 1% will yield a savings of US\$31 million based on OECD calculations;²⁰ (ii) an improvement of the clearance time of 0.5 days saving 0.25% of the consignment value will produce savings of US\$8 million based on WB analysis;²¹ (iii) the same WB analysis presents a savings of US\$15.5 million by reducing customs administrative costs by 0.5%; (iv) an APEC study²² presents a savings of US\$31 million by reducing import prices between 1 and 2% and a gain of US\$17 million by increasing trade in 0.26%.
- 2.10 There is also a fiscal impact of the inefficiencies in trade facilitation. A study by the OECD²³ presents a loss that ranges from 1 to 5% of GDP caused by inefficient procedures. In the case of The Bahamas this loss will be equal to US\$65.8 million, almost 4 times the total cost of this programme.
- 2.11 Any of the aforementioned scenarios will yield enough benefits to offset the investment cost of implementing an ESW and the ongoing maintenance, support and future upgrade

²⁰ OECD Benefits of Trade Facilitation: A Quantitative Assessment, Peter Walkenhorst and Tadashi Yasui "The Modelling Approach" (Pages 179 to 185).

²¹ Trade facilitation and economic development: measuring the impact. John Sullivan Wilson, Catherine L. Mann, Tsunehiro Otsuki; No 2988, Policy Research Working Paper Series from the WB.

²² 1999 Issue Reports on Progress in APEC on Standards and Conformance, Customs Procedures, and the Mobility of Business People.

²³ OECD Benefits of Trade Facilitation: A Quantitative Assessment, Peter Walkenhorst and Tadashi Yasui "The Modelling Approach" (Pages 179 to 185).

cost associated with any investment in IT. The most conservative forecast will present a combination of the aforementioned scenarios as the most probable outcome, not only offsetting the initial cost, but also providing the GOBH with the capability to increase revenue by an indirect effect of the modernization of customs operations. The private sector will also benefit from lower transaction cost which adds to the overall economic value of this project.

- 2.12 **Procurement execution.** Procurement for the proposed project will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-9), both of March 2011, with the provisions established in the loan contract and the procurement fiduciary arrangements. Procurement processes of goods, works and consulting services will be supervised using the ex-ante methodology with the PMU until its staff gain knowledge in IDB requirements for the specific type of procurement process. The Annex III includes details on procurement arrangements. The PMU will update the Procurement Plan annually at the same time as the Annual Operation Plan (AOP).
- 2.13 **Financial audits.** An external audit of the project will be performed by a firm of independent auditors acceptable to the IDB. The audit will be contracted and managed by the BCD. The cost of the audits will be financed with project resources.
- 2.14 **Retroactive financing.** With the consent of the IDB, up to the equivalent of US\$200,000 of the resources of the financing may be used to reimburse expenditures incurred under the programme for the preparation of the business processes reengineering and strategic planning. In accordance with OP-504 said expenditures shall have been incurred before the date of loan approval but after March 8, 2012 (date of Project Profile approval), provided that requirements substantially similar to those set forth in the IDB's procurement policies have been fulfilled.

