

## TC Document

### I. Basic Project Data

▪ Country/Region:	THE BAHAMAS
▪ TC Name:	Support Implementation of the Infrastructure and Growth Investment Platform (IGIP)
▪ TC Number:	BH-T1087
▪ Team Leader/Members:	Bonzi Teixeira, Augusto Cesar (INE/ENE) Team Leader; Roca, Maria Eugenia (CCB/CBH) Alternate Team Leader; Fonseca, Daniel and Ortega, Adrian (VPS/CMF); Persaud, Chris and Alem, Mauro, (INE/TSP); Madrigal, Marcelino; Masson, Malaika; Angulo, Emilio and Marquez, Fidel (INE/ENE); Sidore, Alessandro (VPS/ESG); Barragan Crespo, Enrique Ignacio (LEG/SGO); Paz Doblado, Ana (VPC/FMP), and Small, Charlene (INO/SMC).
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	17 February 2021
▪ Beneficiary:	The Government of The Bahamas, Ministry of Finance (MOF)
▪ Executing Agency:	Inter-American Development Bank
▪ IDB funding requested:	US\$750,000.00
▪ Local counterpart funding:	US\$0.00
▪ Donors providing funding:	OC Strategic Development Program for Infrastructure (INF)
▪ Disbursement period:	24 months
▪ Execution period:	May 2021 – April 2023
▪ Types of consultants:	Individuals and consulting firms
▪ Prepared by Unit:	INE/ENE – Energy
▪ Unit of Disbursement Responsibility:	CCB/CBH – Country Office Bahamas
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Social Inclusion and Equality; and Productivity and Innovation

### II. Objective and Justification of the TC

2.1. **Background.** The Bahamas is facing important and complex economic times due to the successive impacts of Hurricane Dorian in 2019, and the COVID-19 pandemic in 2020-21. The economic and social impacts from these exogenous shocks have been unprecedented: GDP has contracted 14.8% in 2020 and it is estimated to take a few years to return to its pre-pandemic levels. Public debt is expected to jump to almost 90% of GDP by 2021 and to remain above its pre-pandemic level over the medium-term. This situation has created the opportunity for the country to be bold in seeking innovative solutions which will be largely predicated on the ability of its policy makers and private sector leaders to work together on transformational initiatives, in particular in infrastructure considering its impact on economic development.<sup>1</sup> Over the last two years, and considering the impact of these shocks, the Inter-American Development Bank (IDB) has been supporting the Government of The Bahamas (GOBH) and key

<sup>1</sup> Interventions to increase infrastructure coverage, quality, capacity, climate resilience, and connectivity are key to enhancing access to services, reducing poverty and inequality, and/or improving the region's productivity. H. Esfahani and M. Ramírez, 2003, "Institutions, Infrastructure, and Economic Growth." *Journal of Development Economics* 70(2), 443–77.

stakeholders in the country, with innovative ideas and initial studies to identify and move some transformative initiatives.

