

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

THE COMMONWEALTH OF THE BAHAMAS

BUILDING A SOCIAL AND INCLUSIVE BLUE ECONOMY IN THE BAHAMAS

(BH-U0001)

GUARANTEE PROPOSAL

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ABBREVIATIONS	
BNT	Bahamas National Trust
CBB	Central Bank of The Bahamas
CCI	Caribbean Challenge Initiative
CDB	Caribbean Development Bank
COVID-19	Coronavirus Disease of 2019
CPU	Coastal Protection Unit
DEPP	Department of Environmental Planning and Protection
DMR	Department of Marine Resources
ERC	Economic Recovery Committee
FAC	Fisheries Advisory Council
GDP	Gross Domestic Product
GHG	Greenhouse Gas Emissions
IDB	Inter-American Development Bank
IFPG	Innovation Firm Performance and Gender
IMF	International Monetary Fund
InVEST	Integrated Valuation of Ecosystem Services and Tradeoffs
ISIC	International Standard Industrial Classification of All Economic Activities
IUU	Illegal, Unregulated and Unreported Fishing
M&E	Monitoring and Evaluation
MoAMR	Ministry of Agriculture and Marine Resources
MoDPR	Ministry of Disaster Preparedness, Management and Reconstruction
MoE	Ministry of the Environment
MoF	Ministry of Finance
MoPW	Ministry of Public Works
MPAs	Marine Protected Areas
MSMEs	Micro, Small and Medium Enterprises
NFSF	National Fisheries Stakeholder Forum
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Co-operation and Development
OPM	Office of the Prime Minister
PBG	Policy-Based Guarantee
PBL	Policy-Based Loan
SBDC	Small Business Development Center
SDG	Sustainable Development Goals
TFP	Total Factor Productivity
WB	World Bank

PROJECT SUMMARY
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Financial Terms and Conditions			
Guarantor		Flexible Guarantee Instrument	
The Inter-American Development Bank (IDB)		Guarantee Period:	20 Years
Issuer, Secured Debtor and Counter-Guarantor		Amortization Period:	N/A
The Commonwealth of The Bahamas		Grace Period:	N/A
		Guarantee Fee:	(a)
		Stand-by Fee:	(a) and (b)
Executing Agency		Inspection and Supervision Fee:	(a)
Ministry of Finance (MoF)		Currency of Approval:	Dollars of the United States of America
		Weighted Average Life (WAL): 12.75 Years	
Secured Creditors			
Investors in a Sovereign Bond to be issued by The Commonwealth of The Bahamas			
Source	Amount (US\$)	Percentage	
IDB (Ordinary Capital)	200,000,000	100	
Total:	200,000,000	100	
Project at a Glance			
Project Objective/Description: The general objective is promoting a more productive and healthier ocean in The Bahamas. The specific objectives are: (i) promoting Micro, Small and Medium Enterprises (MSME) business recovery in the Blue Economy and prospecting investment projects suitable for Blue Bond financing; (ii) promoting digitalization in the Blue Economy; (iii) improving the resilience of the Blue Economy through improved climate risk management in coastal and offshore areas; (iv) promoting better management (certification, traceability and protection) of marine resources; and (v) reducing marine pollution. This project is structured as a Policy-Based Guarantee (PBG).			
Special conditions precedent to the issuance of the guarantee. The issuance of the guarantee will be subject to the following conditions: (i) the Counter-Guarantor shall have complied with the policy conditions of this operation summarized in the Policy Matrix (Annex II) and the Policy Letter ; (ii) the Bank shall have negotiated and agreed upon the terms of the guarantee contract; (iii) the Bank shall be satisfied with the structuring of the Sovereign Bond and the related bond documentation; and (iv) a Counter-Guarantee Agreement between the Bank and the Counter--Guarantor shall have entered into effect in terms acceptable to the Bank (¶2.9).			
Exceptions to Bank Policies: None.			
Strategic Alignment			
Challenges ^(c) :	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Cross-Cutting Issues ^(d) :	GE <input type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) The guarantee, stand-by, credit and inspection and supervision fees will be established periodically by the Board of Executive Directors as a part of its review of the Bank's financial terms, in accordance with the corresponding policies.

^(b) The stand-by fee will be equal to the credit fee for sovereign guaranteed loans and will be accrued from the effective date of the guarantee contract, calculated on the difference between the approved amount of the guarantee and its effective amount at any time.

^(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(d) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and justification

1. Macroeconomic context

- 1.1 **The Bahamas is an open, service-based economy**, concentrated in a small number of sectors such as tourism (38.2%), financial services (7.7%) and real estate (13%) which accounted for 60% of the Gross Domestic Product (GDP) in 2019¹ [1]. Economic growth has been low and slowing over the past two decades, from an average 1% yearly growth rate between 2000 and 2009, to an average 0.8% growth rate between 2010 and 2019 [2]. Total Factor Productivity (TFP) has been falling since 2000 (TFP fell approximately 30% between 2000 and 2019), negatively impacting economic growth.²
- 1.2 **COVID-19 is having devastating effects on the economy.** The Bahamas had a first surge of the pandemic in March 2020 and is currently undergoing its worst wave. As of January 24, 2022, 32,137 cases and 729 deaths have been recorded [3]. The economy contracted by 14.5% in 2020, reflecting an almost complete halt in tourism arrivals [4] since March 2020, and subdued activity in the construction sector. Unemployment increased to 25.6% in 2020, from 10% the year before. In 2021, modest recovery took place and GDP grew 2%, but unemployment remained high, at 21.5%. Tourist arrivals in 2020 were 25% of those recorded in 2019. Although in 2021 some cruise lines resumed operations, airlines reopened routes, and tourism activity gradually increased, the number of visitors was still well below pre-COVID levels. In the first three quarters of 2021, tourist arrivals stood at 945,859, equivalent to only 17% of arrivals in the same period in 2019. The ongoing spike in COVID-19 cases could have a negative effect on the tourism sector during the first half of 2022. Fiscal performance has deteriorated due to lower revenues and higher expenditures.³ In FY2020/21 revenues fell 10.3% due to subdued economic activity, compared to the previous fiscal year, while expenditures increased 9.9% [5]. COVID-19 related expenditures amounted to US\$273 million (equivalent to 2.4% of GDP) in that period and the fiscal deficit reached 12.1% of GDP.⁴ The FY2021/22 budget was approved and came into effect on July 1st, 2021, outlining a 7.7% of GDP fiscal deficit [6], and was modified in November, lowering the deficit to 7.4% of GDP [7]. The aggregate financing requirement is estimated at US\$1,758.3 million, of which US\$899.7 million are necessary to refinance maturing debt and US\$858.6 million will be used to cover the fiscal deficit and represent additional new debt [8]. To meet financing requirements for FY2021/22, the government will seek resources in both local currency and foreign currency. The debt-to-GDP ratio has substantially increased during the pandemic, from 66.9% in FY2019/20 to 104.7% in FY2020/21. It is expected to gradually decrease and reach the 50% target established by the Fiscal Responsibility Act by FY2030/31, supported by economic recovery and shrinking

¹ See Bibliographical References ([OEL#11](#)).

² [Productivity in The Bahamas](#).

³ [Bahamas Budget Quarterly Fiscal Report](#).

⁴ In The Bahamas the fiscal year runs from July 1 to June 30. In FY2019/20 the fiscal deficit was 6.8%.

fiscal deficits.⁵ This leaves The Bahamas in a vulnerable position in case of another climate hazard event (§1.11). Four key legislations to support sounder fiscal management and strengthen institutions have been enacted in 2021: (i) the Public Finance Management Act; (ii) the Public Debt Management Act; (iii) the Public Procurement Act; and (iv) the Statistics Act. Moody's confirmed a credit downgrade from Ba2 to Ba3 in September 2021; and S&P's from BB- to B+ in November 2021.⁶ The economic medium-term outlook depends on the evolution of the pandemic, the vaccination schedule, and tourism resumption, highlighting the need to enhance economic resiliency through areas such as the Blue Economy.

- 1.3 **Global trends in the Blue Economy.** The grand Blue Economy is defined as the simultaneous promotion of environmental sustainability and economic growth, by strengthening of oceans ecosystems and optimizing the use of marine resources [9]. The Blue Economy includes the development of new emerging uses of the ocean, such as mariculture, new marine products, marine renewable energy, marine biotechnology, among others [10]. The strength of the Blue Economy depends on viability of the marine and coastal environments and thus ensuring a healthy ocean guarantees sustainable development of businesses and economic growth [11]. Globally, the Blue Economy has proven to be vital to the world's economy, with an estimate of 2.5% of the world's value added [12] and around 350 million jobs linked to the oceans through fishing, aquaculture, coastal and marine tourism and research activities [13]. Around 90% of trade is carried out in the ocean, and coastal ecosystems (mangroves, salt marshes and seagrasses) play a vital role in carbon sequestration and provision of coastal protection [14]. However there has been severe degradation and destruction of these systems with an estimated 50% of coral reefs and 20% of wetlands that have been lost in the past decades [15]. Fish stocks have deteriorated due to overfishing, and Illegal, Unregulated, and Unreported (IUU) fishing. In 2015 it was estimated that 60% of fish stocks were fully exploited and more than 15% of catches corresponded to IUU [16].
- 1.4 Small Island States, such as The Bahamas, are more affected by these changes in the marine environment, as they are more dependent on ocean activities and resources. After COVID-19 hit hard Small Islands Development States, many countries are engaging in "blue recovery" programs, fostering economic diversification under a more resilient and sustainable framework [17]. To ensure a healthy and productive ocean, the UN Sustainable Ocean Business Coalition [18] has identified 5 "tipping points" that represent the ocean contribution to their Ocean Stewardship Agenda 2030: (i) sustainable seafood; (ii) decarbonized shipping; (iii) harnessing ocean electricity; (iv) mapping the ocean; and (v) end waste entering the ocean.
- 1.5 **Blue Economy in The Bahamas.** The Bahamas' Exclusive Economic Zone covers 260,000 square miles, of which 5% is land and 95% is sea, representing the largest development space for the country [19]. With 95% of the country's territory located in the marine habitat and a regional average of 70% of the

⁵ Bahamas Budget Fiscal Update.

⁶ Moody's had previously downgraded its rating for The Bahamas from Baa3 to Ba2 in June 2020. S&P's had also revised downward its credit rating for the country, from BB+ to BB in April 2020, and to BB- in November 2020.

country's population living on the coast, marine resources have the potential to become an important source of economic production, if properly managed and protected. The economic contribution of the Blue Economy in The Bahamas has been estimated as 21.5% of the GDP, and up to 50% including the indirect impacts, encompassing: (i) the harvesting of living resources (seafood and marine biotechnology); (ii) the extraction of nonliving resources (mineral, energy and freshwater); (iii) tourism and trade (transport, tourism and recreation); and (iv) the indirect contribution to economic activities and the environment (carbon sequestration, coastal and biodiversity protection, waste disposal and ocean monitoring and surveillance) [20].