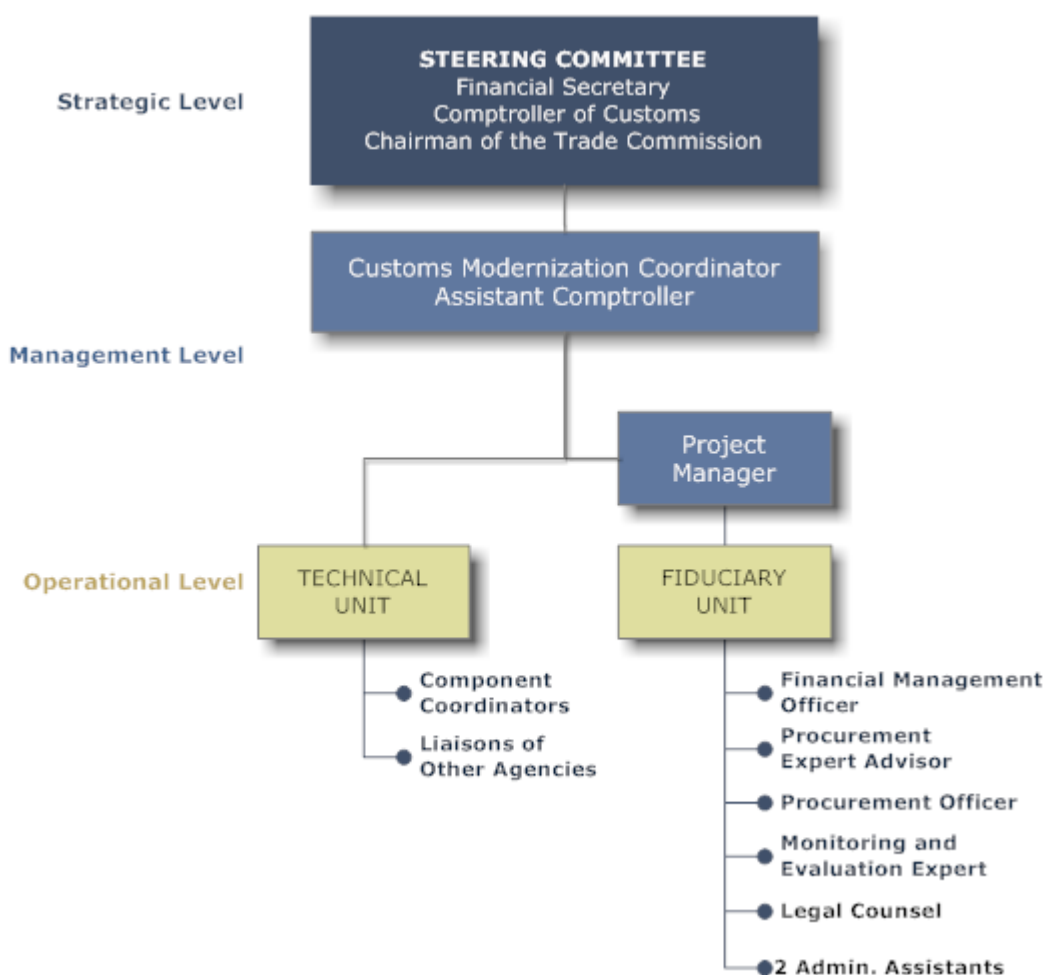
III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the GOBH and the executing agency will be the BCD. For the implementation of the project, a steering committee will be established to oversee the strategic direction of the project and approve the AOP. The committee will be formed by the Financial Secretary, the Customs Comptroller and the Chairman of the Trade Commission. BCD will establish a dedicated PMU which will be composed as a minimum by the following key members: a customs modernization coordinator (with the rank of assistant comptroller); a project manager (hired by the programme), one senior technical coordinator for each component, a financial management officer from BCD, a procurement expert, and a monitoring and evaluation expert. The project manager will report to the customs modernization coordinator.
- 3.2 In the case of the activities that require participation by other agencies, each of the participating government agencies will designate a liaison technical person that will

coordinate activities with the PMU. The activities of the programme to be developed outside customs will require the signature of a Memorandum of Understanding (MOU) between the executing agency and the respective government office/agency as a framework to supervise the use of the programme resources. The signature of such MOU will be a special condition prior to the issuance of any invitation to prequalify or bid for contracts or any request for proposal to the consultants for the initiation of those activities. The PMU will be also supported with a junior procurement officer assigned from BCD, legal counsel assigned from BCD and two (2) administrative assistants assigned from BCD. **As contractual conditions prior to first disbursement, the executing agency shall present evidence, to the satisfaction of the Bank, of the fulfillment of the following requirements: (i) the key members of the staff that will comprise the PMU has been appointed; (ii) the steering committee has been created; and (iii) the operations manual has been approved by the executing agency.**

Graphic III.1 Project Management Scheme



- 3.3 The PMU specific responsibilities will include: (i) coordinating and supporting the preparation of the AOP; (ii) preparation of budget, project accounting, and requests to replenish the programme's funds; (iii) preparation of annual procurement plans and the processing of procurement for goods, works, non-consulting services and consultants for the programme; (iv) coordinating the preparation of technical reports and the periodic and end-of-year financial reports; (v) monitoring and evaluating the progress of project activities and analyzing variances of actual results against plans in all components; and (vi) serving as a liaison for the programme and the IDB.
- 3.4 For each fiscal year during project execution, the PMU will produce semi-annual financial reports for the project and annual audited financial statements. The audit will be done by a firm of independent public accountants acceptable to the IDB. The audit will be financed from loan proceeds.
- 3.5 The programme will be executed following the AOP which will include for each activity: its goals, budget, source of funding, and responsibility for execution. The programme's Operation Manual (OM) will set forth the details regarding programme execution, including coordination of activities among different offices. The need to update the programme's OM will be assessed during the midterm review.

B. Summary of arrangements for monitoring results

- 3.6 The PMU will be in charge of monitoring the performance and progress of programme execution. The PMU will submit two semiannual progress reports each year throughout the life of the project, within 90 days after the end of the calendar year or half year. Additionally, with IDB resources, independent evaluators will be hired to conduct a midterm and final evaluation of the programme. The borrower and the IDB have agreed to use the Result Matrix for the monitoring and evaluation of the programme.
- 3.7 The programme's Steering Committee will provide strategic direction, coordination and support for project execution. The Programme Executive Manager will be responsible for monitoring progress against agreed benchmarks and assessing the continued viability of the project.
- 3.8 Administration missions will be conducted by the IDB quarterly to monitor relevant technical, operational and financial aspects of the project. The PMU will be responsible for developing the system for gathering and maintaining the data related to the different indicators included in the Results Framework Matrix. Progress toward meeting the different targets will be evaluated and communicated to the IDB in the semi-annual progress reports.
- 3.9 At the end of 30 months from the date of the loan contract or after 50% of the loan's resources have been committed, whichever comes first, a mid-term review will take place with the help of an external consultant and with loan resources. The external evaluator will focus on, among other things: (i) level of progress in attaining the programme's objectives stated in the Results Framework Matrix; (ii) level of acceptance of procedures developed under the programme; and (iii) degree of effectiveness of both the project's internal and the IDB's monitoring and supervision system.