- 2.2. **Fiscal constraints will limit public investments in infrastructure, and at the same time open possibility to attract private sector investments.** In 2018, the GOBH enacted the Fiscal Responsibility Act, 2018, (FRA) which mandated fiscal targets for the deficit to GDP ratio. Upon the enactment of the FRA, the Government achieved a reduction in the fiscal deficit to 1.7% of the GDP in FY2018/19, in line with the prescribed fiscal target. A deficit of 1.0% of GDP was originally estimated for the subsequent fiscal year; however, this was disrupted by the September 2019 passing by one of the strongest and most dangerous hurricanes to hit The Bahamas. As a result of Hurricane Dorian and (more recently) the impact of COVID-19, the deficit ballooned at the end of FY2019/20. The elevated spending and weakened revenue receipts as result of the two external shocks may impact the Bahamian government's ability to make significant investments in infrastructure.
- 2.3. Against this backdrop of economic, fiscal, and social crises, in 2020 the GOBH has promptly reacted creating a Public-Private Economic Recovery Committee (ERC) to deal with the country's restoration of macroeconomic balance, competitiveness, and job creation. To build a resilient economy, the ERC has made recommendations to: (i) stabilize the economy; (ii) reduce the economic vulnerability and effect of external shocks on the country; (iii) manage and reduce the trade deficit; and (iv) reduce the level of financial risk for individuals and families. Based on the ERC recommendations,<sup>2</sup> the GOBH has prioritized these activities and established a schedule of implementation. One of these priorities is the infrastructure sector, where the GOBH decided to develop an Infrastructure and Growth Investment Platform (IGIP), which includes a Sovereign Wealth Fund (SWF), a National Infrastructure Fund (NIF) and three dedicated sector specific funds: Renewable Energy Fund (REF), Growth Fund for the Family Islands (GFFI), Food Security Fund (FSF). The development of funds allows flexibility to attract investors in a gradual manner and be flexible in the development of a portfolio of projects. The SWF would mobilize private capital flows through the monetization of public sector assets, such as crown land and real estate, which will fund the GOBH's participation in the NIF structure.
- 2.4. **Objective.** The objective of this technical cooperation is to support the GOBH with technical studies to maximize private capital mobilization into resilient infrastructure and productive sectors that will support economic growth through recovery and reconstruction activities post-Hurricane Dorian and post-COVID pandemic. Private investment mobilization into the infrastructure sector is linked to national priorities and will be made in the framework of the IGIP to support sustainable economic recovery and growth, as envisaged in the ERC recommendations to *"Make substantial investments in critical infrastructure by leveraging state assets and partnering with the private sector"*. The IDB has been in discussions with the GOBH and the ERC on the design of the IGIP, and in 2020 it has already presented an initial concept note with the basic elements of the IGIP, which now needs to be expanded and further developed in a comprehensive framework.
- 2.5. **Infrastructure opportunity.** The Bahamas has large infrastructure needs, which if not met, may hinder the development of the service sector, in particular tourism, The Bahamas' main economic activity. The tourism sector alone (direct, indirect, and induced) provides an estimated 50% of the country's Gross Domestic Product (GDP) and employs directly or indirectly, nearly 70% of the Bahamian work force. By the end of 2019, The Bahamas boasted a record-breaking 7.2 million visitor arrivals despite disruptions from the passage of Hurricane Dorian in the fall. Infrastructure plays an

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<sup>2</sup> The ERC document is available at: <https://opm.gov.bs/>.

important role in supporting the tourism sector. The Bahamas therefore has an opportunity to use the next few years to improve its competitive edge in the tourism market vis-à-vis regional competitors and build the required sustainable infrastructure and institutional framework to further develop the tourism sector not only in New Providence, but also in the Family Islands.

- 2.6. **Infrastructure needs.** To sustain an annual GDP growth rate equivalent to 3% to 4%, it is estimated that The Bahamas needs to invest 4% to 5% of GDP annually<sup>3</sup> in infrastructure. In addition, if the infrastructure recovery costs of Dorian and the additional investment costs for resilient infrastructure are included, The Bahamas' future infrastructure will be even larger. These levels of investment will compete with other economic and social sectors and may be outside the possibilities of a fiscally responsible macroeconomic policy with limited budget resources. Consequently, The Bahamas needs to make an extraordinary effort to tap into the mobilization of private capital resources from both domestic and global sources, if it is to reduce its infrastructure gap in a significant way and avoid further increasing its public debt levels. It is envisaged that the NIF will include three sectoral funds based on the national priorities.
- 2.7. **The first fund is related to developing renewable energy sources to improve resilience in The Bahamas.** The impact of Hurricane Dorian has reinforced the need to make the electricity sector more resilient and to accelerate deployment of renewable energy sources. The reconstruction and modernization of the country's energy system represents an opportunity to strengthen isolated and interconnected grid networks with resilient Renewable Energy (RE) resources coupled with conventional power systems designed to withstand the increasing frequency and severity of extreme weather events. As part of its commitments from the Paris Climate Agreement, Government of The Bahamas has defined the policy framework for a low carbon development through the National Energy Policy that sets a minimum of 30% renewables in the energy mix by 2030<sup>4</sup>. The creation of this Fund also presents an opportunity to raise awareness of RE as new energy subsector with the employment and economic opportunities this presents for Bahamian citizens.
- 2.8. **The second fund Growth Fund for the Family Islands (GFFI)** will promote development of the needed infrastructure supporting the sustainable tourism segment (i.e., transport and logistics including airport, port and maritime infrastructure, and the sustainable provision of basic infrastructure services. Currently, there is a lack of infrastructure development on the Family Islands, which can hamper business activity and hinder other developmental growth prospects, such as FDI projects. Addressing the infrastructure deficit that exists in the Family Islands is an important requirement to meeting the goals of expanded commerce, more tourist traffic, and ultimately, more economic opportunities for residents of the islands. Lastly, the **third fund Food Security Fund (FSF)** will be an investment fund to promote development of sustainable food production to improve self-dependence and exports. Despite the large potential, the output of the Agriculture and Fisheries sector has historically underperformed, with a small contribution to GDP on average<sup>5</sup>. The fund will focus initially on aquaculture and fisheries segment given its high potential in the Archipelago and the opportunity for The Bahamas to partner with global producers and operators in the food security segment.