- 1.6 The largest contribution to the Bahamian economy is tourism, related to its beaches but also to the yacht, cruising, scuba diving and sport fishing. Prior to the COVID-19 crisis, tourism represented 38.2% of the GDP in 2019 and 51.5% of employment [21]. Coastal and marine tourism is the largest market segment of the blue economy, and closely linked to marine ecosystems [22]. It is estimated that 36,886 persons visit The Bahamas each year for commercial fishing, providing 18,000 jobs [23]. Commercial fishing visitors usually stay longer, spend more, and contribute to the ship repair and maintenance industry. A significant number of international vessels transit Bahamian maritime waters as several important transit routes go through and around The Bahamas archipelago [24]. The Bahamas also operates one of the largest shipping registries in the world, including around 1,500 shipping vessels.
- 1.7 **Several structural constraints limit a more productive and healthier ocean in The Bahamas.** The geographic conditions of The Bahamas, which enable many Blue Economy activities, also creates higher costs of doing business and high vulnerability of the coastal ecosystems [25], while economic activities related to of marine resources, need to be carefully managed to ensure its sustainability. As an archipelago, ocean pollution has the potential to have a significant impact on coastal economic activities [26; 27].
- 1.8 **The business climate for the MSMEs in the Blue Economy needs improvement.** It is estimated that around 98% of the licensed firms in The Bahamas correspond to MSMEs [28]. Analysis on administrative data (at 4 digits International Standard Industrial Classification of All Economic Activities (ISIC)⁷ level) in the Blue Economy (marine fishing, freshwater fishing, building of ships and floating structures, building of pleasure and sporting boats, sea and coastal passenger water transport, sea and coastal freight water transport and service activities incidental to water transportation) [29] show that 54.5% of the wages and 73% of the employees are attributable to the Blue Economy. In 2019⁸ The [Accelerate Bahamas Recovery Plan](#) identified the need for increased support for MSMEs by increased financing and technical support for firms in the Blue Economy to promote economic recovery and boost employment.⁹
- 1.9 Policies to foster the promotion of ocean economy while protecting the Blue Economy need coordination of different stakeholders, such as Non-Governmental

⁷ International Standard Industrial Classification of All Economic Activities (ISIC).

⁸ See Monitoring and Evaluation Arrangements ([M&E](#)).

⁹ This is even more important for women-led firms, which in The Bahamas are generally of smaller size, younger and operating in low growth and low profit segments.

Organizations, scientists, and private sector [30]. Private investment in ocean conservation projects that align to the Sustainable Development Goals (SDG) may be limited by the high-risk perception and the ability to generate returns for investors while public investment may be limited by fiscal constraints [31]. However, recent experiences, such as the emission of a Blue Bond in the Seychelles Islands, in the Indian Ocean, provided financing for improving governance of priority fisheries, the expansion of Marine Protected Areas (MPAs) and the development of the Blue Economy ([OEL#2](#)). Also, recent trends show that there is ample financial and economic benefits to invest in projects that contribute to reduce climate risk such as restoring coral reefs and mangroves [32], promoting new technologies for a healthy ocean and contribution to the 5 “tipping points” ([OEL#1](#)).

1.10 Improving efficiency in doing business in the Blue Economy.

The COVID-19 pandemic highlighted the need for governments to accelerate the implementation of electronic solutions to allow for business continuity and government processes [33;34;35]. In The Bahamas, as a Small Island State, the ongoing process of digitalization of maritime services, logistics and access to finance became a more pressing priority during the pandemic. Also, 37% of firms in The Bahamas identified the lack of digital payments as an obstacle for growing their businesses ([OEL#9](#)), and in the remote islands, it is not profitable for commercial banks to have Automated Teller Machines (ATM) or physical branches. Recreational fishing is important in The Bahamas, as is estimated that 37,000 persons visit The Bahamas annually to participate in recreational fishing, with estimated expenditures of US\$527 million a year [36]. Prior to the 2020 Fisheries Act, any person wishing to obtain a fishing license had to carry out five different procedures that can now be done in one digital step ([OEL#10](#)).

1.11 High vulnerability of The Bahamas’ Blue Economy to climate hazard risk and climate change. High exposure to climate risks¹⁰ generate fiscal requirements for massive reconstruction, and high cost and risks of doing business [37;38]. The vulnerability of The Bahamas to the impacts of climate change, due to the low-lying nature of the islands and its widespread spatial distribution within the hurricane zone of the Caribbean has required the implementation of measures to reduce this risk [39; 40]. A once-in-a-century hurricane hitting The Bahamas could cause up to US\$6 billion in economic damage, and the cost of not acting could reach US\$460 million annually [41]. When a climate event damages major infrastructure in coastal areas, almost all socio-economic activities halt until the infrastructure is repaired [42]. The impact of Hurricane Dorian on The Bahamas (2019) has highlighted the need to increase resiliency and has fostered the promotion of nature-based solutions [43]. Therefore, promotion of the Blue Economy in The Bahamas must be done within the context of climate resiliency [44]. There are various measures that can be taken to achieve this from both hardware and software aspects. The Bahamas is particularly unique in this regard in that it offers nature-based solutions [45]. Nature-based solutions can provide climate-resilient alternatives and can be more cost-effective than man-made

¹⁰ Climate Risk(s) refers to the potential for negative socioeconomic impacts resulting from meteorological phenomena (e.g., hurricanes, torrential rains), as included in the Inter-American Development Bank’s (IDB) Disaster Management Policy: OP-704, which provides both meteorological phenomena and geological events such as earthquakes and volcanoes. As there are few geological events in The Bahamas, Disaster Risk(s) can be synonymous with Climate Risk.

infrastructure [46]. For example, coral reefs limit the impacts of storm surges by reducing wave energy, and mangrove forests and seagrass have a buffering effect while stabilizing sediments and reducing shoreline erosion [47]. Natural infrastructure protects fish habitats, improves water quality, and provides recreational and cultural services, which are local sources of sustenance and economic security [48].

- 1.12 In addition, infrastructure approaches need to incorporate the latest technological developments, regulations, and best practices to foster environmental resilience and promote economic growth [49]. Hurricane Dorian, highlighted the need to increase resiliency by further modernizing the building code and its enforcement, institutional strengthening for disaster preparedness and management, strengthen coordination and promote nature-based solutions [50]. After Hurricane Dorian, the Ministry of Disaster Preparedness, Management and Reconstruction (MoDPR) was created to coordinate the response to the recovery and promotion long-term disaster risk reduction under a good governance framework. Cabinet approved the Resilient Recovery Strategy and Implementation Plan in 2020, prioritizing the review the existing legal framework that supports Disaster Risk Management.
- 1.13 **The use of marine resources in The Bahamas needs to be optimized and preserved.** The promotion of a sustainable Blue Economy includes coordination mechanisms and institutional capacity. Experiences in similar countries such as Grenada and the Seychelles show the importance of coordination among stakeholders and commitment of key stakeholders from different levels of society. ([OEL#2](#)). The Bahamas deep-water offshore environment creates a rich diversity of marine species as the fisheries sector contributes around 1% to GDP, being the second exporter of fisheries products in the Caribbean [51]. The Bahamas produced 11,400 tons from capture fisheries in 2017, with the Caribbean spiny lobster and the queen conch accounting for about 68% and 29% of total catches respectively, with an annual contribution of 5.6 million of pounds in spiny lobster catch in 2017 [52]. The Bahamas also has the world's largest shark tourism industry, that generates around US\$113.8 million annually [53]. Wetlands comprise 40% of the land area in The Bahamas and it is estimated that there are 4,286 square km of mangrove forest and other wetland habitat, with the world's third largest coral reef [54]. Coral reefs, mangroves and seagrass provide risk reduction for coastal risk hazards [55].
- 1.14 The Department of Marine Resources (DMR) is responsible for the administration, management, and development of fisheries. The DMR has been instrumental of on the achievement of the Marine Stewardship Council Certification for Spiny Lobster Fishery, thus improving fishing practices, ensuring sustainability of the catch, and enabling access to niche markets [56]. The sustainability of these fisheries, as well as other fisheries (queen conch, Nassau grouper, snappers, stone crab and others) is challenged by the government capacity to address IUU fishing as is estimated that 36% of all Bahamian landings fall under the IUU category [57]. Queen conch constitutes the second biggest fishery in the country, with landings valued in US\$3-5 million per year, and is estimated that 23% of conch is harvested illegally and 6 out of 10 are harvested before they are ready to reproduce [58]. There is a need to strengthen the fisheries management plans, in combination with the use of new technologies such as vessel monitoring systems, regional and international partnerships and efficient licensing of fishing

vessels [59] to support the sustainability of the marine species. Experience in other countries show that community-based approach to fisheries management could be more sustainable in the long term, particularly in remote archipelagos where enforcement by fisheries authorities faces constraints [60].

- 1.15 One of the targets of the SDG 14, Life Below water, includes the conservation of at least 10% of coastal and Marine Areas. The Bahamas joined the Caribbean Challenge Initiative (CCI) in 2013, committing to protect at least 20% of its Marine Coastal Environment. In 2016, The Bahamas achieved a protection of 10% of its marine and coastal habitat with the declaration of 54 MPAs. [61] A gap analysis [62] showed that 20% of the spawning fish areas (areas of reproduction of fish), 50% of tidal creeks, 8% of seagrass beds and 30% of coral reefs were protected. The Bahamas, jointly with the Non-Governmental Organization community and civil society, proposed a White Paper for Marine Protection, identifying 43 new MPAs to be protected to reach the 20% goal. This new network could generate annually US\$67.6 million in tourism expenditure, US\$23.5 million in nursery habitats for spiny lobster, US\$806 million in coastal protection and US\$5 million in avoided Greenhouse Gas Emissions (GHG) [63]. The implementation of MPA also has a high potential of nature tourism [64].
- 1.16 **Promoting a healthy ocean.** The health of the Blue Economy includes the viability of the marine and coastal environments, which serve as habitat for fisheries and coastal communities [65]. In small Caribbean states, land-based pollution has a negative impact on marine ecosystems, being the main contributor of solid waste and wastewater, plastic litter, and agriculture runoff [66]. The Bahamas shows a score of 62 on a scale of 100 on the index of clean waters.¹¹ Marine pollution by ships damages sea life and water quality. It is estimated that routine operations and illegal dumping from vessels could account for up to 2.5 million tons of hydrocarbons per year globally. The International Convention for the Prevention of Pollution from Ships - MARPOL (Marine Pollution) includes regulations for the prevention of pollution by ships. Despite The Bahamas having signed on to the convention in 1978, a regulatory framework for waste disposal from cruises is needed.
- 1.17 In The Bahamas, natural disasters such as hurricanes and tropical storms drag household products and hazardous waste, construction debris, abandoned vessels into the surrounding waters [67]. The unprecedented debris caused by Hurricane Dorian in 2019 in Abaco and the Grand Bahama,¹² affected natural aquifers and systems that lead to the sea, thus polluting marine habitats. [68] It is estimated that 25-30% for the reef sites in Abaco and Grand Bahama were damaged from debris, and corals were smashed, and reef structure destroyed [69].
- 1.18 **Institutional aspects.** Several institutions of The Bahamas are involved in promoting a more productive and healthier ocean, such as the Ministry of Agriculture and Marine Resources (MoAMR and the DMR, in charge of marine

¹¹ This index measures contamination by chemicals, excessive nutrients (eutrophication), human pathogens and trash.

¹² Estimated at 2 million cubic meters.

resources and coordination of Blue Economy activities);¹³ the Small Business Development Center (SBDC), in charge of promoting MSMEs; the Ministry of the Environment (MoE), and the Department of Environmental Planning and Protection (DEPP), in charge of environmental health of the ocean and climate change; the Ministry of Public Works (MoPW), in charge of resilient coastal infrastructure; the MoDPR,¹⁴ in charge of disaster preparedness; The Royal Bahamas Defense Force, in charge of prevention of illegal fishing; The Bahamas National Trust (BNT), in charge of ocean protection; and the Ministry of Finance (MoF) in charge of coordinating the activities related to the financial issued related to the Blue Economy.