- 3.10 The final evaluation, to be carried out also with the help of an external consultant and with loan resources, is to take place after 90% of loan resources have been committed. The evaluation will assess: (i) the degree of attainment of programme objectives in relation to plans and the reasons for any variances; (ii) the organization established for programme execution; (iii) implementation and acceptance of procedures and systems developed through the programme; (iv) sustainability of the activities funded under the programme; (v) impact of the programme based on a comparison of ex ante and ex post indicators and economic evaluation; and (v) lessons learned from the execution of the institutional components, that could be applied to future public sector reform projects. The result of this final evaluation will be used as an input for the programme completion report to be prepared by the IDB.

C. Disbursement timetable

- 3.11 The disbursement period for the project is five years. The contemplated disbursement schedule is as follows:

Table III-1 Disbursement Schedule (US\$)								
Year	(2012)	(2013)	(2014)	(2015)	(2016)	(2017)	Total	%
IDB	190,000	4,061,167	8,706,167	2,218,666	1,042,000	282,000	16,500,000	100

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The intervention contributes to (i) the lending program for small and vulnerable countries, and (ii) the lending to support regional cooperation and integration.		
Regional Development Goals	The intervention contributes to the Regional Development Goal for Competitive regional and global integration: (i) Trade openness (trade as percent of GDP), (ii) Intraregional trade in LAC as percent of total merchandise trade, and (iii) Foreing direct investment net inflows as percent of GDP.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to the following Bank Outputs: (i) Number of public trade officials and private entrepreneurs trained in trade and investment, (ii) Regional and sub-regional integration agreements and cooperation initiatives supported, and (iii) Number of cross border and transnational projects supported (infrastructure and customs, etc).		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2558-1	The program is consistent with the 2010-2014 Country Strategy to provide support in improving and facilitating access to trade.	
Country Program Results Matrix	GN-2661-4	The project is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.4		10
3. Evidence-based Assessment & Solution	8.4	25%	10
4. Ex ante Economic Analysis	8.5	25%	10
5. Monitoring and Evaluation	6.5	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	C		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/FMP criteria)	Yes	Budget, Treasury, partially external control.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The project team comprises a gender specialist and several results Indicators for measuring gender equality were considered.	
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Preparation of an Action Plan for Customs (BH-T1011) and Bahamas Customs Modernization (BH-T1020).	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.			

The intervention is aligned with two dimensions of the lending program: (i) the lending program for small and vulnerable countries, and (ii) the lending to support Regional Cooperation and Integration. The intervention contributes to regional development goals 2012-2015 "Improve Competitive regional and global integration". The specific Banks's outputs it contributes to are: (i) Number of public trade officials and private entrepreneurs trained in trade and investment; (ii) regional and sub-regional integration agreements and cooperation initiatives supported; (iii) Number of cross border and transnational projects supported (infrastructure and customs, etc). The project is aligned with the country strategy and it is also included in the country program document.

The main objective of this programme is to improve the facilitation of trade while strengthening the ability of customs to collect revenue and protect the borders by the enhancement and modernization of customs operations and the international trade institutional platform of The Bahamas. The results matrix presents the impact, outcome and product indicators related to the objectives and components of the program. Indicators presented in the matrix are SMART. The program includes an economic analysis. The monitoring and evaluation plan is supported on a before-after analysis.

The risks currently identified in the risk matrix are reasonable and they include mitigation measure and related metric to track their implementation.

RESULTS MATRIX – MATRIX OF INDICATORS

Objective:	The objective of the programme is to improve the facilitation of trade while strengthening the collection of revenue and border protection by the enhancement and modernization of customs operations and the international trade institutional platform.
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Expected Impact							
Indicators	Unit of Measure	Baseline		Target		Source/ Means of Verification	Observations
		Value	Year	Value	Year		
Impact: Trade Environment Improved							
Reduce the total clearance time of imported goods from the time of physical arrival to exit from Customs facilities	Hour	72	2012	24	2017	Data from new customs system (CAS2)	This indicator involves agencies and factors outside of CED.
Reduce the negative impact of direct revenue-related offenses and contraband in the revenue collection	US\$	5.5 MM ¹	2011-2012	3.5MM ²	2016-2017	BCD and MOF Annual Report	[GDP * Percentage of GDP attributed to taxes and duties * (Number of customs transactions that involved misclassification, nonpayment or other fraud / Number of Customs transaction per year) * Average loss of duty / tax from a given misclassification offense] = \$X is the direct lost revenue on a yearly basis.