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<sup>3</sup> Source: World Bank, Global Review of Public Investment Funds, September 2020.

<sup>4</sup> [The Government of The Bahamas INDC Communication to the UNFCCC](#) (2015).

<sup>5</sup> World Bank Economic Indicator: Value of Output as a Percentage of GDP-Agriculture & Fisheries.

- 2.9. **Structuring a Sovereign Wealth Fund in The Bahamas.** To be able to fund the GOBH's participation in the NIF structure, the country plans to use asset recycling and monetization mechanisms of under-utilized public sector assets in The Bahamas. Through these mechanisms, the GOBH will be able to divest, lease, joint venture or pledge a portion of its under-utilized assets generating new cash flows which would be used to fund NIF activities. One option is to initiate the public sector asset recycling and monetization activities with the GOBH's real estate assets. Later, additional public sector assets (other than real estate assets) could be added. In 2016 the Parliament of The Bahamas approved by the SWF Act, but it has not yet been implemented. This Act categorized the SWF of The Bahamas as a Savings Fund Concept to preserve, via investments outside The Bahamas, the capital for future generations. The design and structuring of the SWF will take as input the SWF Act. The IGIP framework envisages the creation of a real estate development fund (in the form of a real estate investment trust, REIT) to recycle and monetize public sector assets. The REIT would be a mechanism and conduit to fund GOBH's participation in a Sovereign Wealth Fund (SWF). The SWF could make investments in the NIF and/or directly in the Sector Specific Fund. The proposed IGIP framework has identified that the SWF can be used as a vehicle to promote domestic growth and development in The Bahamas. using asset recycling and monetization mechanisms.
- 2.10. **Strategic Alignment.** The TC is aligned with the country's priority areas established in the Inter-American Development Bank (IDB) Group Country Strategy with the Commonwealth of The Bahamas 2018-2022 (GN-2920-1). It includes: (i) supporting fiscal consolidation; (ii) improving institutional capacity for public-private coordination; (iii) upgrading air and seaport infrastructure, particularly in the Family Islands; (iv) strengthening the institutional capacity to regulate and modernize the energy sector; and (v) addressing information asymmetries, high transaction costs and access to capital. The TC will finance the economic, financial, and legal analysis required for the development of resilient infrastructure in The Bahamas. The TC is consistent with the updated Institutional Strategy 2010-2020 (AB-3008) with the development challenge of: (i) social inclusion and equality, fostering greater local participation of Bahamians in the infrastructure sector; and (ii) productivity and innovation, by improving the country's infrastructure conditions, which will increase productivity considering the needs post Dorian and post COVID-19. It is also aligned with the Ordinary Capital Strategic Development Program (GN-2819-1) given that its objectives and scope include feasibility studies for investment and promote credit enhancement. Moreover, the TC is aligned with the cross-cutting themes of: (i) Institutional Capacity, due to the strengthening of The Bahamas' institutional framework to attract private capital; and (ii) Climate Change and Environmental Sustainability, in line with the Bank's Climate Change Sector Framework Document (GN-2835-3), as it will promote investments in renewable energy sources.
- 2.11. **Local experience and lessons learned of attracting investment.** The Bahamas has a long track record mobilizing private capital under diverse arrangements, including lease agreements (i.e., the city of Freeport in Grand Bahama<sup>6</sup>) and joint ventures (Arawak Port<sup>7</sup>). While effective in attracting private investors, these schemes need to be reviewed and adjusted to be improved. The GOBH's strategy in the IGIP is to learn from previous experience and bring regional and international best practices and