- 1.19 **Measures to improve the business climate in the Blue Economy.** As the contribution to the Blue Economy in The Bahamas accounts for 21. 5% of the GDP, and up to 50% including the indirect impacts [70] the government has taken actions to improve the business climate for companies operating in the Blue Economy. The Access Accelerator (A²) of The SBDC started a series of program to assist MSMEs to foster employment and help rebuild the economy. The SBDC launched in 2021 a program for fishing and farming, in partnership with the MoAMR that included grants for capacity building as well as loan financing, promoting productivity and environmental sustainability. The standalone grants Round II and III are programmes that provides grants to MSMEs that have potential for employment generation and will aid to rebuilding the Economy. 53% of beneficiaries are from the Blue Economy (See Monitoring and Evaluation Arrangements - [M&E](#)). Through these programs, the A² has supported 249 firms with a total of 1,666 employees in the Blue Economy (at 4 digits ISIC level) in the Blue Economy (marine fishing, freshwater fishing, building of ships and floating structures, building of pleasure and sporting boats, sea and coastal passenger water transport, sea and coastal freight water transport and service activities and although there is no differentiated treatment or priority given to firms in the Blue Economy, 53% of the beneficiaries fall into the Blue Economy category.
- 1.20 **Potential projects in the Blue Economy.** An assessment was made to identify projects suitable to be financed in the Blue Economy, under a possible future Blue Bond emission, the following criteria: (i) alignment with the 5 “tipping points” recommended for the emission of a Blue Bond ([¶1.4](#); [¶1.3](#)); (ii) innovation and replicability potential; (iii) contribution to a healthier and more productive ocean; and (iv) impact on economic recovery. This initial list indicates potential for intervention in the areas of MPAs, Reconstruction after Hurricane Dorian for coastal economies and innovative projects with replicability potential ([OEL#3](#)).
- 1.21 To improve the efficiency of doing business in the Blue Economy, the government is taking measures to increase digitalization, mostly on underserved communities in the Family Islands to allow to do remote payments. With the aim to enhance the digital payment system, the Central Bank of The Bahamas (CBB) is developing a regulatory framework for digital payments,¹⁵ including measures for facilitating

¹³ The Fisheries Act includes the establishment of the National Fisheries Advisory Council (FAC) and National Fisheries Stakeholders Forum, giving legal structure to the prior Blue Economy coordination group spearheaded by the Ministry of Agriculture and Marine Resources (MoAMR).

¹⁴ The Preparedness, Recovery and Reconstruction Team (P2RCT) supports the Disaster Risk Management strategy in The Bahamas, coordinates disaster risk management activities.

¹⁵ Including the first Central Bank digital currency in the world (Sand Dollar).

digital payments, safeguards to ensure data privacy, and consumer protection.¹⁶ On the other hand, a new digital system has been set in place for the issuance of fishing permits, that allows anglers to obtain their required license by filling an online form and paying their corresponding fees. In addition, customers are now able to complete application and register private and commercial boats electronically.

- 1.22 **Reducing climate risk in coastal and offshore areas.** The current Building Code in The Bahamas is being upgraded to include coastal climate hazards such as storms, coastal floods, strong winds and sea-level rise and includes nature-based solutions. In this regard, a comprehensive assessment and comparative analysis and inclusion of best practices is being carried out. The MoPW is strengthening its capacity for coastal protection by creating the Coastal Protection Unit (CPU) in charge of implementing coastal protection and management policies. The Bahamas is carrying out a Disaster Risk Management governance assessment using the iGOPP, a composite index that identifies key governance gaps in terms of regulations, institutional arrangements, and budgetary instruments for DRM. Also, the MoF is developing a mechanism to track budget allocations for investments aimed at strengthening resilience to natural disasters and climate change.
- 1.23 **Promoting better management (certification, traceability, and protection) of marine resources.** Key aspects of the implementation of the Fisheries Act are underway. The MoAMR is strengthening its coordination mechanisms and establishing the inclusion of forum for consultation as well as the establishment of a vessel monitoring system. As part of the implementation of the Marine Protection Plan, that proposed 43 new MPA sites covering around 3.28 hectares, after a period of consultation, 42 MPA have been approved and gazette, thus protecting 20% of the Bahamian marine space.
- 1.24 The DMR, jointly with The Bahamas Exporters association is updating the spiny lobster management plan, improving the monitoring capacity and the reduction of IUU fishing, for the maintenance of the Marine Stewardship Certification [71]. This certification was published in 2020 and is revised each year based on the achievement of agreed milestones. In addition, a pilot for community-based conch management is currently being developed as part of the national campaign for conservation of conch, and business plans for increasing and diversifying sources of income for conch fishers were developed. In addition, the Royal Bahamas Defense Force, approved the Maritime Security Plan [72] that improves the enforcement of IUU, and has increased patrolling, detection, and tracking capabilities using new technology and strategic partnerships.¹⁷
- 1.25 **Protecting oceans by reducing marine pollution.** The Bahamas, as part of the implementation of the new institutional framework for managing the environment¹⁸ and the reconstruction efforts post Hurricane Dorian is doing key strategic actions

¹⁶ Supported by the Government Digital Transformation to Strengthen Competitiveness (4549/OC-BH) that has implemented digitalization in several key areas of the government.

¹⁷ Operational successes of RBDF in 2020: Deterring illegal fishing vessels from poaching in The Bahamas evidenced by 5 interception and prevention of IUUs, 107 patrols and 939 days at sea with 57 vessel boardings.

¹⁸ With the creation in 2020 of the Ministry of the Environment (MoE) and the DEPP and its related legal framework as included in the [5091/OC-BH/5276/OC-BH](#) series.

to promote cleaner oceans. The Disaster Reconstruction Authority is spearheading the Government restoration efforts with the establishment and implementation of a clean-up plan for the removal of debris generated by the Hurricane Dorian from the marine environment, in conjunction with Non-Governmental Organization (NGOs), private sector, civil society, local communities, local governments and international organizations. As part of this effort, 3 million cubic yards of debris have been removed in Abaco and Grand Bahama and four temporary marine debris stations have been established. The process of marine cleanup is ongoing. [73] On the other hand, the Environmental Planning and Protection Act, approved in December 2020, includes provision for the management of pollutants including pollutants in Oceans. In this regard, the DEPP is currently drafting regulations for the reduction of waste and pollution into the ocean from cruise ships.

- 1.26 **International experience.** Evidence from other experiences in the region show that to stimulate the Blue Economy growth in small islands, an integrated approach, with measures to facilitate and reduce the cost of economic activities in Blue Economy sectors, jointly with activities for the optimal use of marine resources should go hand in hand [74]. Countries such as Barbados, Belize and Grenada have developed strategies and institutional mechanisms to promote the Blue Economy and Grenada has prioritized the Blue Economy for the country's long term vision and implemented policies and projects to optimize its coastal, marine, and ocean resources ([OEL#2](#)). Evidence from other countries [75] show that the establishment of MPAs, in areas with spiny lobster population, increases up to 225% in total catch after six years and also promotes sustainable and niche tourism [76] ([OEL#4](#)). Evidence suggests that coral reefs, mangroves, coppice forests, and seagrass beds can dampen waves and currents in the nearshore and retain sediments, providing cost-effective protection for coastal communities and infrastructure while maintaining or restoring the multiple benefits of coastal habitats for people and ecosystems now and in the future [77]. For example, evidence from the UK on beach management found that empirical monitoring data on wave regime were critical components of effective designs [78]. Comparison of costs between nature-based defense projects and engineering structures demonstrates that saltmarshes and mangroves can be two to five times cheaper than a submerged breakwater for wave heights up to half a meter [79]. Also, ex ante investment in climate risk reduction, such as coastal zone management and civil protection, including nature-based solutions, have been shown to generate benefits that are four to seven times greater than operation costs [80]. Community based solutions for resource management have also positive impacts in the management of MPAs [81].
- 1.27 **Gender gaps.** Globally, women make up most of the workforce in coastal and maritime tourism and fisheries, the main Blue Economy sectors. Yet they are in the lowest-paid, lowest-status and least-protected jobs. In small island developing States, tourism accounts for 30 to 80% of total exports, with the participation of women as high as 54%. But most of this work is in low-skilled, temporary jobs. In The Bahamas, women-led firms are often of smaller size, younger, and usually operate in low growth, low profit segments [82; 83]. Extreme weather events have a major impact on vulnerable populations, especially women and girls. It is estimated that 40,232 (51.4%) women and girls were affected by Hurricane Dorian and 70% of the persons displaced from Grand Bahama to New Providence were women, although they comprised around 50% of the population [84].

- 1.28 **Pending challenges in the medium and long term.** Further actions to: (i) reduce the cost of doing business in the Blue Economy by the implementation of digital solutions are needed; (ii) continue the support to increase the productivity of MSMEs in this sector; (iii) further progress in the development of fisheries plan for other species and increase of monitoring and enforcement to prevent IUU in MPAs and for marine species; (iv) implementation of climate and disaster risk management policies; and (v) further increase action for reduction of pollution in the ocean.
- 1.29 **Justification, government strategy, priorities and actions.** With the COVID-19 pandemic and the effects of recent natural disasters, actions to improve economic and environmental resilience under a strengthened institutional framework have become an urgent priority for the government, as evidenced by the ERC report. The Government of The Bahamas has complemented the short-term support for MSMEs during the COVID-19 pandemic, with additional measures to support long term growth in areas related to the Blue Economy [85] (See [Economic Recovery Committee Report](#)). The [2021 Accelerated Bahamas Plan](#) focuses on recovery through support MSMEs, tourism development and digitalization innovation, in line with the proposed actions of this program. The government is prioritizing reforms geared at streamlining procedures in areas such as fisheries and port operations through the introduction of digital solutions, and facilitating economic transactions for the Family Islands, as well as reforms to promote a stronger framework for coastal resiliency, better management of marine resources and reducing ocean pollution. The Bahamas National Development Plan: Vision 2040 [86], sets economic diversification as a priority goal for resilient growth, including the sustainable development of new sectors (including the Blue Economy, through the enhancement of fisheries and maritime industry), increased employment for young people in blue jobs and greater protection of coastal and maritime ecosystems. In this regard, the policy reforms included in the present Policy-Based Guarantee (PBG) align to the objectives of a healthy and more productive ocean, in particular to (i), (iv) and (v) ([OEL#1](#)). This PBG includes policy conditions that promote growth and sustainability in the Blue Economy. Independently, once the conditions are complied, the Bank will provide a guarantee to support the emission of a Sovereign Bond. As the policy conditions of the PBG align within the 5 “tipping points” of the Sustainable Oceans Coalition, this operation will set the basis for The Bahamas for the possible emission of a Blue Bond in the future,¹⁹ while supporting the emission of a standard bond through the guarantee to be granted with this operation ([¶2.1](#)).
- 1.30 **Bank experiences and lessons learned.** Experience from similar programs in the Caribbean region show: (i) the importance of linking economic growth with environmental resilience in small island states;²⁰ (ii) the importance of institutional capacity building, strengthening coordination and engaging in a phased approach;²¹ (iii) the importance of providing technical support for enabling informed decision making in emerging areas such as the Blue Economy;²² and

¹⁹ The Bank will be providing technical support to strengthen The Bahamas capabilities for a future emission of a Blue Bond through a technical cooperation, "Support to Loan BH-U0001 Building a Social and Inclusive Blue Economy in The Bahamas" ([ATN/OC-18904-BH](#)), approved in October 2021 for US\$200,000.

