

Technical Cooperation Abstract

I. Basic Information

• Country/Region:	Bahamas
• TC Name :	Support for Economic Diversification in the Bahamas
• Team Leader/Members:	Claudia Stevenson, Team Leader (IFD/CTI); Gerard Alleng, Alternate Team Leader (CSD); Sylvia Dohnert De Lascurain (IFD/CTI) Team Member, Kayla S Grant (IFD/CTI), Team Member, Carmine Paolo De Salvo (RND/CHA), Team Member, Blanca Torrico (IFD/CTI), Team Member
• Taxonomy:	Client Support
• Reference to Request	EZSHARE-136068185-2
• Date of TC Abstract Authorization:	November 2017
• Beneficiary:	Commonwealth of The Bahamas
• Executing Agency:	Inter-American Development Bank, through the Competitiveness Technology and Innovation Division (CTI)
• Donors providing funding:	Institutional Fund, Compete Caribbean, Sustainability Fund (possible)
• IDB Funding Requested:	US\$500,000
• Local counterpart funding, if any:	\$ 0.00
• Disbursement period (which includes execution period):	36 months
• Required start date:	April 9, 2018
• Types of consultants:	Individuals; Firms; Universities
• Prepared by Unit:	IFD/CTI, CSD/CCS
• Unit of Disbursement Responsibility:	CTI/IFD
• Included in Country Strategy (y/n): TC included in CPD (y/n):	Yes. Included as a dialogue area in the 2013-2017 Strategy Yes
• Alignment to the Update to the Institutional Strategy 2010-2020	Productivity and Innovation; and Cross cutting issue of Strengthening Institutional Capacity and the Rule of Law and Environmental Sustainability.

II. Objective and Justification

2.1 The productive structure of The Bahamas is concentrated, mainly in tourism and financial sectors, including tourism-related construction. Services (including tourism and financial services), represent 78.3% of GDP; manufacturing generates 19.8% of GDP, and agriculture 1.9%.¹ The contribution of tourism to GDP (including direct and indirect) accounts for approximately 45% of GDP and directly or indirectly employs half of the archipelago's labor force, approximately 102,500 persons.² Since 77% of tourists arrive from the U.S, revenues from travel and tourism are largely dependent on the economic behavior of that country.³ In addition, The Bahamas has been losing market share in the Caribbean and the high operating costs combined with the absence of quality services affect the sector's competitiveness.⁴ Since 2012, economic growth has been stagnant, attributed partially to natural disasters and interruption in the completion of the mega resort Baha Mar.⁵ Hurricane Mathew, which hit The Bahamas in 2016,

¹ World Development Indicators, World Bank. Data corresponds to 2014.

² World Travel & Tourism Council (WTTC),

³ Bahamas Ministry of Tourism

⁴ Private Sector Note 2017.

⁵ The opening of the Baha Mar resort in April 2017 is expected to have a significant impact on investment and employment. Economist Intelligence Unit 2017. IMF Article IV Report 2017

significantly impacted tourism activity, while Hurricanes Irma and Maria also also affected the Bahamas in September 2017, showing the countries' vulnerability to natural disasters and external shocks⁶.

- 2.2 Financial services constitute a relevant sector of the Bahamian economy due mainly to the offshore banking center, as the offshore sector represents around 20 per cent of the GDP. Financial system assets are concentrated in the offshore sector and face challenges due to the loss of correspondent banking relationships and the global efforts to strengthen global tax transparency standards.⁷
- 2.3 The Bahamas is made up of approximately 700 islands and over 2000 cays, spread across a range of some 100,000 square miles, which remains highly vulnerable to environmental impacts and provides challenges in terms of sustainable economic activities.
- 2.4 **Innovation and Productivity in Firms.** The Bahamas is also characterized by a strong geographical concentration of economic activities, which results in very unequal income distribution. Production and services are concentrated in New Providence and the larger islands, while the numerous Family Islands have lagging entrepreneurship and are far from achieving a satisfactory level of agricultural production and exploiting the opportunities offered by the tourism and services industries,⁸ while having very fragile ecosystems.
- 2.5 In addition to a highly concentrated economy, Bahamian firms face challenges with competitiveness and innovation. Only 19.73% of firms are large (over 100 employees), and only 6.7% of large firms, 16% of medium-sized firms and 12.7% of small firms export.⁹ Private sector firms also experience low productivity (17% lower than the Caribbean average), low complexity (existing industries are not closely connected and face challenges in upgrading goods or moving to other industries), insufficient innovative activity (only 22% of the firms innovate and innovation is more prevalent in the manufacturing sector while 56% of Bahamian firms are *potentially* innovative)¹⁰. Firms in The Bahamas face high energy costs, low infrastructure availability, high crime, and financial limitations, as well as a business and innovation climate that requires modernization.¹¹
- 2.6 Thus, the Government of The Bahamas (GoB) is pursuing economic diversification as a key strategy for forging a more resilient growth trajectory,¹² focusing on the sustainable development of complex, sustainable and innovative industries, linked to global value chains with high expected global demand to support potentially emerging sectors that also respond to the islands' environmental challenges.¹³