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<sup>6</sup> Grand Bahama Port Authority received a 100-year lease (1955-2054) as a private developer as a case of a multisector asset management private company to invest in under-utilized government-owned land.

<sup>7</sup> APD Ltd. created as a joint venture (40% government-owned, 40% private port stakeholders and 20% by individual investors), to own port infrastructure with a 45-year lease over the land, and 20 years of exclusivity over New Providence port activities, investing US\$100 million up to 2018.

provide an opportunity to present an innovative programmatic vision to promote private investment in infrastructure.

### III. Description of Activities and Outputs

- 3.1 **Component I: Designing the National Infrastructure Fund (NIF).** The NIF is envisaged to be structured as a Master Fund or “Fund-of-Funds” - a pooled investment of funds that invests in sector specific funds. This component will support the GOBH in undertaking due diligence and technical studies to design the financial and legal structure of the NIF, in accordance with national legislation such as The Bahamas Investment Funds Act of 2019. This includes developing the legislative, fiscal, and regulatory aspects, criteria for investment, investment horizon and target return for the design and implementation of the NIF. The component will also develop a business plan for the NIF, a draft shareholder and management agreement, and evaluate the market potential and perform an initial evaluation for the creation of the sectoral funds (Growth Fund for Family Islands and Food Security Fund). These activities will be done in tandem with the energy sector in the development of the Renewable Energy Fund<sup>8</sup> which is envisaged as the third fund of the NIF.
- 3.2 **Component II: Designing the Sovereign Wealth Fund (SWF).** This component will support the GOBH's design of the financial and legal attributes of the SWF, which is envisaged to fund the GOBH's participation in the NIF. It is envisaged this funding will initially be made with real estate assets (i.e., crown land and public buildings), and hence a Real Estate Investment Trust (REIT) may need to be created, to monetize public sector assets. The component will also develop a draft shareholders and management agreement for the SWF. The component will build on and be consistent with the 2016 Sovereign Wealth Fund Act, but it will propose amendments to adapt the SWF to IGIP requirements. This activity will be developed in collaboration with the Securities Commission of The Bahamas (SCB) among others.
- 3.3 **Component III. Capacity Building.** This component will finance knowledge transfer, capacity building and training support to the GOBH (e.g., local workshops, dissemination, and communication and outreach activities). Considering that these are new financial instruments to be deployed in the country, these events will include a wide representation of local stakeholders in The Bahamas. A technical note illustrating the possible ways to structure a National Infrastructure Fund (INF) will also be developed to assist other countries in LAC working towards attracting private investors to infrastructure.
- 3.4 **Project Management Costs.** These costs include administrative support to manage the TC on tasks such as reporting, monitoring, and procurement for the effective implementation of the activities.

### IV. Indicative Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I. Design the National Infrastructure Fund	US\$ 350,000.00	US\$ 0.00	US\$ 350,000.00
Component II. Design the Sovereign Wealth Fund	US\$ 325,000.00	US\$ 0.00	US\$ 325,000.00
Component III. Capacity Building	US\$ 25,000.00	US\$ 0.00	US\$ 25,000.00
Project Management Costs	US\$ 50,000.00	US\$ 0.00	US\$ 50,000.00
<b>Total</b>	<b>US\$ 750,000.00</b>	<b>US\$ 0.00</b>	<b>US\$ 750,000.00</b>

<sup>8</sup> The creation of the Renewable Energy Fund will be done under the CCLIP Advancing Renewable Energy in The Bahamas” (BH-O0006) and its First Operation: Reconstruction with Resilience in the Energy sector in The Bahamas (BH-L1048).