²⁰ [Barbados Sustainable Development Program \(4987/OC-BA\)](#).

²¹ [Coastal Risk Assessment and Management Program \(2463/OC-BA\)](#).

²² [Boosting Resilient and Inclusive Growth in The Bahamas I and II \(5091/OC-BH\)](#) [\(5276/OC-BH\)](#).

(v) the importance of a strong environmental governance system and the integration of environmental aspects and natural capital.²³ Experiences from similar programs in The Bahamas show: (i) the importance to implement complex programs in stages;²⁴ and (ii) challenges in coordination are best addressed through multi-tiered coordination mechanisms.²⁵ These lessons learned are being incorporated in the current program by: (i) providing technical support in key areas of the Blue Economy such as a pipeline of investment projects that are potentially suitable for financing through a Blue Bond (§1.20), community based conch management (§1.24), and providing data solutions for improving coastal risk management (§1.22); (ii) supporting the continuity of complex reforms previously carried out; and (iii) complementing the proposed reforms with other Bank instruments such as technical cooperation programs (§1.31; §1.32). The Bank has previous experience the PBG instrument as well as in providing guarantees to support debt issuances with the “Program to Strengthen the Fiscal and Macro-financial Administration in Panama” (2842/OC-PN) directed to support fiscal and financial policy measures to provide a guarantee to facilitate the reprogramming of public works payments; and the guarantee for the “Social Housing Finance in Ecuador” (4699/OC-EC) approved in 2018. Lessons learned from these guarantee experiences are: (i) the relevance of streamlining the workstreams of the policy matrix and that of the bond guarantee transaction; (ii) establishing a process geared towards improving overall resource mobilization, better pricing, and lower issuance costs; and (iii) working closely with the debt management unit in the (MoF) during the process and in preparing the associated guarantee and bond documentation. These lessons are incorporated in the structuring process (§2.10) and through regular meetings with the debt management unit to provide guidance on how to use the Inter-American Development Bank (IDB) sovereign guarantee instrument.

- 1.31 **Value added from the Bank and complementarity with other operations.** The technical cooperation “Support for Economic Diversification in The Bahamas” (ATN/CO-16734-BH),²⁶ is supporting the institutional strengthening of the monitoring and evaluation capacity of the SBDC and the provision of a baseline for evaluation of the effects of establishing MPAs. The Bank is working at the regional level to promote the Blue Economy from which lessons and information have been derived for this operation, such as: (i) marine prospection, valuation and strategic actions through “Unleashing New Avenues for Growth by Tackling Opportunities in the Blue Economy” (ATN/OC-17047-RG); (ii) supporting sustainability through the principles of “Blue and Circular Economy through the Development of Sustainable Islands Initiative” (ATN/MC-16236-RG; ATN/OC-16237-RG); (iii) the development of a “Strategic Roadmap for the Blue Economy in Barbados” (ATN/CO-17589-BA); and (iv) supporting economic recovery through “Promoting the Blue Economy for Sustainable Economic Recovery in Tobago” (ATN/CO-18645-TT).²⁷ Further support for innovative financing mechanisms in the Blue Economy will be provided through a technical cooperation “Support to Loan BH-U0001 Building a Social and Inclusive Blue Economy in the Bahamas” (ATN/OC-18904-BH), approved in October 2021 for

²³ [Environment and Biodiversity Sectoral Framework.](#)

²⁴ PCR 2758/OC-BH.

²⁵ [IDB Group Country Program Evaluation 2010-2017.](#)

²⁶ Financed by the Compete Caribbean Facility.

²⁷ The latter two financed by the Compete Caribbean Facility.

US\$200,000, that will strengthen the institutional capacities for the development and implementation of policy measures and financial mechanisms to promote sustainable Blue Economy.

- 1.32 The program complements the programmatic series “Boosting Resilient and Inclusive Growth in The Bahamas” (5091/OC-BH), approved in August 2020 for US\$200 million, and (5276/OC-BH), approved in May 2021 for US\$140 million, as it provides continuity of key measures with a focus on the Blue Economy ([OEL#7](#)). Also complements the “Digital Transformation to Strengthen Competitiveness” (4549/OC-BH), approved in June 2018 for US\$30 million, as it addresses issues to improve the business climate by implementing digital government initiatives; the “Climate Resilient Coastal Management and Infrastructure Program” (4363/OC-BH), approved in November 2017 for US\$36 million, as it supports environmental resilience by financing infrastructure and institutional strengthening activities for coastal protection and risk management; the “Contingent Loan for Natural Disasters” (4853/OC-BH) approved in September 2019, as it support measures for risk reduction and nature-based risk mitigation measures that contribute to alleviate severe catastrophic natural disasters; the technical cooperation: “Capacity Strengthening for a more Resilient Bahamas” (ATN/JF-17982-BH), approved in May 2020 for US\$600,000, that finances activities that support resiliency for eventual hazard events; and from IDB Lab, the “Marpol for the Blue Economy: The Caribbean First Marine Waste Reception Facility” (ATN/ME-17424-BH) as it supports a new technology for processing waste from ships and “Accelerate Bahamas!”(ATN/ME-17694-BH) as it supports capacity building and digital transformation in MSMEs (for all the Bank activities related to Blue Economy [OEL#5](#)). The operation also promotes IDB’ subregional initiative of smart and resilient investment for the Caribbean.²⁸
- 1.33 **Donor coordination.** This program complements the activities of the donor community under the Caribbean Biodiversity Fund (supported by The Nature Conservancy and Global Environmental Facility), regarding the promotion of MPAs (e.g., CCI). Also, it complements the Caribbean Development Bank’s (CDB) effort regarding the promotion of the Blue Economy (e.g., by measuring the Blue Economy using national accounts and Blue Economy satellite accounts). [87] The IDB, International Monetary Fund (IMF), the World Bank (WB) and the CDB regularly coordinate and share information regarding macroeconomic and fiscal projections for The Bahamas, through technical dialogue.
- 1.34 **Strategic alignment.** The program is aligned with the Second Update of the Institutional Strategy (UIS) (AB-3190-2), through the development challenge of Productivity and Innovation, by improving the business climate of firms in the Blue Economy; and through the cross-cutting issues of: (i) Climate Change, as the activities of the program contribute to the reduction of climate risk in coastal areas by strengthening the institutions in charge of climate disaster management; (ii) Environmental Sustainability, as it contributes to the prevention and reduction the waste in the ocean by strengthening the regulatory framework for waste disposal from ships and the institutional framework for removal of marine debris.

²⁸ The sub-regional strategy of Vision 2025 for the Caribbean is a delivery-oriented initiative aimed at helping Caribbean countries define Sustainable Development Pathways for their transformation in a smart and resilient manner.

According to the [joint MDB approach on climate finance tracking](#), 67% of total IDB funding for this operation result in climate finance due to the reduction of GHG emissions from the degradation of marine ecosystems and the improvement of climate risk management. This contributes to the IDB's climate finance goal of 30% of annual approvals; and (iii) Institutional Capacity and the Rule of Law, as it supports the strengthening of the institutional framework and introduces digital measures, such as digital payments, digital platforms for fishing permits and vessel registration, for more transparency and control of procedures in the Blue Economy. It will contribute to the IDB Group Corporate Results Framework 2020-2023 (GN-2727-12) with the following output indicators: (i) micro, small and medium enterprises financed; (ii) habitat that is sustainably managed applying ecosystem-based approaches; and (iii) agencies with strengthened digital technology and managerial capacity. The program is consistent with the Innovation, Science, and the Technology Sector Framework (GN-2791-8), as it promotes science and technology for the proper use of marine resources; the Environment and Biodiversity Sector Framework (GN-2827-8), as it supports environmental resiliency and the strengthening of environmental institutions; and the Climate Change Sector Framework (GN-2835-8), as the reforms contribute to climate change mitigation. It is aligned with the strategic objectives of the IDB Group Country Strategy with the Commonwealth of The Bahamas 2018-2022 (GN-2920-1) of: (i) promoting innovation and innovative practices in traditional (e.g., sustainable tourism) and nontraditional sectors (e.g., agroindustry, blue economy, and manufacturing); and (ii) to rationalize government regulation that hinder business registration, operation, and dispute resolution. Finally, it is included in the Update of the Annex III of the 2021 Operational Program Report (GN-3034-2), and the 2022 Indicative Program.

- 1.35 **Innovation and technology.** The PBG supports innovation and adoption of technology in the areas of: (i) introduction of digital processes in the Blue Economy, such as digital payments in remote areas, introduction of digital platforms for fishing permits and vessel registration; (ii) introduction of novel practices for coastal protection policies based on scientific and quantitative studies on climate risk; and (iii) introduction of technological tools for fisheries management (traceability of spiny lobsters).
- 1.36 **Gender considerations.** Some of the activities of the project will indirectly benefit women's participation in the economy and their resilience to adverse natural events. The SBDC programs for Blue Economy, that historically have 50% women beneficiaries, provide women with tools to close the gaps regarding access to finance (§1.27). The community-based management programs for conservation of fisheries, such as the community-based conch management program included in this PBG (§1.40), will benefit women in coastal communities, by promoting alternative sources of income. As women are generally disproportionately affected by hurricanes and climate-related hazards, the activities related to coastal protection will benefit them in a greater proportion.

B. Objective, components, and cost

- 1.37 **Objectives.** The general objective is promoting a more productive and healthier ocean in The Bahamas. The specific objectives are: (i) promoting MSME's business recovery in the Blue Economy and prospecting investment projects

suitable for Blue Bond financing; (ii) promoting digitalization in the Blue Economy; (iii) improving the resilience of the Blue Economy through improved climate risk management in coastal and offshore areas; (iv) promoting better management (certification, traceability, and protection) of marine resources; and (v) reducing marine pollution.

- 1.38 **Component 1. Macroeconomic Sustainability.** The objective of this component is the maintenance of an appropriate Macroeconomic Policy Framework congruent with the program's objectives and in accordance with the provisions of the [Policy Letter](#).
- 1.39 **Component 2. Promoting a More Productive Ocean.** This component will address the challenges of needing to improve the business climate of MSMEs and the high cost of doing business in the Blue Economy by: (i) promote MSME's business recovery in the Blue Economy and prospecting investment projects suitable for Blue Bond financing, through: Fishing and Farming and Standalone Grant II and III programs to support MSMEs (including MSME in the Blue Economy) in operation (2.1); and prospection study to identify investment projects creating the path for financing through Blue Bonds started (2.2); (ii) promote digitalization in the Blue Economy, through: drafting and consultation with stakeholders of the regulatory framework to enhance digital payments (2.3); the enactment of the Fisheries Resources (Jurisdiction and Conservation) (Amendment) Act 2020 and the operation of an electronic system for issuance of fishing permits (flat fishing) (2.4); and the launching of the first phase of the Port Digitalization Project (2.5); and, (iii) improve resiliency of the Blue Economy through improved climate risk management in coastal and offshore areas, through: upgrade of the Building Code by the MoPW, incorporating: (a) coastal climate hazards (storm surges and floods) into the planning process; and (b) nature-based infrastructure launched (2.6); the CPU to promote the development of coastal infrastructure (including green infrastructure) within the MoPW (2.7) started;²⁹ activities formangrove restoration in high priority family islands (Andros and Grand Bahama), to promote nature-based solution started by the MoPW³⁰ (2.8); the diagnosis of the level of disaster risk management governance from the MoDPR for an effective implementation of climate change adaptation and disaster risk management policies completed³¹ (2.9); and the preparation by the MoF of an indicative list of Climate and Disaster relevant activities, necessary to adopt the Climate Disaster Tagging Budget for the MoDPR (2.10).
- 1.40 **Component 3. Promoting a Healthier Ocean.** This component will address the challenges to optimize the use of marine resources and reduce marine pollution in the ocean by: (i) promoting better management (certification, traceability, and protection) of marine resources, in relation to the implementation of only certain

²⁹ "Started" refers to the assignment of personnel to set up this unit and to begin implementation of the various activities required for coastal management in The Bahamas. The personnel assigned consists of a senior engineer who is a member of the Ministry of Public Works (MOPW) staff and an assistant engineer who has been contracted as a consultant.