⁶ Hurricanes Joaquin, Matthew and Irma caused over US\$672 million in damages and losses between 2015-2017

⁷ IMF Article IV. The Structure and Trends in the Bahamas offshore Sector IMF. 2017

⁸ The Family Islands account for approximately 15% of total population. E Philippe Schneuwly BAHAMAS: A Road Map for Improving the Business Climate for SMEs Report (2007)

⁹ World Bank Group Enterprise Surveys: Bahamas (2010).

¹⁰ Bahamian firms state concerns about: (i) copyrights protection (44%); (ii) the relationship between remuneration and innovation (55%); (iii) difficulties in collaborating with other companies (39%); (iv) a perception that innovative products and services will not be successful in the market (48%); (v) time to market (42%); and (vi) funding (39%) PROTEqIN Survey. Private Sector Competitiveness Note. 2017.

¹¹ Private Sector Note 2017.

¹² CDC Bahamas. 2017.

¹³ Private Sector Competitiveness Note. 2017.

- 2.7 **Potential for diversification through the digital economy:** The technological indicators in the Bahamas are low, including subscription to broadband and cellular, publication of scientific paper, the granting of patents and expenditure in technology, while mobile and broadband price rates are the highest in the World (53rd and 56th respectively)¹⁴. The GoB is committed to the transformation of the Bahamian economy to a digital one as a means of generating viable opportunities for Bahamians to participate in the global economy,¹⁵ by driving and incorporating digital transformation tools that lead to growth.¹⁶ Digital technology offers the opportunity to small Bahamian businesses worldwide to use digital platforms to connect with suppliers and customers in other countries and access new markets' overcoming some of the natural constraints. Bahamian firms that incorporate digital technologies into their business strategy will be able to drive digital transformation and create new and innovative business models that lead to growth.¹⁷ Aside from the productivity-enhancing impact of strengthening the use of digital technology by all Bahamian firms, there is a small information technology sector that already exists in The Bahamas, and that is characterized by high levels of innovation.¹⁸
- 2.8 **Potential for Diversification through Blue Economy.**¹⁹ Every year, the Bahamas loses 1.99% of its GDP due to climate change shocks, particularly from extreme weather events that cause floods and sea surges. Its high dependency on imports such as oil and food, impact not only the competitiveness of traditional sectors, but also its security as a nation. The Bahamas' sea zone (estimated to be 242,970 square miles²⁰) represents a greater significant amount of development space in comparison to the country's limited land area, yet the potential of oceans as a sustainable and viable avenue for creating more value and long term economic growth has not been fully explored. The harmonization of ocean-based economic activities with the long-term capacity of ocean ecosystems to support such activities whilst remaining resilient and healthy²¹ could be the core of a Blue or sustainable ocean economy for The Bahamas.
- 2.9 Thus, there is an opportunity for diversification by developing an ecosystem for promoting entrepreneurship and product development in the circular economy that builds on work being done by the IDB, such as the BA-L1043 "Climate Resilient Coastal Management and Infrastructure Program," Ecosystem-based Development for Andros Island", the "Development of Sustainable Islands Initiative, ATN/ME-15441-BH Revitalization of the Sponging Industry and ATN/ME-14853-BH Empowerment of the

¹⁴ Bahamas CDC. 2016.

¹⁵ [The Future of Digital Trade in the Bahamas Statement](#). April 26, 2017.