¹ This figure is preliminary estimate based on the formula and the data obtained from BCD. It will be reviewed at the beginning of execution of the program.

² Idem.

Expected Outcomes							
Indicators	Unit of Measure	Baseline		Target		Source/ Means of Verification	Observations
		Value	Year	Value	Year		
Outcome I. Institutional Capacity of Customs Strengthened							
The level of competence in the institution increases							
Increase the level of competence of customs officers in delivery of services by providing specialized training	# ³	5 ⁴	2012	9	2017	Completed survey	The increase will be measured by conducting a survey at the beginning and at the end of the project.
The level of satisfaction by users increases							
Increase the level of satisfaction by the users of the Customs’ services	# ⁵	3 ⁶	2012	9	2017	Completed survey	The increase will be measured by conducting a survey at the beginning and at the end of the project.
The level of Customs efficiency increases							
Reduce the cost of collecting revenue by 15%	%	2.8 ⁷	2012	2.4	2017	BCD’s Annual Report	The cost of collecting is calculated: Amount assigned by Customs for personnel cost (A) and revenue collected by Customs (B). The indicator measures customs’ efficiency if the amount of A decreases or remains the same and B remains the same or increases. This indicator measures the efficiency in the use of resources necessary to collect duties and taxes. It is express by a ratio where the numerator is the cost of personnel and the denominator is the total of revenue collected. The efficiency increases if the numerator decreases or does not increase and the denominator increases or does not decrease.

³ Scale of values: Low from 1 to 4; Medium from 5 to 7; High from 8 to 10.

⁴ Project Team estimate based on assessments, field visits and dialogue with BCD.

⁵ Ibid supra note 3.

⁶ Ibid supra note 4.

⁷ Ratio of personnel cost/revenue collected.

Expected Outcomes							
Indicators	Unit of Measure	Baseline		Target		Source/ Means of Verification	Observations
		Value	Year	Value	Year		
Outcome II. Customs Operations Modernized							
Cargo manifests from commercial and non commercial traders processed electronically in advance, increases							
Number of electronic and in advance cargo manifest / Total cargo manifest received	%	25	2012	85	2017	BCD's Annual Report	There is a need to ensure that all commercial and non-commercial transport operators, included Private craft (air and sea) provide manifest information electronically and in advance.
Average time to clear an import declaration decreases							
Reduce average time to clear an import declaration	Hour	24	2012	7.2	2017	Data from new customs system (CAS2)	Time to be considered as affected only by the customs operational process. This represents a reduction of 70%.
Cost to prepare an import/export declaration by use of electronic submission decreases							
Reduce the cost to prepare an import/export declaration by use of electronic submission	US\$	\$20/page	2012	\$0/page	2017	Availability of Electronic Declaration forms free of cost	The current cost is US\$20 per page, which are purchased at designated business centers throughout The Bahamas.
Customs import and export declarations submitted electronically increases							
Percentage of Customs import and export declarations submitted electronically	%	2	2012	100	2017	BCD's Annual Report	A standard in the SAFE Framework of Standards of WCO. The reengineering of the processes, the implementation of the new Data Management System and the Single Window will include the electronic submission of export and import declarations.
Duties and taxes paid electronically increases							
Percentage of duties and taxes paid electronically	%	0	2012	80	2017	BCD's Annual Report	The implementation of the new Data Management System and the Single Window will include the electronic payment of duties and taxes. These figures relate to commercial consignments.

Expected Outcomes							
Indicators	Unit of Measure	Baseline		Target		Source/ Means of Verification	Observations
		Value	Year	Value	Year		
Import declarations assigned to physical and hardcopy document verifications decreases							
Reduction of percentage of import declarations assigned to physical and hardcopy document verifications	%	80	2012	10	2017	BCD's Annual Report	This indicator measures the correlation between the # of import declarations assigned to physical and hardcopy document verifications and the total # of declarations. The reduction should be a result of implementing a new risk management system.
Positive hits obtained by the risk management system increases							
Percentage increase in the number of positive hits obtained by the risk management system	%	5	2012	50	2017	BCD's Annual Report	Efficient and proper use of profiling under the new risk management approach should lead to better targeting and increased number of positive hits.
Number of Post Clearance Audits conducted by Customs increases							
Increase the number of Post Clearance Audits conducted by Customs	# of audits	0	2012	25 (100% major importers)	2017	BCD's Annual Report	Post audit control should become the primary compliance verification process replacing the declaration-by-declaration method currently employed. This should lead to a significant increase in the number of controls conducted.
Number of seizures made (customs interdictions) increases							
Increase the number of seizures made (customs interdictions)	# of seizures per year	60	2012	120	2017	BCD's Annual Report	The development and implementation of a Customs enforcement strategy should lead to an increased number of seizures of contraband covering drugs, undeclared imported goods, IPR infringements, etc
Outcome III. International Trade Institutional Platform enhanced							
Capacity to negotiate and administer Trade Agreements improved							
Basic Indicator of Administration of Trade Agreements	Point	550 ⁸	2012	675 ⁹	2017	Trade Unit at MOF	The methodology for this indicator has been elaborated by the Bank (INT/TIU) and it has been applied in other Bank projects, such as NI-L1016. In order to establish the baseline it will be required to carry out a thorough questionnaire. This will be done at the start of the project execution according to the data obtained, a projection will be calculated.