³⁰ "Started" refers to the fact that the implementing agency (BNT) for this project in Andros and Grand Bahama signed a contract with MOPW, submitted its action plan to MOPW, and held consultation workshops with local stakeholders on each island based on the action plan.

³¹ "Completed" indicates that the MoDPR has enclosed the diagnosis carried out by a team of iGOPP experts with the support of MoDPR focal points.

aspects of the Fisheries Act, 2020: (a) the starting³² of a pilot for the use of a Vessel Monitoring System; and (b) the drafting of fisheries regulations, (including prohibition of harmful substances, measures for protection of marine species and regulation of commercial fishing) (3.1); the approval and implementation of the Maritime Security Plan to enforce legal fishing by the Royal Bahamas Defense Force (3.2); the audit of the Marine Stewardship Council Certification for The Bahamas Spiny Lobster Fishery finalized (3.3); the approval and publication of 42 MPAs (3.4); the creation of business plans for community-based conch management (3.5); and (ii) reducing marine pollution, through: marine cleanup plan of debris from Hurricane Dorian, including the establishment of debris transfer and management stations started (3.6); and drafting of the cruise ships regulation for reduction of waste and pollution in the oceans (3.7).

C. Key results indicators

- 1.41 The achievement of the first specific objective will be monitored and evaluated through two outcome indicators: (i) the average annual employment of MSMEs beneficiaries of the SBDC's fishing and farming and standalone grant II and III programs operating in the Blue Economy sector (as a ratio vis a vis the average for control units); and (ii) the number of investment projects suitable for Blue Bond financing. The achievement of the second and third specific objectives will be monitored and evaluated through the (iii) annual revenue from flat fishing licenses; and (iv) permits issuances and through the risk management index, respectively. Progress in this first group of indicators should contribute to the improvement of the annual average of weekly wage per worker of firms operating in the blue economy (as a ratio over the minimum weekly wage) that is set as the indicator to evaluate the achievement of the general objective of promoting more productive oceans. The achievement of the fourth specific objective will be monitored and evaluated through three outcome indicators: (v) the score of Principle 1 "Target Species" evaluated to maintain the certification of The Bahamas spiny lobster against the MSC standard; (vi) the IUU fishing index; and (vii) the marine and coastal environment protected areas (as a % of total marine and coastal environment areas). The achievement of the fifth specific objective will be monitored and evaluated through (viii) the clean waters index. Progress on the group of indicators pertaining to the fourth and fifth specific objectives should contribute to the improvement of the Ocean Health Index that is set as the indicator to evaluate the achievement of the general objective of promoting healthier oceans in The Bahamas.
- 1.42 Based on the recommendations of the Office of Evaluation and Oversight in its 2011 Evaluability Review of Bank Projects³³ and on the findings of the review of evaluation practices and standards for Policy-Based lending by the Evaluation Cooperation Group (comprising the independent evaluation offices of the multilateral development banks)³⁴ as envisioned in paragraph 1.3 of document

³² "Started" indicates that the program is already operating in accordance to article 75 of the Fisheries Law.

³³ Document RE-397-1: "Currently, Economic Analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. Yet neither a cost-benefit analysis nor a cost-effectiveness analysis is applicable to Policy-Based Loans (PBL) and Programmatic Policy-Based Loans."

³⁴ "Good Practice Standards for the Evaluation of Public Sector Operations." Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations), which indicates that it would not be necessary to include an analysis of efficiency in the use of financial resources³⁵, it was decided that economic analyses would not be conducted for these types of financing as reported to the Bank's Board of Executive Directors. Considering the policy-based nature of this PBG and that there are no identified underlying investments, this operation does not include an economic analysis. Accordingly, the economic analysis will not be considered for purposes of this program's Development Effectiveness Matrix Evaluability Score.

- 1.43 **Beneficiaries.** The reforms included in this program will benefit to firms operating in the Blue Economy by improving the business and investment climate for ocean related economic activities, as well as by promoting better management practices that improve the sustainability of marine resources that those firms harvest. The reforms will also benefit citizens and firms of The Bahamas in general, by promoting reforms that will reduce marine pollution. The direct non-individual beneficiaries include: different actors of the Blue Economy sector³⁶ that will benefit from the initiatives to promote its development; and the citizens of the country in general that will enjoy from the benefits of the MPAs (better natural barriers for environmental resilience and more sustainable fishing) and from the measures to control marine pollution (that will reduce the contamination of marine spaces, reducing its consequences on the marine life and on the dependents of those resources). The program supports 249 MSMEs in the Blue Economy, totaling 1,666 employees that will benefit.
- 1.44 **Financial economic analysis.** The sovereign guarantee structure described in ¶2.5, will provide important economic and financial benefits to the Government of The Bahamas. First, it is expected a mobilization of more than four times the maximum guaranteed amount³⁷. Second, the expected savings for The Bahamas using the IDB sovereign guarantee (compared with a scenario of using a standalone non-guaranteed Bahamas Sovereign Bond) are estimated in 96 basis points, which implies annual savings of US\$59 million in net present value terms.³⁸

³⁵ According to the Evaluation Cooperation Group, Programmatic Policy-Based Loans should be evaluated based on relevance, effectiveness, and sustainability. Efficiency is not included as a criterion, since the scope of the PBLs is linked to a country's financing gap, regardless of the benefits of the project.

³⁶ Based on administrative records from the National Insurance Board, in 2019, 2,315 employees (of 127,920 in the country) worked in 245 firms (of 18,042 in the country) in 7 sectors (at 4 digits ISIC level) related to the Blue Economy.

³⁷ A request for proposals facilitated a formalized and competitive bid-seeking conducted to find the best proposal in terms of mobilization, pricing, and transaction costs. During this process, the investment banks indicated the viability using the sovereign guarantee to mobilize more than 4.25 times the maximum guaranteed amount. Hence, this makes viable a total bond issuance of US\$850 million. However, the final leveraged amount will not be known until issuance since market conditions can change.

³⁸ This calculation uses the following basic assumptions: (i) a yield for a standard Bahamas bond of 7.8%, such as the observed on September 20th, 2021 on Reuters; (iii) a bond tenor of 13 years with a soft bullet amortization schedule and a weighted average life under 12.75 years; (iv) a guarantee fee of 90 basis points on the maximum guaranteed amount; and (v) a mobilization factor of 4.25 times the maximum guaranteed amount.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The operation will be structured as a PBG.³⁹ A PBG is comprised of a policy-based instrument in which a series of policy conditions are agreed with the government. Once the government complies with the set of policy reforms summarized in the Policy Matrix (Annex II) and in the [Policy Letter](#), the Bank will issue a guarantee for the issuance of a standard bond. In this way, the PBG instrument allows for the combination of the following two key elements for The Bahamas' development: (i) the issuance of an IDB guarantee to support a standard bond issuance by the government of The Bahamas; and (ii) the support of a Policy Based intervention to promote a healthier and more productive ocean in The Bahamas Blue Economy.
- 2.2 The maximum guaranteed amount will be of up to US\$200 million, to be financed from the Ordinary Capital resources of the Bank. The amount has been determined considering the country's broad need for fiscal resources. The public sector's financial requirements for FY2021/22 are estimated at US\$1.8 billion and external financing for 2022 at US\$2.2 billion. This operation represents 11.4% and 8.9% of those requirements, respectively. However, the guarantee has the potential of having a multiplier effect of more than 3 times (¶1.2). If, as expected, the IDB guarantee mobilizes resources for more than 3 times its amount (¶2.10), then the overall financing supported by this operation will represent 39.8% and 31.1% of the requirements mentioned above, respectively.⁴⁰
- 2.3 **Additionality of the policy reform measures to support the Blue Economy.** This PBG complements and supports the continuation of key policy reforms related to Blue Economy carried out through the PBL Boosting Inclusive and Economic Growth in The Bahamas I and II (5091/OC-BH and 5276/OC-BH) (¶1.32) and the inclusion of new reforms related promoting a more productive and healthier ocean. This PBL series included reforms geared at improving business climate for MSMEs and reducing the cost of doing business, and the PBG includes reforms in the same areas for firms operating in the Blue Economy. While the PBL series focused on strengthening the institutions in charge of environmental management, the PGB focuses on strengthening the institutions that tackle climate risk management in coastal and offshore areas. Both promote optimal use of marine resources, but the PBG has a stronger focus on certification, traceability, and protection of marine resources. The PBL series included measures to reduce marine pollution by banning the use of single use plastics, while the PBG complements those efforts with measures for cleanup of marine debris and reduction of waste from vessels. In this context, the PBG reforms specifically

³⁹ Document GN-2729-2 – Proposed Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operation provides the framework that sets forth the requirements for the financing of PBGs, conceived as a sovereign guarantee that can be issued directly as a result of compliance with agreed policy reforms to cover either commercial or credit risk (PCGs) or political risk (PRGS).

⁴⁰ The Annual Borrowing Plan FY2021/22 published by the MoF contemplates the issuance of an aggregate of US\$700 million in external bonds and external loans amounting to US\$259 million, of which US\$240 million will be loans from IFIs and US\$19 million from banks. During the first quarter of FY2021/22 foreign currency borrowings amounted to US\$23.7 million and were obtained as drawings on existing loans from IFIs, of which US\$20.9 million corresponded to the IDB.

strengthen the legal and institutional framework to promote Blue Economy by supporting: (i) reforms aligned with the “5 “tipping points” for a Healthy and Productive Ocean (¶1.29); and (ii) reforms that promote private investment in the marine space.⁴¹

- 2.4 **Guaranteed obligations.** The objective of the guarantee is to cover, up to the maximum guarantee amount of US\$200 million, principal and/or interest payments obligations under a Sovereign Bond to be issued by The Bahamas.
- 2.5 **Additionality of the guarantee.** Under the proposed instrument the Bank will provide a guarantee to support a Sovereign Bond issuance by The Bahamas, the proceeds of which will be used for budgetary support. There are several advantages to using the guarantee: (i) it promotes the mobilization of international resources towards government financing in the country;⁴² (ii) it improves the overall debt profile for the government by reducing borrowing costs and improving its tenor compared with a non-guaranteed debt issuance; and (iii) it strengthens the country’s technical capacity in managing more sophisticated transactions such as guaranteed international bond issuances.
- 2.6 **Guarantee terms and conditions - general considerations.** The guarantee will comply with the Flexible Guarantee Instrument Policy and its guidelines (documents GN-2729-2 and GN-2729-4) including, among other features, the following: (i) once the guarantee has been issued (see conditions for issuance of the guarantee in paragraph 2.8), it will be irrevocable; (ii) the maximum term will be 20 years with a maximum weighted average life of up to 12.75 years; (iii) the guarantee fee will be equal to the IDB sovereign-guaranteed variable loan spread applicable to the maximum guaranteed amount; (iv) the guarantee will not cover debt acceleration; and (v) the standby fee, if applicable, will be equal to the credit fee for IDB sovereign-guaranteed loans. The guarantee will be triggered in the event The Bahamas fails to service the debt under the Sovereign Bond.
- 2.7 **Terms and conditions of the counter-guarantee.** Prior to the issuance of the guarantee, the Bank will enter into a sovereign counter-guarantee agreement with The Bahamas. In addition to specifying the conditions for issuance of the guarantee, the counter-guarantee agreement will establish that, in the event the Bank needs to make a payment under the guarantee, The Bahamas will reimburse any amount paid by the Bank, in principle, within a term of 180 days. As from the date of the payment by the Bank, the total amount to be reimbursed will accrue interest at the same rate applicable to sovereign-guaranteed loans from the Bank’s Ordinary Capital and will be subject to applicable policies. The Bank and The Bahamas may agree on a different repayment profile, which in no instance may exceed the remaining tenor or weighted average life of the Sovereign Bond. A default in repayment of the counter-guarantee triggers the same treatment as that of non-performing sovereign-guaranteed loans.