## **V. Executing Agency and Execution Structure**

- 5.1 The Bank will be the Executing Agency (EA) of this operation, considering the Bank's experience in the preparation and development of the operational and technical instruments proposed for this type of operation. The beneficiary of this TC is the GOBH represented by the Acting Finance Secretary. In accordance with the Operational Guidelines for Technical Cooperation Products (GN-2629-1), being the Bank the EA of this operation is justified under Appendix 10 that mentions that the TC responds to a request from the beneficiary, but instead of being fully executed by an Executing Agency, the Bank exceptionally and at the request of the beneficiary, agrees to be responsible for the contracting of consultancies. Moreover, the compliance with internal requirements would delay the execution of the TC, jeopardizing achievement of its objectives. The IDB Bahamas Country Office (CCB/CBH) will act as a Basic Responsibility Unit (UDR) and will execute the TC, given the complex inter-institutional coordination required at country level (public and private sector and the other stakeholders). This arrangement enables the Bank to access highly specialized expertise in financial and legal structuring of infrastructure funds, real estate specialists, and sovereign wealth funds, which are critical to the achievement of intended outcomes.
- 5.2 The IDB will be responsible for the selection and contracting of consulting firms and individual consultants, which will be carried out in close coordination with the Beneficiary. The activities to be executed are included in the Procurement Plan and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (c) GN-2303-28 for logistics and other related services. The Beneficiary may provide technical inputs to the terms of reference and reports of the consultants, such inputs should be done directly to the Bank. The Bank will have the autonomy to approve such documents and act as EA of the TC. This dynamic will facilitate proper articulation between the various actors within the framework of the technical dialogue of this TC. The TC does not present fiduciary management risks as it will be implemented by the Bank. For this same reason, no financial audit is required.

## **VI. Major Issues**

- 6.1 Two medium risks have been identified for this TC. The first relates to the timely implementation of the deliverables, eventually not meeting the 24 months duration of the TC. This potential delay in the execution of the TC could be generated by an unforeseen legal or regulatory obstacle when designing the NIF and the SWF. In order to mitigate this risk, the team is advancing toward an early execution of the main contracts associated with this TC. This will allow the team to identify the legal and regulatory risks early in the process and coordinate the necessary actions to address them as quickly as possible with help from the GOBH. In that sense, the team will work closely with the Ministry of Finance (MOF), the Office of the Prime Minister (OPM), and the ERC to define a timeline of events and monitor the deliverables.
- 6.2 The second risk relates to the potential lack of coordination among stakeholders, eventually stalling the activities. To mitigate this risk, the team will continue to strengthen the engagement with the ERC which already coordinates the activities with stakeholders in The Bahamas. The TC also has provision for resources for local coordination which will further strengthen the ongoing consultation process already conducted by the Bank during 2019-2020. The activities included in this TC imply some public events, coordination meetings between both public and private players, and a highly recursive and iterative method to evaluate the work done by the consultants in a regular basis.

## **VII. Exceptions to Bank policy**

7.1 There are no exceptions to the Bank Policy.

## **VIII. Environmental and Social Strategy**

- 8.1 In accordance with the Directive B.3 of the Environment and Safeguards Compliance Policy (OP-703), and in light of the fact that only project preparation (but no direct infrastructure investments) will be financed through the TC, the Operation is classified as Category "C", i.e., as an operation that entails "minimal or no negative environmental and associated social impacts" (please see [Safeguard Policy Filter](#) and [Safeguard Screening Form](#) as reference). This kind of operations does not require an environmental or social analysis, beyond the screening and scoping analysis for determining the classification.
- 8.2 However, when appropriate – and to ensure the alignment of the Operation with the environmental and social objectives of the Bank – the scope of IDB's environmental and social policies will be accounted for during the development of the Operation.
- 8.3 Furthermore, should the projects associated with the TC be funded by the Bank, then the same will be subject to the compliance of the IDB's environmental and social safeguards policies.

### **Required Annexes:**

- Annex I: [Request from the Client](#)
- Annex II: [Results Matrix](#)
- Annex III: [Terms of Reference](#)
- Annex IV: [Procurement Plan](#)