⁸ This baseline is a proxy from a similar intervention by the Bank in Nicaragua (NI-L1016). This will be adjusted before the first disbursement of the project.

⁹ This is a proxy projection from the same indicator based on a similar intervention by the Bank in Nicaragua (NI-L1016). This will be adjusted before the first disbursement of the project.

Expected Outcomes							
Indicators	Unit of Measure	Baseline		Target		Source/ Means of Verification	Observations
		Value	Year	Value	Year		
Participation of trade related institution in the implementation of trade agreements and the accession to the WTO increased							
Increase participation of trade related institution in the implementation of trade agreements and the accession to the WTO	# of institutions	0	2012	5	2017	Data from the Trade Unit at MOF	
Expertise of officials handling trade related issues (WTO Accession and EU-EPA implementation increases)							
Increase of level of expertise of officials handling trade related issues (WTO Accession and EU-EPA implementation)	# ¹⁰	2 ¹¹	2012	9	2017	Trade Unit at MOF / Survey	The surveys will be conducted both at the beginning and end of program.

¹⁰ Scale of values: Low from 1 to 4; Medium from 5 to 7; High from 8 to 10.

¹¹ Project Team estimate.

Expected Outputs									
Product	Unit	Base Line	2013	2014	2015	2016	2017	Target	Observations
Component I. Strengthening of Institutional Capacity at Bahamas Customs Department									
Customs Strategic Plan for period 2013-2017 drafted and approved	Strategic Plan	0	1					1	
New organizational structure in place	Organizational Structure	0		1				1	
New Human Resource Strategy and Development Plan drafted	HHRR Strategic Plan	0		1				1	
Training locations renovated and operational	Offices	0		2				2	
An executive development programme implemented	Programme	0	1					1	
Technical Training implemented	Time per Employee (in days per year)	½ day	2	4	6	8	10	10 days	
HR software system covering: general HR management and training implemented.	System	0			1			1	
Internal and External Communication Strategy Developed	Strategy	0		1				1	
System of customs performance indicators operational	System	0		1				1	
Component II. Modernizing Customs Operations									
Business Process Re-engineering phase completed for all regulatory agencies involved in the import/export process	Report	0	1					1	
New automated Customs System(s) in operation	System	0			1			1	
Customs data communications environment network upgraded and improved	Network	0			1			1	
Risk Management System designed and implemented	System	0				1		1	
Enforcement Assessment	Report	0	1					1	
K9 Unit implemented	K9 Unit	0		1				1	

Expected Outputs									
Product	Unit	Base Line	2013	2014	2015	2016	2017	Target	Observations
Outboard boats purchased and used by the Marine Unit	Boats	0		3				3	
Electronic Single Window implemented	Single Window	0				1		1	
Document management system implemented	System	0				1		1	
AEO Program drafted and implemented	Programme	0		1				1	
Component III. Enhancement of the International Trade Institutional Platform.									
EU- EPA compliant legislation in competition policy assessed and drafted.	Legislation	0		1				1	
Needs and priorities on SPS laboratory and testing equipment assessed.	Report	0	1					1	
SPS subsidiary legislation drafted.	Legislation	0			1			1	
Revision of TBT existing legislation to bringing it into compliance with TBT international obligations.	Report	0	1					1	
Training of 20 officers in negotiation skills, competition policy, IP, TBT, SPS issues, and trade remedies. ¹²	Officers	0	5	5	5	5		20	
WTO office established	Office	0		1				1	

¹² At least 25% of the trainees to be women (Number of women officials trained/total number of officials trained).

FIDUCIARY ARRANGEMENTS

Country: The Bahamas

Project N° BH-L1016 **Name:** Bahamas Trade Reform Programme

Executing Agency: Bahamas Customs Department

Prepared by: Maria Teresa Soto-Aguilar (PRM) and David Ochoa (FM)

I. Executive Summary

The Bank's methodology for Project Risk Assessment (GRP) was utilized to identify the project's risks and to determine the corresponding mitigating measures. The Institutional Capacity Assessment System (ICES or SECI) was used to assess the Bahamas Customs Department (BCD) in the capacity of Executing Agency to carry out the project's fiduciary execution.

The ICES assessment for an established Project Management Unit from the BCD to implement the programme was rated with a medium low fiduciary capacity in light of the complexity of the procurement involved, administration of deliverables and financial management coordination with several entities, plus the lack of experience managing and administering a program following Bank policies and procedures. With the appropriate mitigation actions, as explained in the following sections, the institutional risk could be lowered to medium-low. Institutional capacity workshops to properly comply with the Bank's Financial and Procurement Policies will be necessary prior to starting the programme.