⁴¹ This instrument combines a policy-based intervention with the use of the IDB sovereign guarantee instrument following Policy for the Flexible Guarantee Instrument for Sovereign Guaranteed Operations (GN-2729-2).

⁴² The expected mobilization of resources of the proposed guaranteed operation of US\$200 million is US\$700 million, which is 3.5 times the maximum guaranteed amount. Therefore, the guarantee has the potential of securing 40% of the aggregate financing requirement and covering 82% of the fiscal deficit.

- 2.8 **Early disbursement events.** The guarantee agreement will stipulate that in case of a breach by the Government to its main obligations under the Counter-Guarantee Agreement, such as those related to Prohibited Practices, the Bank may make an advance disbursement of the guarantee by depositing the maximum guaranteed amount in an escrow account for the benefit of the bondholders. Such advance payment will in turn will trigger the Government's reimbursement obligations under the Counter-Guarantee Agreement.⁴³
- 2.9 **Special conditions precedent to the issuance of the guarantee.** The issuance of the guarantee will be subject to the following conditions: (i) the Counter-Guarantor shall have complied with the policy conditions of this operation summarized in the Policy Matrix (Annex II) and the [Policy Letter](#); (ii) the Bank shall have negotiated and agreed upon the terms of the guarantee contract; (iii) the Bank shall be satisfied with the structuring of the Sovereign Bond and the related bond documentation; and (iv) a Counter-Guarantee Agreement between the Bank; and the Counter-Guarantor shall have entered into effect in terms acceptable to the Bank.
- 2.10 **Structure of the guarantee.** The guaranteed bond issuance is expected to be issued in the second semester of 2022. Definitive guarantee coverage, tenor and yield will not be known until issuance. The process and structure of the guarantee will have the objective to increase resource mobilization at the minimum possible cost. To achieve this aim, the government conducted a competitive process among investment banks to select the best offer in terms of coverage (or resource mobilization), pricing, and transaction costs. The guarantee is expected to mobilize more than three times the maximum guaranteed amount and support a sovereign bond issuance between US\$700 million and US\$850 million. To improve the overall debt profile of the government, the tenor is expected to be aligned with the maximum weighted average life of the sovereign guaranteed policy (12.75 years). At the same time, to achieve the best possible pricing, it will be instrumental to reach a broad group of institutional investors with different risk appetites. In this sense, the sovereign guaranteed bond structure could encompass a bond issuance of two series (for example, an IDB fully guaranteed series that will be rated AAA, and a The Bahamas risk series, currently BB-).⁴⁴ The series structure could allow to: (i) ensure the maximum credit enhancement (and associated cost benefit) from the IDB sovereign guarantee; and (ii) increase the flexibility of the instrument and thus, its capacity to reach a broader and more diversified investor base, since will be able to reach both high investment grade investors and emerging markets investors. This financial structure could generate a superior combination of resource mobilization, cost reduction, and adaptation to the government of The Bahamas financial needs.
- 2.11 **Special considerations.** The Sovereign Bond is expected to be issued to institutional investors in the international market under U.S. federal regulations that regulate the private offering of securities. As it is normal in this type of transactions,

⁴³ See footnote 43 of document GN-2729-2.

⁴⁴ It is expected that the two series of notes will be issued under the same offering circular and trust indenture or fiscal agency agreement, providing a simple structure which will benefit the issuer in terms of reducing transaction costs. Any residual guaranteed amount on the fully guaranteed series could potentially benefit the unsecured series.

both. The Bahamas and the Bank will have the support of external firms to: (i) ensure compliance with applicable regulations including, inter alia, that the Sovereign Bond is not offered or sold to the general public; and (ii) conduct due diligence to ensure that the information relating to The Bahamas and the Bank contained in the Sovereign Bond offering circular and other marketing materials is true, correct, and complete. Among other measures aimed at reducing additional risks relating to the Sovereign Bond and the guarantee, it will be clarified in the transaction documents that: (i) the Bank is only responsible for the accuracy of its own information; (ii) the Bank's guarantee is limited to the maximum amount guaranteed; and (iii) the guarantee does not cover debt acceleration.⁴⁵

B. Environmental and social safeguard risks

- 2.12 According to Directive B.13 of the Environmental and Safeguards Compliance Policy (OP-703), this program does not require ex ante impact classification. This operation supports the definition of policies, norms, management instruments and other institutional strengthening actions for which are expected to have positive effects on the environment and natural resources are expected. During the preparation and execution of the program, the government, under national regulations, is required to conduct public consultation which will help address and manage potential social issues which may arise regarding the establishment of MPAs. These consultations were carried in several instances during the drafting of the White Paper that proposed the 43 MPAs and during 2020 before their approval and publications. Interventions in future MPAs management will require further capacity building, stakeholder engagement and consultations, as the management plans required for each MPA are carried out jointly with the communities. The Bank is providing technical assistance (¶1.31) in the developing of MPAs and in the empowering of the communities for seeking additional sources of income, as in the case of community-based conch management.

C. Fiduciary risk

- 2.13 No fiduciary risks associated with this operation have been identified. The Executing Agency has the necessary financial management and control systems for that purpose. It is expected that the guarantee will be issued together with and on the date of issuance of the Sovereign Bond once the conditions specified in ¶2.9 above have been met.

D. Other risks and key issues

- 2.14 **Other risks.** A risk analysis workshop was held with the participation of key stakeholders involved and these risks were updated as the project evolved. One medium-high risk was identified concerning institutional capacity, if the data needed to quantify the impact on the MSMEs programs is not collected in a systemic manner, the evaluability and impact of the policies included in the program would not be fulfilled, thus causing delays for project. This will be mitigated by strengthening the institutions in charge of data collection and monitoring, such as the SBDC to strengthen their data mining and analyzing

⁴⁵ Any disbursements under the guarantee will adhere to the original amortization schedule for the Bond. Bond holders cannot claim accelerated payment of the total amount guaranteed.

capacity and the updating of the estimations for coastal vulnerability and fisheries production to support the monitoring and evaluations of reforms. Both are being supported by the Bank through ATN/CO-16734-BH; ATN/OC-16732-BH; ATN/OC-16733-BH; Support for Economic Diversification (¶1.31).

- 2.15 **Complementarity and sustainability of the reforms.** The PBG gives continuity to the key policy reforms related to Blue Economy in: (i) improving the competitiveness of MSMEs and business climate with a focus on blue economic activity;⁴⁶ and (ii) implementation of the legal and regulatory reforms related to the environmental resiliency in areas such as MPAs, and the Fisheries Act, among others. New areas include digitalization for firms in the Blue Economy, and enforcement for illegal fishing, sustainable management of fisheries and implementation of the institutional framework for disaster management through the MoDPR ([OEL#7](#)). The sustainability of the reforms is embedded on the further implementation of the ongoing reforms, and the partnerships with private actors, who benefit from more sustainable management of marine resources and Non-Governmental Organizations, who participate in consultations and implementation of policies and academia. The long-term vision of the National Development Plan, Vision 2040 includes the priority given to increase the economic opportunities derived from the maritime sector. In addition, the 2021/2020 budget, approved by Parliament on July 1st, 2021, Accelerate Recovery Plan, promotes the Blue Economy by implementing fisheries management plans for species beyond spiny lobster and enforcing IUU, strengthening MPAs and digitalization of processes related to fishing permits.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The Counter-Guarantor is the Commonwealth of The Bahamas, and the Executing Agency is the MoF. The MoF will act as an Executing Agency and will have the following responsibilities: (i) provide evidence that policy commitments have been fulfilled, along with any other program-related evidence that the Bank needs to issue the Guarantee; (ii) support the actions required for continuity in program implementation; and (iii) once the guarantee has been issued, gather the information on performance indicators needed to evaluate program outcomes.
- 3.2 **Coordination mechanisms.** The program has three coordination mechanisms. The MoF, through its Economic Unit, will ensure the strategic coordination with the institutions involved in the different policy measures included in the program. The Delivery Unit of the Office of the Prime Minister (OPM) coordinates all the activities related to business climate, maintaining dialogue with private stakeholders, and establishing priorities. Finally, the government established the National Fisheries Advisory Council (FAC) and the National Fisheries stakeholder forum.

⁴⁶ [Office of the Prime Minister \(OPM\) - Remarks on September 20th, 2021](#): Prime Minister Davis highlighted the government's agenda on Blue Economy and the advancement of effective legislation, during the Swearing-In of nine members of Cabinet.

B. Summary of arrangements for monitoring results

- 3.3 **Monitoring.** Program monitoring is defined as verification of the policy measures agreed to as conditions ([REL#2](#)). In addition, monitoring is provided for the outcomes of these reforms and policies at the program level through the indicators of the Results Matrix. Specific arrangements have been made to secure the assessment of follow up lines of all outcomes ([M&E](#)).
- 3.4 **Evaluation.** The methodologies proposed for the evaluation of the program are quantitative with and without causal attribution analysis. A Double Difference with common support based on administrative records information is proposed to evaluate the effectiveness of the SBDC programs promoting MSMEs' growth recovery. For all the other outcome indicators included in the results framework of the program, the evaluation of effectiveness of the reforms considers before and after comparisons. A number of those evaluations are based on technical cooperation currently provided by the Bank to strengthen capacities on monitoring and evaluation of indicators related to the conditions supported by this program, as for example the Risk Management Index. The results of these evaluations will be included as part of the Final Evaluation of the program ([M&E](#)).

IV. POLICY LETTER

- 4.1 The [Policy Letter](#) reiterates the commitment of the government to the policy reform measures that The Bahamas has proposed to implement to meet the program objectives. Additionally, the Bank and the Government of the Commonwealth of The Bahamas agreed on a Policy Matrix that identifies the policy actions under this operation.