¹⁶ Throughout the world, digital flows of data and information now exert a larger impact on GDP growth than traditional models based on trade in goods and services G. C. Kane, D. Palmer, A. N. Phillips, D. Kiron and N. Buckley, "[Strategy, Not Technology, Drives Digital Transformation](#)" MIT Sloan Management Review and Deloitte University Press, July 2015, McKinsey.

¹⁷ G. C. Kane, D. Palmer, A. N. Phillips, D. Kiron and N. Buckley, "Strategy, Not Technology, Drives Digital Transformation" MIT Sloan Management Review and Deloitte University Press, July 2015.

¹⁸ All firms in the information technology sector in The Bahamas innovate, meaning that they have introduced new products and/or services in the past 3 years (PROTEqIN 2014 survey).

¹⁹ The Blue Economy is understood as a range of economic sectors and related policies that together determine whether the use of oceanic resources is sustainable. The concept of the Blue Economy encourages the integration of nature inspired innovations that are restorative and regenerative by design.

²⁰ Commonwealth Secretariat. 2015. "The Blue Economy Offers Rich Rewards to Countries that Seize the Moment". Available at <http://thecommonwealth.org/media/news/blue-economy-offers-rich-rewards-countries-seize-moment>

²¹ The Economist, 2015. The Blue economy: Growth, opportunity and a sustainable ocean economy. An Economist Intelligence Unit briefing paper for the World Ocean Summit 2015

Fly Fishing Guides²² such as building a platform for supporting island territories in applying the principles of the Blue and Circular economy. Blue Economy products explored in other countries include bioWave and bioStream energy (relying on the ocean instead of diesel generators), algae based textile products, integrated fish farming systems, and others could be applied in the Bahamian context.

- 2.10 **Boutique Agribusiness Products.** Although agriculture and fisheries contribute only 1.9% to the GDP of the Bahamas and account for 3% of employment, they are an important source of potential diversification of the economy²³. Approximately 17% of the total population live in rural areas and in some rural areas agriculture and fisheries are still the main employment opportunities. Most food (92%) is imported, however, whereas some specific fisheries and vegetables subsectors are export-oriented. The role of agriculture and fisheries in trade is more important than in production²⁴. Agri-food products represent 15% of total merchandise export earnings (which is slightly lower than the average in LAC countries, 23%). Fish and crustaceans account for over 90% of agri-food exports and are exported to the EU, USA and Canada. The volumes and values of fish exports, however, have decreased in recent years²⁵. In addition, the Bahamas used to export citrus, avocados and papaya, but exports ceased following pest incidents and extreme climate events. The key subsectors that present higher productivity and competitiveness and on which the country could rely on as a possible source of economic diversification are the following: citrus, avocados, mangoes²⁶.
- 2.11 In this context, the agricultural policy of The Bahamas is deeply integrated in the country's economic policy, as the Government is trying to reverse the trend of economic slowdown that continued into 2016 for the fourth year in a row. Both agricultural and food production in The Bahamas increased significantly in the 2000s. Crops and livestock production, while remaining a small part of the economy, have been growing in the past 15 years. Crop farming mainly produces citrus, fruit and vegetables (tomatoes and onions, produced mainly for local consumption, but with a potential to expand for export) and the livestock sector almost entirely consists of poultry production²⁷.
- 2.12 The Government of The Bahamas supports agriculture through a combination of value chain development measures, research and extension services, infrastructure development and border protection²⁸. However, the agricultural sector in The Bahamas still faces several challenges, such as high trading costs across borders, high transport costs between islands, lack of human capital and land property rights, management of agrochemicals, lack of information, and exposure to climate change, among others.

²² In particular, the Sustainable Islands Initiative will provide knowledge and a conceptual framework for the application of the Blue Economy in the Caribbean.

²³ Support to Agricultural Policy Analysis in the Caribbean: Agricultural Public Support Analysis Based on Producer Support Methodology: The Bahamas 2017. (Draft) Shick, Boyce and De Salvo.

²⁴ Ibid.