The Bahamas' procurement systems were evaluated in 2005 using the OECD/DAC methodology resulting in a series of recommendations for modernization. In 2010, using the same methodology, the Government initiated a reform of the national public procurement system, undertaken by the Ministry of Finance. This reform effort is still underway and, as a consequence, none of the country's public procurement systems or sub-systems are yet able to be applied in this project.

The BCD was established under the Ministry of Finance that recently approved the Customs Management Act, 2011, to provide general rules applicable to the administration of the customs business in the customs territory of the Bahamas – this Act has as of March 2012 not come into force, which shall be appointed by the Minister of Finance. In terms of procurement rules and regulations, BCD does not have established rules to execute procurement and abides to rules and practices defined by the source of funding. In this project, BCD will follow the Bank's procurement policies and procedures.

In late 2010 the Government of The Bahamas with IDB support conducted its first ever PEFA Assessment, the report was published in March 2011. The overall result of the PEFA showed that although some areas were good, others need some improvement. The stronger areas were: The credibility and comprehensiveness of the budget, access to fiscal information, the annual budget process, the transparency of taxpayer obligations and liabilities, recording of management cash balances debts and guarantees, and the quality of in year budget reports. The weaker ranked areas were: The classification of the budget, the

effectiveness of the tax system in assessing, registering and collecting tax payments and controls in procurement, payroll and internal controls.

The project will only have financing from the Inter-American Development Bank, therefore no other fiduciary policies will need to be observed or agreed upon for the purposes of its execution and the executing agency will be the Bahamas Customs Department.

II. Executing Agency's Fiduciary Context

The assessment conducted with the ICES recommended that BCD gives careful consideration to include in the programme's design some key members in a Project Management Unit (PMU) to strengthen the institutional capacity that the Customs Modernization Team will require implementing and ensuring adequate fiduciary accountability and controls during project execution. The overall institutional fiduciary execution capacity for BCD Modernization Team was determined to be of **medium-high** risk for the fiduciary complexity of the project. BCD has not had previous execution experience with operations financed by the IDB, therefore it was agreed to establish a PMU that will require good capacity to carry out the project's implementation responsibilities as the primary executing agency and, at the same time, play a lead role in the design of the Customs Modernization Programme.

Procurement: The ICES assessment indicated that there is a Procurement Unit established with BCD staff, however procedures and tasks to implement the project are not comparable with those required by the Bank, therefore the Bank Procurement Policies and Procedures will govern all procurement execution in order to cover large and complex processes envisioned. The Bank will offer a progressive training plan to procurement staff in the PMU and explain acceptable bidding methods, and integration of new types as they move into a new business model, and will supervise processes in ex ante modality until there will be sufficient capacity to mitigate risks of misprocurement. Moreover a Procurement Expert will be hired under the PMU.

Financial Management: The BCD has the institutional capacity to execute the project as well as adequate internal and external controls. The ICES assessment indicated that BCD has a satisfactory financial management administration, internal control and external control.

BCD uses the GoB cash financial management System for its financial administration and Treasury's accounting system that shows the program as a line item in the budget. The Financial Administration section is led by the Deputy Manager/Financial Controller who has more than 10 years of sector experience and 3 years at BCD. Her experience and professional capability should help towards the satisfactory financial management of the BCD Modernization Programme, once appropriate training in Bank procedures has been provided by the Bank.

Despite the solidity of the BCD financial management capability, the following issues were detected:

- Personnel in the Financial Administration section are not fully familiar with the Bank's procedures on the preparation of disbursement requests;

- There is not an authorized and current Manual of Procedures for financial management, nor are there formal procedures regarding the formulation, execution and control of the budget;
- BCD needs to be able to account for the program so as to allow the identification of the project's transactions by source of funding and investment categories, in agreement with the Chart of Accounts approved by the Bank, and independent from the rest of BCD activities. A commercial software package is recommended.

Financial Audits: An external audit of the entire project will be performed by a firm of independent auditors acceptable to the Bank. The audit will be contracted and managed by the BCD. The cost of the audits will be financed with project resources. Standard financial reporting requirements of the Bank will apply, including: (i) the annual financial audit report to be submitted within 120 days following the end of each fiscal year; and (ii) a final financial audit report of the project to be submitted within 120 days after the date of the last disbursement.