Development Effectiveness Matrix		
Summary		BH-U0001
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	<div>-Productivity and Innovation</div> <div>-Climate Change</div> <div>-Institutional Capacity and the Rule of Law</div>	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	<div>-Micro / small / medium enterprises financed (#)</div> <div>-Habitat that is sustainably managed applying ecosystem-based approaches (ha)</div> <div>-Agencies with strengthened digital technology and managerial capacity (#)</div>	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2920-1	To promote innovation and innovative practices in traditional (e.g. sustainable tourism) and non traditional sectors (e.g., agroindustry, blue economy and manufacturing); and to rationalize government regulations that hinder business registration, operation and dispute resolution.
Country Program Results Matrix	GN-3034-2	The Program is included in the 2021 Operational Program
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		After COVID-19, the country is working at expanding the potential of the Blue Economy under a sustainable framework. This program is supporting policy reforms toward a more productive and healthy ocean.
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.8
3.1 Program Diagnosis		1.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.8
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	The design and implementation of the operation was supported by "Support for Economic Diversification in the Bahamas" (ATN/CO-16734-BH)

This project is structured as a Policy-Based Guarantee (PBG). The general objective is to promote a more productive and healthier ocean in The Bahamas. The specific objectives are: (i) promoting Micro, Small and Medium Enterprises (MSME) business recovery in the Blue Economy and prospecting investment projects suitable for blue bond financing; (ii) promoting digitalization in the Blue Economy; (iii) improving the resilience of the Blue Economy through improved climate risk management in coastal and offshore areas; (iv) promoting better management (certification, traceability and protection) of marine resources; and (v) reducing marine pollution.

The diagnosis presented is adequate and the proposed policy measures generally respond to the deficiencies and opportunities identified to achieve the objectives. Evidence presented throughout the project documentation validates the interventions proposed to achieve the objectives. The results matrix exhibits vertical logic with result indicators that allow evaluating the achievement of the specific objectives.

The Monitoring plan meets the expectations for this type of loan. The Evaluation Plan includes detail on the methodology to be used to ascertain the achievement of each specific objective, namely before and after comparisons, except for the promotion of blue economy related enterprises, which will be evaluated through a double difference approach.

POLICY MATRIX

Objective: The general objective is promoting a more productive and healthier ocean in The Bahamas. The specific objectives are: (i) promoting Micro, Small and Medium Enterprises (MSMEs) business recovery in the Blue Economy and prospecting investment projects suitable for Blue Bond financing; (ii) promoting digitalization in the Blue Economy; (iii) improving the resilience of the Blue Economy through improved climate risk management in coastal and offshore areas; (iv) promoting better management (certification, traceability and protection) of marine resources; and (v) reducing marine pollution.

Components Policy Objectives	Policy Conditions	State of Compliance with Policy Conditions ¹
Component 1. Macroeconomic Sustainability		
A. Maintain a stable macroeconomic environment consistent with the program's objectives.	1.1 Maintenance of an appropriate Macroeconomic Policy Framework congruent with the program's objectives and in accordance with the provisions of the Policy Letter.	Fulfilled
Component 2. Promoting a More Productive Ocean		
A. Promoting MSME's business recovery in the Blue Economy and prospecting investment projects suitable for Blue Bond financing.	2.1 Fishing and Farming and Standalone Grant II and III programs to support MSMEs (including MSMEs in the Blue Economy) in operation.	Fulfilled (Q1-2021)
	2.2 Prospection study to identify investment projects creating the path for financing through Blue Bonds started.	Fulfilled (Q3-2021)
B. Promoting digitalization in the Blue Economy.	2.3 Drafting and consultation with stakeholders of the regulatory framework to enhance digital payments.	Fulfilled (Q1-2021)
	2.4 Enactment of the Fisheries Resources (Jurisdiction and Conservation) (Amendment) Act 2020, and the operation of an electronic system for issuance of fishing permits (flat fishing).	Fulfilled (Q4-2020)

¹ This information is merely indicative as of the date of this document. As set forth in document GN-2729-2 (Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations), The macroeconomic policy-related requirements for the approval of the PBG will be substantially the same as the requirements for the approval of PBLs, namely, a valid Independent Assessment of Macroeconomic Conditions (IAMC). Notwithstanding the foregoing, given the irrevocable nature of the guarantee instrument once it becomes effective, the PBG will only require an IAMC as a condition prior to the effectiveness of the guarantee and not prior to any disbursement by the Bank under the guarantee, should such guarantee be called. Furthermore, the effectiveness of the PBG will be subject to the compliance by the Counter-Guarantor of all the policy conditions set forth in the Policy Matrix.

Components Policy Objectives	Policy Conditions	State of Compliance with Policy Conditions ¹
	2.5 First phase of the Port Digitalization Project launched.	Fulfilled (Q2-2021)
C. Improving resiliency of the Blue Economy through improved climate risk management in coastal and offshore areas.	2.6 Upgrade of the Building Code by the MoPW, incorporating: (i) coastal climate hazards (storm surges and floods) into the planning process; and (ii) nature-based infrastructure launched.	Fulfilled (Q3-2021)
	2.7 Coastal Protection Unit (CPU) to promote the development of coastal infrastructure (including green infrastructure) within the MoPW started.	Fulfilled (Q2-2021)
	2.8 Activities for mangrove restoration in high priority family islands (Andros and Grand Bahama), to promote nature-based solution started by the MoPW.	Fulfilled (Q2-2021)
	2.9 Diagnosis of the level of disaster risk management governance from the MoDPR for an effective implementation of climate change adaptation and disaster risk management policies completed.	Fulfilled (Q3-2021)
	2.10 Preparation by the MoF of an indicative list of climate and disaster relevant activities, necessary to adopt the Climate Disaster Tagging budget for MoDPR.	Fulfilled (Q2-2021)
Component 3. Promoting a Healthier Ocean		
A. Promoting better management (certification, traceability, and protection) of marine resources	3.1 Implementation of only certain aspects of the Fisheries Act, 2020: (i) pilot for the use of Vessel Monitoring System started; and (ii) fisheries regulations drafted, including prohibition of harmful substances, measures for protection of marine species and regulation of commercial fishing.	Fulfilled (Q3-2021)
	3.2 Approval and implementation of Maritime Security Plan, to enforce legal fishing by the Royal Bahamas Defense Force.	Fulfilled (Q1-2021)
	3.3 Audit of the Marine Stewardship Council Certification for The Bahamas Spiny Lobster Fishery finalized.	Fulfilled (Q2-2021)

Components Policy Objectives	Policy Conditions	State of Compliance with Policy Conditions ¹
	3.4 Approval and publication of 42 MPAs.	Fulfilled (Q3-2021)
	3.5 Creation of business plans for community-based conch management.	Fulfilled (Q3-2021)
B. Reducing marine pollution	3.6 Marine cleanup plan of debris from Hurricane Dorian, including the establishment of debris transfer and management stations started.	Fulfilled (Q1-2021)
	3.7 Cruise ships regulation for reduction of waste and pollution in the oceans drafted.	Fulfilled (Q3-2021)

RESULTS MATRIX

Project Objective:	The specific objectives of this program are: (i) promoting MSME's business recovery in the Blue Economy and prospecting investment projects suitable for Blue Bond financing; (ii) promoting digitalization in the Blue Economy; (iii) improving the resilience of the Blue Economy through improved climate risk management in coastal and offshore areas; (iv) promoting better management (certification, traceability, and protection) of marine resources; and (v) reducing marine pollution. The achievement of the specific objectives will contribute to the general objective of promoting a more productive and healthier ocean in The Bahamas.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of Measure	Baseline Value	Baseline Year	Expected Year for Achievement	Target	Means of Verification	Comments
General development objective: Promoting a more productive and healthier ocean in The Bahamas							
1. Annual average of weekly wage per worker of firms operating in the blue economy (as a ratio over the minimum weekly wage)	Ratio	2.07	2019	2024	2.15	National Insurance Board (NIB) administrative records	The indicator seeks to measure if by 2024 the average weekly wage per worker of Blue Economy firms, relative to the weekly minimum wage is at least 5% higher than the value observed in 2019. The baseline was computed using an extended definition of Blue Economy (M&E) and administrative records of the NIB. The target is projected based on the accumulated real growth rate projected by the IMF for the country for the period 2021-2024 (19%) assuming that one fifth of that projected growth will be induced by productivity gains thanks to the reforms and translated into wage increases in the Blue Economy sector. The evaluation will be based on a before and after comparison of the indicator.
2. Ocean Health Index	Index	83.5	2019	2024	85.5	Ocean Health Index (OHI)	The indicator seeks to measure if by 2024 the Ocean Health Index is at least 2.4% higher than the value observed in 2019. The OHI assess the current status and likely future state of ten public goals for ocean systems (M&E). The baseline was taken from the OHI 2019 dataset and the projection assumed an increase of 10% in three goals affected by the

Indicators	Unit of Measure	Baseline Value	Baseline Year	Expected Year for Achievement	Target	Means of Verification	Comments
							reforms promoted by the program (coastal protection, clean waters and livelihood and economies). The evaluation will be based on a before and after comparison of the indicator.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measurement	Baseline Value	Baseline year	Expected Year for Achievement	Target	Means of Verification	Comments
Specific development objective 1: Promoting MSME's business recovery in the Blue Economy and prospecting investment projects suitable for Blue Bond financing							
1. Average annual employment of MSMEs beneficiaries of the SBDC's fishing and farming and standalone grant II and III programs operating in the Blue Economy sector (ratio vis a vis the average for control units)	Ratio	1	2020	2024	1.3	SBDC's administrative records	The indicator seeks to measure if by 2024 employment of Blue Economy MSMEs beneficiary units is at least 15% above that observed in comparable non beneficiary units. The baseline value underlying the ratio (3.1) was computed with administrative records of the SBDC (M&E). The target is projected based on the accumulated real growth rate projected by the IMF for the country for the period 2021-2024 (19%) assuming that 3/5 of that projected growth will be induced by labor growth (applicable to the average control and beneficiary firm) and that on top, beneficiaries would register a 30% growth (to take the average employment per Blue Economy firm to pre pandemic levels). The evaluation will be based on double differences with propensity score matching.

Indicators	Unit of measurement	Baseline Value	Baseline year	Expected Year for Achievement	Target	Means of Verification	Comments
2. Number of investment projects suitable for Blue Bond financing	Number	12	2020	2024	15	IDB prospection study	The indicator seeks to measure if by 2024 the number of identified investment projects suitable for financing through Blue Bonds proceeds is at least 20% above the level observed in 2020. The baseline value was taken from an identification report produced as part of the preparation work of this PBG based on investment needs identified to strengthen the Marine Protected Areas system (M&E). The evaluation will be based on a before and after comparison of the indicator.
Specific development objective 2: Promoting digitalization in the Blue Economy							
3. Annual revenue from flat fishing licenses and permits issuance	Thousands of US\$	104	2019	2023	154	Department of Marine Resources	The indicator seeks to measure if by 2024 the annual revenue from flat fishing licenses permits issuance will increase at least in 50%. The baseline was taken from The Bahamas National Budget. The target was taken from official preliminary revenue forecasts (M&E). The evaluation will be based on a before and after comparison of the indicator.
Specific development objective 3: Improving the resilience of the blue economy through improved climate risk management in coastal and offshore areas							
4. Risk Management Index (RMI)	Index	32.22	2020	2024	35.41	IDB RMI report	The indicator seeks to measure if by 2024, the RMI increased at least 10%. The RMI is one of the indicators developed by the IDB in the field of disaster risk management. This indicator provides an overall/comprehensive rating from 0 to 100 on the progress of various specific activities needed to reduce disaster risks. The baseline was taken from the 2020 updated RMI report. The target was projected considering that if all the Policy Commitments that are

