

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **THE COMMONWEALTH OF THE BAHAMAS**

### **AIRPORT INFRASTRUCTURE PROGRAM**

**(BH-L1041)**

#### **LOAN PROPOSAL**

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2. <a href="#">Annual Operational Plan (POA)</a>
3. <a href="#">Monitoring and Evaluation Plan</a>
4. <a href="#">Environmental and Social Management Report (ESMR)</a>
5. <a href="#">Procurement Plan</a>
<b>OPTIONAL</b>
1. <a href="#">Feasibility studies for the rehabilitation of a selection of Bahamian airports</a>
2. <a href="#">Cost Benefit Analysis</a>
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<b>ABBREVIATIONS</b>	
AFI	Aerodrome Flight Information
AOP	Annual Operational Plan
IDB	Inter-American Development Bank
CRF	Corporate Results Framework
CS	Country Strategy
ERR	Economic Rate of Return
ESAR	Environmental and Social Assessment Report
ESMR	Environmental and Social Management Report
ESS	Environmental and Social Strategy
ENPV	Economic Net Present Value
FBO	Fixed-Base Operator
FI	Family Islands
GDP	Gross Domestic Product
GHG	Green House Gas emissions
ICAO	International Civil Aviation Organization
IIC	Inter-American Investment Corporation
ILO	International Labor Organization
INDC	Intended Nationally Determined Contribution
LAC	Latin America and the Caribbean
LPI	Logistics Performance Index
PEP	Project Execution Plan
PIU	Program Implementation Unit
PBL	Policy Based Loan
POD	Proposal for Operation Development
PSC	Program Steering Committee
MTA	Ministry of Transport and Aviation
MWUD	Ministry of Works and Urban Development
OAG	Official Airline Guide
OAG	Office of The Auditor General
POM	Program Operating Manual
PPP	Public Private Partnership
RFF	Rescue and Fire-fighting vehicles
SPF	Safeguard Policy Filter
SSF	Safeguard Screening Form
TC	Technical Cooperation
UIS	Update to the Institutional Strategy
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change

**PROJECT SUMMARY**  
**THE COMMONWEALTH OF THE BAHAMAS**  
**AIRPORT INFRASTRUCTURE PROGRAM**  
**(BH-L1041)**

Financial Terms and Conditions				
<b>Borrower:</b> The Commonwealth of The Bahamas			<b>Flexible Financing Facility<sup>(a)</sup></b>	
			<b>Amortization Period:</b>	25 years
<b>Executing Agency:</b> Ministry of Transport and Aviation (MTA)			<b>Original WAL:</b>	15.25 years
			<b>Disbursement Period:</b>	5 years
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Grace Period:</b>	5.5 years
<b>IDB (OC):</b>	35,000,000	65	<b>Supervision and Inspection Fee:</b>	(b)
			<b>Interest rate:</b>	Libor based
			<b>Credit Fee:</b>	(b)
<b>Local:</b>	18,800,000	35	<b>Currency of Approval:</b> United States dollars chargeable to the Ordinary Capital	
<b>Total:</b>	53,800,000	100		
Project at a Glance				
<p><b>Project Objective/Description:</b> The main objective of the program is to contribute regionally and globally to the sustainable integration of The Bahamas through secure air transport infrastructure improvements in the Family Islands (FI) airports. Specifically, the program aims to improve air transport connectivity and flow of people to the FI. Such connectivity will be done through infrastructure improvements and climate change resilience by upgrading, rehabilitating and maintaining selected airports to comply with international aviation standards taking into account climate change considerations. The operation is expected to generate travel time savings.</p>				
<p><b>Special Contractual Clauses prior to the first disbursement:</b> The Executing Agency shall provide evidence that: (i) a Program Implementation Unit (PIU) has been created and a program coordinator, procurement, financial, monitoring and evaluation specialists have been selected, pursuant to the terms of reference satisfactory to the Bank; and (ii) the Program Operating Manual (POM) has been approved in the terms previously agreed with the Bank, including fiduciary management arrangements and execution plan (¶3.5).</p>				
<p><b>Special Contractual Clauses of execution:</b> Prior to the execution of works in each airport, the Executing Agency shall present evidence: (i) that an Environmental Assessment or Environmental and Social Impact Assessment (ESIA) if required by local law, including an Environmental and Social Management Plan (ESMP), covering both the works contemplated in the airports facilities and related to the airports operation, is prepared and consulted with relevant affected parties to the satisfaction of the Bank; and (ii) of compliance with the conditions established in the Environmental and Social Management Report (ESMR) and the POM (¶2.3).</p> <p>Prior to the tender of the works the Executing Agency shall present evidence that: the construction designs for tender have been finished in accordance with the terms previously agreed with the Bank and that the Bank's non-objection has been granted (¶2.8).</p>				
<b>Exceptions to Bank Policies:</b> None				
Strategic Alignment				
<b>Challenges<sup>(c)</sup>:</b>	SI <input type="checkbox"/>	PI <input type="checkbox"/>	EI <input checked="" type="checkbox"/>	
<b>Cross-Cutting Themes<sup>(d)</sup>:</b>	GD <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input type="checkbox"/>	

<sup>(a)</sup> Under the Flexible Financing Facility (FN-655-1), the borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

<sup>(b)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

<sup>(c)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(d)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, Problem Addressed, Justification