III. Fiduciary risk evaluation and mitigation actions

The results of applying the Risk Assessment Matrix for the fiduciary component after mitigation actions were considered were of **medium high risk**. The institutional capacity resulted in a **medium/low level** with the hiring of appropriate staff for the PMU

IV. Aspects to be considered in the Special Conditions of Contract

Based on the fiduciary risk evaluation and mitigation actions the **fiduciary arrangements** that **must be considered** in the **special conditions of contract** are the following:

1. Evidence that BCD has appointed a Programme Executive Manager to the PMU of senior level qualifications and experience, who will be financed with project resources.
2. Evidence that BCD has in operation an accounting package that permits the identification of the project's transactions by source of funding and investment categories.
3. Evidence that BCD has identified and assigned for full time dedication, experienced staff to perform the following fiduciary roles and functions at the PMU¹: (i) a Programme Executive Manager; (ii) a Procurement Expert; (iii) a Procurement Officer (BCD staff); (iv) a Monitoring and Evaluation Expert; (v) a Legal Counsel assigned from the LEG Department (BCD staff); (vi) a Financial Management Officer (BCD staff); and (vii) 2 Administrative Assistants (BCD staff)
4. Evidence that BCD has approved an Operations Manual for the project, in accordance with terms previously agreed with the Bank.
5. The exchange rate used will be that in effect on the date of the effective exchange rate on the payment date.

¹ The PMU will also have the following staff on the technical side: a Custom Modernization Coordinator (BCD staff) and one technical coordinator per component. (BCD provided).

6. For each fiscal year during project execution, the PMU will be responsible to produce semi-annual financial reports. The audit will be done by a firm of independent public accountants acceptable to the Bank.
7. Evidence that a direct indexing and identification of transactions has been established specifically to be performed under the project along with a filing system with a physical location. This will facilitate audits required by the Bank.
8. Incorporation into the BCD Operations Manual and Financial Administration Manual a Section to deal with Capital Investment Programme.

V. Fiduciary Arrangements for Procurement Execution

Procurement for the proposed project will be carried out in accordance with the **Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (GN-2349-9)** and the **Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9)**, and with the provisions established in the loan contract and these procurement fiduciary arrangements.

- a) **Procurement of Works, Goods and Non-Consulting Services:** The contracts for Works, Goods, and Non-Consulting Services² generated under the project and subject to International Competitive Bidding will be executed through the use of the Standard Bidding Documents (SBDs) issued by the Bank. The processes subject to National Competitive Bidding (NCB) will be executed through the use of bidding documents based on the above mentioned standard documents and satisfactory to the Bank. The technical specifications review during the preparation of the selection process is the responsibility of the project sector specialist.
- b) **Selection and Contracting of Consultants:** The consulting services contracts generated under this project will be selected and contracted using the Standard Request for Proposals (SRFPs) issued by the Bank, when advertising at the international level and a document satisfactory to the Bank when advertising at the local level. The terms of reference review for the selection of consulting services is the responsibility of the project sector specialist.
- c) **Selection of Individual Consultants:** Contracts of individual consultants will be carried out using procedures per Section 5 of Policies GN-2350-9. Posting of opportunities for individual consultant contracts may be advertised internationally or locally in order to attract qualified individuals.
- d) **Training:** Training will be provided to BCD PMU staff in charge of the financial management and procurement execution prior to starting activities and based on the Annual Operations Plan.
- e) **Recurrent Expenses:** The project contains coverage of recurrent expenses that are required to start and maintain the project during execution and will be financed by the project within the annual budget approved by the Bank and Bahamas Financial Parameters. Among those identified there is funding for hiring consultants to assist the PMU in project management

² Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank ([GN-2349-9](#)) paragraph 1.1: The services different to consulting services have a similar process as procurement of Goods.

and supervision, monitoring and evaluation and contingent costs identified in the cost structure.

- f) **Retroactive Financing:** With the consent of the Bank, up to the equivalent of US\$200,000 of the resources of the Financing may be used to reimburse expenditures incurred under the Program for the preparation of the Business Processes Review and Strategic Planning. In accordance with OP-504 said expenditures shall have been incurred before the date of Loan approval but after March 8th 2012, provided that requirements substantially similar to those set forth in the Bank's procurement policies have been fulfilled.

VI. Thresholds (US\$ thousands)

Works			Goods ³			Consulting Services	
International Competitive Bidding	National Competitive Bidding	Shopping	International Competitive Bidding	National Competitive Bidding	Shopping	International Advertising	100% National Short List
≥3,000	150 - 3,000	≤150	≥150	50 - 150	≤50	>200	<200

VII. Main Procurement Activities

Activity	Procurement Method	Estimated Date	Estimated Amount 000'US\$
Goods			
Purchase of K9 Unit (Equipment-Training)	ICB	II Q 13	600
Purchase, installation and configuration of CAS2	ICB	I Q 14	6,000
Cargo and Passenger Risk Management IT Platform	ICB	I Q 14	1,200
Marine Unit Outboard Boats	ICB	I Q 14	600
Works			
Rehabilitation of training locations (New Providence/Grand Bahama)	NCB	I Q 13	400
Communications infrastructure network for customs automated management systems	NCB	I Q 14	845
Activity	Procurement Method	Estimated Date	Estimated Amount 000'US\$
Non-consulting Services			
Implementation of IT Platforms for Trade related Agencies outside customs to move into paperless operations.	NCB	I Q 14	1,000
Consulting Firms			
Consultancy for customs Business Processes Mapping & Reengineering	QCBS	III Q 12	700
International Consultancy to perform an HR Assessment and Strategy, and Training Plan for new organizational units.	QCBS	I Q 13	360
Consultancy to design/develop material and modules for Training at different organizational levels	QCBS	I Q 13	700
Individual Consultants			
Programme Executive Manager	QCNI	I Q 13	300
International Procurement Expert	QCNI	I Q 13	300

*To access the 18 month procurement plan, click [here](#).