Indicators	Unit of measurement	Baseline Value	Baseline year	Expected Year for Achievement	Target	Means of Verification	Comments
							necessary to achieve a Climate Resilient Blue Economy are achieved (Indicators 2.6-2.10 included in the Policy Matrix), the RMI value will improve by 0.88 points (M&E). The evaluation will be based on a before and after comparison of the indicator.
Specific development objective 4: Promoting better management (certification, traceability and protection) of marine resources							
5. Score of Principle 1 “Target Species” evaluated to maintain the certification of Bahamas spiny lobster against the MSC standard	Score	83.3	2019	2024	84.2	Annual audit reports requested by The Bahamas Marine Exporters Association (BMEA)	The indicator seeks to measure if by 2024 the score of principle 1 observed to maintain the Marine Stewardship Council (MSC) certification of Bahamas spiny lobster will be at least 84.2. Principle 1 is a weighted average of two outcome indicators (stock status and stock rebuilding) and four management indicators (harvest strategy, harvest control rules and tools, information and monitoring, and assessment stock of status). The baseline was taken from the MSC first surveillance audit report 2019. The target was projected considering that the conditions stipulated in the report to achieve the target values for compliance with certification by 2024 are fulfilled (M&E). The evaluation will be based on a before and after comparison of the indicator.
6. Illegal, Unreported and Unregulated (IUU) Fishing Index	Index	2.09	2018	2024	1.97	Poseidon Aquatic Resource Management Limited and the Global Initiative Against Transnation	The indicator seeks to measure if by 2024 the IUU will decrease in at least 5%. The Index provides a measure of the degree to which states are exposed to and effectively combat IUU fishing. The Index provides a score between 1 and 5 (1 being the best, and 5 the worst), measured as an arithmetic mean of 40 indicators grouped in coastal, flag, port and

Indicators	Unit of measurement	Baseline Value	Baseline year	Expected Year for Achievement	Target	Means of Verification	Comments
						al Organized Crime	general (M&E). The baseline was taken from the 2019 IUU Fishing Index Report and the target was projected by reducing the scores for two flag indicators and one general indicator to be potentially affected by the reforms on legal fishing enforcement. The evaluation will be based on a before and after comparison of the indicator.
7. Marine and coastal environment protected areas (% of total marine and coastal environment areas)	%	10	2018	2024	20	Bahamas National Trust (BNT)	The indicator seeks to measure if by 2024 the % of protection of the marine and coastal environment of The Bahamas will be at least 20%. The baseline was taken from the Marine Protection Plan for expanding The Bahamas Marine Protected Areas Network (BNT, 2018). The target is based on the commitment to the Caribbean Challenge Initiative (CCI) to effectively conserve at least 20% of the near-shore marine resources across The Bahamas. The evaluation will be based on a before and after comparison of the indicator.
Specific development objective 5: Reducing marine pollution							
8. Clean Waters Index	Index	62	2019	2024	68	Ocean Health Index	The indicator seeks to measure if by 2024 the Clean Waters Index is at least 10% higher than the value observed in 2019. The CWI is one of the ten indices that compound the OHI. The CWI assess the current status and likely future state of water contamination by chemicals, excessive nutrients (eutrophication), human pathogens and trash. The baseline was taken from the OHI 2019 dataset and the projection assumed an increase of 10% (which is equivalent to closing half of the gap with respect to

Indicators	Unit of measurement	Baseline Value	Baseline year	Expected Year for Achievement	Target	Means of Verification	Comments
							the global average value of the indicator). The evaluation will be based on a before and after comparison of the indicator.

OUTPUTS

Indicators	Unit of Measurement	Baseline Value	Baseline Year	2021	End of Project	Means of Verification	Responsible Entity
Component 2. Promoting a More Productive Ocean							
2.A. Promoting MSME's business recovery in the Blue Economy and prospecting investment projects suitable for Blue Bond financing							
2.1 Fishing and Farming and Standalone Grant II and III programs to support MSMEs (including MSMEs in the Blue Economy), in operation ¹	# of operational programs	0	2020	3	3	Official Report from the SBDC	SBDC
2.2 Prospection study to identify investment projects creating the path for financing through Blue Bonds, started ²	# of started prospection studies	0	2020	1	1	Official Report from the MoF	MoF
2.B. Promoting digitalization in the Blue Economy							
2.3 Regulatory framework to enhance digital payments, drafted and consulted with stakeholders ³	# of drafted and consulted regulatory frameworks	0	2020	1	1	Official letter from the Central Bank	BCB
2.4.1 Jurisdiction and conservation amendment for fisheries resources, enacted	# of enacted amendments	0	2019	1	1	Fisheries Resources (Jurisdiction and Conservation) (Amendment) Act 2020 ⁴	Ministry of Agriculture and Marine Resources
2.4.2 Electronic system for issuance of fishing permits (flat fishing), in operation ⁵	# of operational systems	0	2019	1	1	Online platform implemented ⁶	Ministry of Agriculture

¹ "In operation" indicates that the program has already treated some beneficiaries.

² "Started" indicates that a consultancy to identify an initial pipeline of projects suitable for Blue Bond financing has started.

³ "Drafted and consulted with stakeholders" indicates that the Central Bank has published a draft in its website for consultation.

⁴ Available online through [Fisheries Resources Act, 2020](#).

⁵ "In operation" indicates that fishing permits are being awarded through the online platform.

⁶ Available online through this [link](#).

Indicators	Unit of Measurement	Baseline Value	Baseline Year	2021	End of Project	Means of Verification	Responsible Entity
							and Marine Resources
2.5 First phase of the Port Digitalization Project, launched ⁷	# of launched projects	0	2020	1	1	Online platform implemented ⁸	Ministry of Transport and Local Government
2.C. Improving resiliency of the blue economy through improved climate risk management in coastal and offshore areas							
2.6 Upgrade of the Building Code by the MoPW, incorporating: (i) coastal climate hazards (storm surges and floods) into the planning process; and (ii) nature-based infrastructure, launched ⁹	# of approved official processes	0	2020	1	1	Official communication from MoPW confirming the budget line for 2021-2022	MoPW
2.7 CPU to promote the development of coastal infrastructure (including green infrastructure) within the MoPW, started ¹⁰	# of created Units	0	2020	1	1	Official letter from the MoPW	MoPW
2.8 Activities for mangrove restoration in high priority family islands (Andros and Grand Bahamas), by the MoPW to promote nature-based solution, started ¹¹	# of approved plans and budget	0	2020	1	1	Copy of the contract between the MoPW and the BNT	MoPW
2.9 Diagnosis of the level of disaster risk management governance from the MoDPR for an effective implementation of climate change adaptation and disaster risk management policies, completed ¹²	# of completed diagnosis	0	2020	1	1	Official communication from the MoDPR endorsing the iGOPP matrix.	MoDPR

⁷ “Launched” indicates that the project has already issued electronic registration permits for commercial boats and watercrafts.

⁸ Available online through this [link](#).

⁹ “Launched” indicates that the program has already implemented the following actions: (i) coordination meetings with relevant departments within MOPW to set the direction for the upgrade of the Building Code; (ii) formulation of TORs and selection of consultants; and (iii) securing the necessary budget for the consultancy service.

¹⁰ “Started” refers to the assignment of personnel to set up this unit and to begin implementation of the various activities required for coastal management in The Bahamas. The personnel assigned consists of a senior engineer who is a member of the MOPW staff and an assistant engineer who has been contracted as a consultant.

¹¹ “Started” refers to the fact that the implementing agency (BNT) for this project in Andros and Grand Bahamas has signed a contract with MOPW, submitted its action plan to MOPW, and held consultation workshops with local stakeholders on each island based on the action plan.

¹² “Completed” indicates that the MoDPR has endorsed the diagnosis carried out by a team of iGOPP experts with the support of MoDPR focal points.

Indicators	Unit of Measurement	Baseline Value	Baseline Year	2021	End of Project	Means of Verification	Responsible Entity
2.10 Indicative List of Climate and Disaster Relevant Activities, necessary to adopt the Climate Disaster Tagging Budget for MoDPR by the MoF, prepared ¹³	# of operational tracking mechanisms	0	2020	1	1	Official letter from the Ministry of Finance	MoF
Component 3. Promoting a Healthier Ocean							
3.A. Promoting better management (certification, traceability, and protection) of marine resources							
3.1.1 Pilot for the use of Vessel Monitoring System, started ¹⁴ (as part of the implementation of only certain aspects of the Fisheries Act 2020)	# of started pilots	0	2020	1	1	Official letter from the Department of Marine Resources submitting evidence that the Vessel Monitoring System is operating	Department of Marine Resources
3.1.2 Fisheries regulations, including prohibition of harmful substances, measures for protection of marine species and regulation of commercial fishing, drafted (as part of the implementation of only certain aspects of the Fisheries Act 2020)	# of drafted regulations	0	2020	1	1	Official letter from the Department of Marine Resources submitting evidence that the Vessel Monitoring System is operating	Department of Marine Resources
3.2 Maritime Security Plan to enforce legal fishing by the Royal Bahamas Defense Force, approved	# of approved plans	0	2020	1	1	Maritime Security Plan 2021 approved by the Royal Bahamas Defense Force ¹⁵	RBDF
3.3 Audit of the Marine Stewardship Council Certification for The Bahamas Spiny Lobster Fishery, finalized, ¹⁶	# of finalized audits	1	2020	1	1	Surveillance report by the Marine Stewardship Council indicating that The Bahamas Spiny Lobster Fishery should remain certified against the MSC Standard published	Department of Marine Resources/ Exporters Association
3.4 MPAs, approved and published	# of approved and published MPA	54	2020	42	96	Official Gazette	Ministry of Environment

¹³ "Prepared" means that the MoF, with the support of a consultant, has prepared the list and sent it to the MoDPMR for review.

¹⁴ "Started" indicates that the program is already operating in accordance to article 75 of the Fisheries Law.

¹⁵ Available online through [Maritime Security Plan 2021](#).

¹⁶ "Finalized" indicates that a site visit with stakeholders was conducted on July 16th, 2021, and the Fisheries Certification Requirements were reviewed.

Indicators	Unit of Measurement	Baseline Value	Baseline Year	2021	End of Project	Means of Verification	Responsible Entity
3.5 Business Plans for community-based Conch management, created ¹⁷	# of created plans	0	2020	2	2	BNT to deliver official communication including the community-based Conch management and new industry business plans.	BNT
3.B. Reduction of marine pollution							
3.6. Marine Cleanup Plan of marine debris from Hurricane Dorian (including the establishment of debris transfer and management stations), started ¹⁸	# of started plans	0	2020	1	1	Official report from the Disaster Reconstruction Authority	Disaster Reconstruction Authority
3.7. Cruise ships regulation for reduction of waste and pollution in the oceans, drafted	# of drafted regulations	0	2020	1	1	Official communication from the DEPP attaching the drafted regulations.	DEPP

¹⁷ “Created” indicates that business plans have been drafted through direct consultation with the communities of McLean’s Town and Sweeting’s Cay in Grand Bahama, which were severely affected by Hurricane Dorian in 2019.

¹⁸ “Started” indicates that cleanup of debris is already taking place and the debris transfer and management stations are processing the debris.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Bahamas. Guarantee ____/OC-BH. Building a Social and Inclusive
Blue Economy in the Bahamas

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contracts as may be necessary for the purpose of granting a credit guarantee to support the financing and implementation of the program “Building a Social and Inclusive Blue Economy in the Bahamas”, which will have The Commonwealth of The Bahamas as counter-guarantor. The credit guarantee may be granted for the amount of up to US\$200,000,000 chargeable to the resources of the Bank’s Ordinary Capital, on terms substantially as set forth in the Project Summary of the Guarantee Proposal.

(Adopted on ____ 2022)