²⁵ According to the Bahamas Department of Marine Resources in 2013, domestic exports related to fisheries were valued at \$91.7 million (25.2 %) of the \$364.4 million total recorded domestic exports. Since 2000, the contribution of the fisheries industry to total domestic exports have been falling—from 36.2% (\$244.2 million) in 2000 to 25.2% (\$91.7million) in 2013

²⁶ As evidenced in the analysis carried out by the Bahamas PSE report 2017

²⁷ Shick, Boyce and De Salvo. 2017

²⁸ Domestic policy support is provided mainly through BAMSI, and while its main mission is to provide education and extension services, BAMSI is also directly involved in agricultural production and marketing. Another government entity, BAIC, is also directly engaged in farming and agroprocessing

These challenges are more adverse in the Family Islands, where the larger potential for blue economy lies.

- 2.13 Several Ministries and agencies will be involved in economic diversification efforts, such as the Ministry of Finance, Ministry of Agriculture and Marine Resources, the Ministry of Financial Services, Trade and Industry, Ministry of the Environment, the Department of Information Technology as well as private stakeholders. Even though there are three different sectors involved, there are many cross cutting issues such as public private dialogue, resilience and sustainability, identification of market failures and human capital that will require coordination efforts and capacity building the mentioned agencies and Ministries.
- 2.14 The present TC seeks to support the GoB diversification efforts by carrying out in-depth analyses of three potential sectors: (i) digital technology and ICT; (ii) “blue economy” products²⁹; and (iii) “boutique” agribusiness products³⁰. These areas have been pre-identified as areas of interest that could provide (i) high-value opportunities to diversify away from traditional exports; (ii) export-oriented activities (both goods and services); (iii) feasible opportunities that build on current capabilities; and (iv) activities driven by the private sector but that would benefit from coordinated support from Government.³¹ The activities undertaken through this TC may reveal complementary sectors of focus for the Government of The Bahamas to take into consideration.
- 2.15 The present TC is aligned with the Bahamas 2013-2017 Country Strategy under the private sector pillar, as this intervention will contribute to the economic diversification of the economy. In addition, The Program is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (GN-2788-5) and is aligned with the development challenge of productivity and innovation. The program is also aligned with the cross-cutting themes of: economic and social impacts of climate change adaptation and mitigation, institutional capacity and the rule of law and environmental sustainability. The present TC also complements previous activity from Compete Caribbean in the Bahamas, as with funding from the first phase of the program, the Bank gave technical assistance to the Bahamas to diversify its tourism portfolio by helping the country develop a geo-tourism product backed by the National Geographic Society in the Family Islands. Compete Caribbean also collected data in 2010 and 2013 at the firm-level of a representative sample of Bahamian firms across industrial and service sectors. This unique dataset has allowed the IDB to identify sectors with a greater propensity for innovation, as well as to better understand the barriers to innovation in the Bahamas.

III. Description of activities and outputs

- 3.1 The TC will have two components focused, respectively, on policy instrument design; and stakeholder sensitization and capacity building.
- 3.2 **Component I: Diagnostic and Action Plan for selected sectors (US\$375,000).** The proposed TC will finance: (i) a comprehensive diagnostic of the three industries (digitally-based businesses, blue economy and agri-boutique) to identify key stakeholders (both at the local and international level), identify international trends, gaps and opportunities for insertion through value chains, and develop a strategy and detailed road map for developing the sector including access to local and international markets

²⁹ For Example, seaweed, sponge, sand, aragonite, salt

³⁰ For example, cascarilla bark

³¹ University of Cambridge and Policy Links. Roadmapping Methodology. 2017.

and define the required interaction through a cluster and/or value chain strategy including strategic investments and club goods; (ii) capacity building and sensitization with the relevant stakeholders (including private sector leaders, public institutions and other key actors) in a participatory process to identify sectoral opportunities for economic diversification within the three priority industries, and building the commitment and governance required if a cluster or value chain approach is recommended; and (iii) identification of policy instruments required to accelerate the expansion of the three priority industries and the economic diversification process. This will include an analysis of the necessary policies, regulations and governance structure and changes needed, assessment of the capacity needs and skillsets required, access to finance tailored to the sector needs,³² a reduction in the data gaps, in particular on the spatial dimension, and an analysis of the value and status of the natural assets of the country particularly to improve spatial planning of the ocean–space and the territory. As cross cutting issues for each sector the topics of introducing digital technologies and business practices, climate change resilience the use of big data to better understand the sectors will be included. Expected results include a detailed, time bound action plan for each one of the sectors, discussed and agreed with relevant stakeholders.