³ Including different services other than consulting.

VIII. Procurement Supervision

The supervision method for procurement execution will be established ex ante until the PMU Procurement Expert has gained experience observing Bank policies, procedures, and use of standard bidding documents. The ex post modality will be recommended by the Procurement Specialist in accordance to outcomes of supervision visits that will be performed every 12 months and indicated in the Project Supervision plan. When ex post review is recommended, the supervision visits will be performed jointly with ex ante visits.

Threshold for Ex-Post Review		
Works	Goods	Consulting Services
≤ TBD	≤ TBD	< TBD

Note: The established threshold amounts for ex post review is applied based on the fiduciary capacity of the executing agency and can be modified by the Bank if the level of capacity varies.

IX. Special Stipulations

As indicated in Section IV, items #1 through #8.

X. Records and Files

As indicated as a prior condition to first disbursement in section IV, item #7.

XI. Financial Management

- i. **Programming and Budget:** During its budget call the Budget Department of the Ministry of Finance sends out its circular including the required forms to be completed. The information is completed by the various Ministries and forms are returned to the Budget Department. At this stage the Budget Department must key in all of the information it receives from the various Ministries and Departments to complete the Budget call. Once the Budget has been approved, and the warrant issued by the Minister of Finance, an interface is done by the IT department to upload the information to the Treasury's system.

The Borrower has committed to allocate, for each fiscal year of project execution, adequate fiscal space to guarantee the unfettered execution of the project; as determined by normal operative instruments such as the Annual Operating Plan and the Procurement Plan.
- ii. **Accounting and Information Systems:** The public financial system in The Bahamas is essentially a patchwork of other systems. While most Ministries have computer access, systems are not integrated; therefore information must be downloaded and submitted manually. The project will follow International Accounting Standards (IAS).
- iii. **Disbursements and Funds Flows:** Whenever resources from the financing are requested through an Advance of Funds, they will be deposited into a Special Account, denominated in US Dollars, established exclusively for the Project at the Central Bank of Bahamas, or a Commercial Bank acceptable to the Bank. As required, resources from this Special Account will be transferred to another bank account in a commercial bank, denominated in Bahamian Dollars to be utilized for payment of expenditures in local currency.

The PMU commits to maintain strict control over the utilization of the Advances so as to ensure the easy verification and reconciliation of balances between the Executing Agency's records and IDB records (WLMS1).

Eligible expenditures, authorized by the Project Team Leader/Programme Executive Manager and incurred prior to the approval of this project will be reimbursed to the Borrower, in accordance with current Bank policy. The project will provide adequate justification of the existing Advance of Funds balance, whenever 80% of said balance has been spent. Advances will normally cover a period not exceeding 180 days and no less than 90 days.

In order to request disbursements from the Bank, the Executing Agency will present the following forms and supporting documents:

Type of Disbursement	Mandatory Forms	Optional forms/ information that can be requested by the IDB
Advance	Disbursement Request/ Financial Plan	List of Commitments Physical/Financial Progress Reports
Reimbursements of Payments Made	Disbursement Request/ Project Execution Status/ Statement of Expenses	List of Commitments Physical/Financial Progress Reports
Direct Payment to Supplier	Disbursement Request/ Acceptable Supporting Documentation	List of Commitments Physical/Financial Progress Reports

Supporting documentation for Justification of Advances and Reimbursement of Payments Made will be kept at the office of the PMU. Copies of the support documentation for direct payments will be sent to the Bank for processing. Disbursements' supporting documents may be reviewed by the Bank on an ex-post basis. These reviews do not entail a blanket approval, based on the samples reviewed, of the whole universe of expenditures.

- iv. Internal Control and Audit: The internal control capacity is satisfactory and BCD has a small internal audit unit.
- v. External Control and Reporting: There are four audit firms eligible to audit projects of high or lesser risk, one for medium or lesser risk projects and four eligible for only low risk projects. The Auditor General of Bahamas is currently eligible to audit new IDB projects on a case by case basis based on the risk of the project.

For each fiscal year during project execution, the PMU will produce semi-annual financial reports for the project. The audit will be done by a firm of independent public accountants acceptable to the Bank. The audit will be financed from loan proceeds.

- vi. Financial Supervision Plan: Financial Supervision will be developed based on the initial and subsequent risk assessments carried out for the project. Financial, Accounting and Institutional Inspection visits will be performed annually, covering the following: (a) Review of the Reconciliation and supporting documentation for Advances and Justifications; (b) Compliance with procedures; (c) Review of compliance with the lending criteria; (d) Conducting Ex Post Review of Disbursements. The rigorousness of the supervision may be adjusted during the execution of the operation.