- 3.3 Component II: Implementation of Strategic Milestones (US\$75,000).** This component will promote stakeholder ownership and commitment; establish a structure for driving the implementation of the road-map; and initiate immediate actions (“low hanging fruits”) utilizing available resources. Examples of possible actions could be regulations to address standards and quality for export, phytosanitary and environmental regulations, capacity building and training of both public and private stakeholders, organic, free trade, green certifications, branding and commercial activities, market and cost analysis. The implementation of the immediate actions will play a key role in the sustainability of the efforts undertaken by this TC until further resources are identified for execution.
- 3.4 Component III. Diffusion, Monitoring and Evaluation (US\$50,000).** This component will finance communication campaigns to promote the findings from the studies, and awareness campaigns between the public and private stakeholders that will support the creation of networks and communities with the stakeholders. In addition, a monitoring and evaluation system with indicators regarding the sectors performance will be included.

Indicative Budget (in US\$ dollars)

Activity/Component	Description	IDB/Fund Funding	Institutional Fund	Sustainability Fund	Compete Caribbean
Component 1: Roadmapping for Strategic Sectors	Roadmapping for Strategic Sectors, comprehensive diagnostics, gap analysis, stakeholder analysis and consultation and strategy for promoting growth	375,000	125,000	250,000	0
	- Roadmapping and Analysis for Digital Technology and ICT	125,000	125,000	0	0
	- Roadmapping and Analysis for Blue Economy Products	125,000	0	125,000	0
	- Roadmapping and Analysis of Boutique Agribusiness Products	125,000	0	125,000	0

³² For example, financing climate change adaptation and mitigation

Activity/Component	Description	IDB/Fund Funding	Institutional Fund	Sustainability Fund	Compete Caribbean
Component 2: Implementation of Strategic Milestones	Implementation of Strategic Actions identified in component 1 for each sector.	75,000	75,000	0	0
Component 3: Diffusion, Monitoring and Evaluation	Communication campaigns to promote the findings of the analysis plus awareness campaigns for the stakeholders, Monitoring and Evaluation system	50,000	0	0	50,000
	- Communication and Awareness Campaigns				25,000
	- Monitoring and Evaluation Framework				25,000
TOTAL		500,000	200,000	250,000	50,000

IV. Executing Agency and Execution Structure

- 4.1 Due to the number of different institutions and stakeholders involved, the execution will be carried out by the Bank, through Competitiveness and Innovation Division (IFD/CTI) in coordination with the IDB Country Office in the Bahamas, to ensure proper coordination of the different actors. The Ministry of Finance will be actively involved as they will take on the leadership and active participation in the procurement processes and the line Ministries will participate in the relevant sectors.
- 4.2 **Procurement.** The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with Bank's current procurement policies and procedures.
- 4.3 **Evaluation.** As part of the activities of the consultancy, a monitoring and evaluation framework that includes key indicators for each one of the three sectors. The Bank, through CTI and the Country Office Bahamas will supervise the operational activities related to the project. The Competitiveness and Innovation Division will be in charge of the technical content of the activities. The Bank will prepare technical reports every six months with information about activities, products and results achieved over the last period. The reports will include a schedule for using the resources over the next six-month period together with information on lessons learned. Additionally, the technical cooperation will have an external evaluation by an independent consultant, paid by the project, who will certify the fulfillment of the indicators and goals included in the results matrix

V. Project Risks and Sustainability

- 5.1 The level of commitment and collaboration amongst public and private stakeholders to implement the strategies produced under this TC constitutes a key risk for the sustainability of this project. To ensure agency and ownership of the strategies that will emerge from the project, Component II will finance campaigns, capacity building, and dialogues amongst stakeholders crucial to developing a multi-agency coordination mechanism for reaching consensus around immediate actions that can be taken to start implementation using existing resources. In addition, the different public institutions involved, as well as the diversity of private actors, creates the risk of poor coordination.

This risk will be mitigated by having the Bank executing the TC to ensure involvement and coordination of all the actors.

VI. Environmental and Social Considerations

- 6.1 Special consideration will be given to the inclusion of women and youth, in particular regarding their participation in the economic activities in the sector and in the provision of required training and capacity building. Given the nature of the project, there are no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as “C”, meaning that no environmental assessment studies or consultations are required for this category. See [Safeguard Policy Filter](#) and [Safeguard Screening Form](#).