- 1.1 **Background.** The Commonwealth of The Bahamas (The Bahamas) is located in the northeastern Caribbean region, and is comprised of 700 islands and cays with a total land area of 5,383 square miles spread over 100,000 square miles. The total population is 367,000<sup>1</sup> people of which 70.4% reside in New Providence, 14.6 % reside in Grand Bahama and the remainder is scattered among the other 28 islands, the Family Islands (FI).<sup>2</sup> The distances, remoteness and low population densities of the Bahamian islands present significant challenges to the transportation sector within the country. Residents and tourists of the archipelago depend mainly upon the airways for inter-island and international transport, while bulk cargo is largely transported by water.
- 1.2 The internal Bahamian market is small compared to its population size, and the production base primarily comprises tourism and financial services, which account for 70% of output. About 90% of tourists are from a single country, the USA, which also accounts for 90% of imports and 70% of exports. Despite a relatively high income per capita, given the distribution of the small population throughout 28 inhabited islands, there are substantial differences in their population density, economic activity and development.<sup>3</sup> Furthermore, demands are placed on the budget to provide the same level of public services to all citizens throughout The Bahamas.
- 1.3 **The air transport sector in the Caribbean.** The Caribbean region has a capacity of 77.1 million seats –domestic and international– the third largest in the Latin America and Caribbean (LAC) region after Brazil (158.5 million) and Mexico (94.5 million). It is also the first in international seat supply, 61.9 million, followed by Mexico with 46.9 million. This large capacity is due to the high dependence on tourism and the archipelagic nature of the islands. Cuba, Haiti, and Dominican Republic’s seat supply has increased during the 2005-2013 period, whereas that of the Lucayan, Greater and the Lesser Antilles of the Caribbean has decreased (Figure 1). A large number of airports bring accessibility to the region, resulting in a low traffic concentration and no important airport hub –the top ten airports of the Caribbean<sup>4</sup> only account for the 57% of the Caribbean’s capacity.

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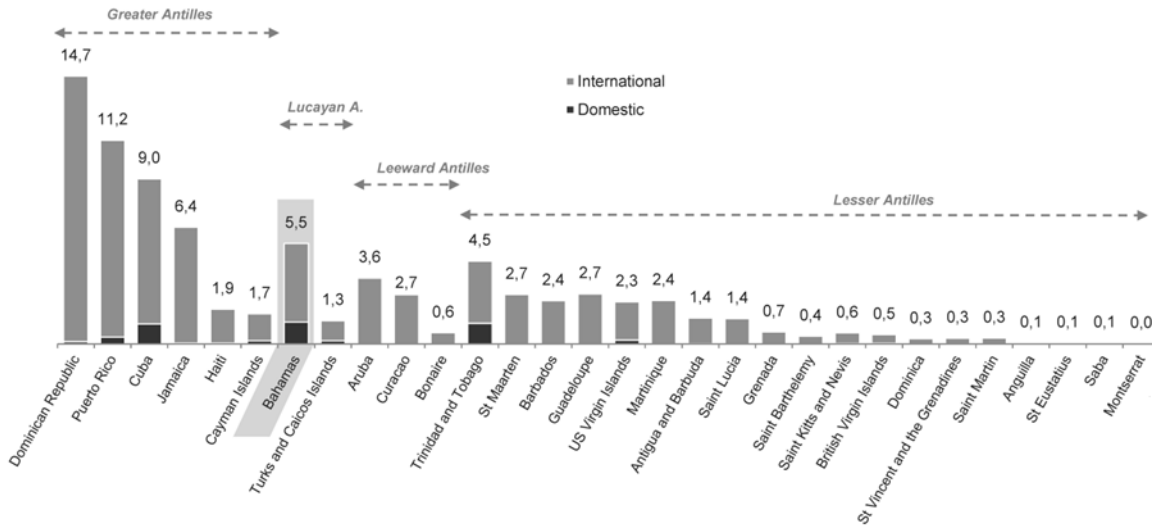
<sup>1</sup> The Bahamas in Figures 2013. The Department of Statistics, The Bahamas.

<sup>2</sup> The population of the Family Islands (FIs) -all islands other than New Providence and Grand Bahama- is largely concentrated in four islands: Abaco, Andros, Eleuthera and Exuma. These islands account for 74% of the remaining population.

<sup>3</sup> 90% of all economic activity is generated in a single island: New Providence, which is also the location of the capital city, Nassau. The 2013 Gini coefficient (inequality) for the country is relatively high at 0.41.

<sup>4</sup> San Juan 10,3 million seats; Punta Cana 7,3; Havana 4,9; Nassau 4,5; Santo Domingo 4,5; Montego Bay 4,4; Port of Spain 4,4; Aruba 3,6; Pointe-a-Pitre 2,7; and St Maarten 2,7.

Figure 1. Scheduled seat supply – in millions, 2015



Source: Advanced Logistics Group, 2015

- 1.4 **The air transport sector in The Bahamas.** Air transport is critical to the health of the tourism industry in the country, representing an exclusive mode of transport for tourists with overnight hotel stays. In 2013, air arrivals totaled 1.28 million passengers;<sup>5</sup> out of which 80% arrived from the USA. International tourism arrivals in The Bahamas have a growing proportion of passengers arriving by cruise ship as opposed to air.<sup>6</sup> Such a change in tourist type could affect the indirect and induced employment since there is a lower consumption in hotels, food, beverages and tourism services. In addition, air transport also plays a pivotal role in ensuring the population of the FIs accessibility to goods and services only offered on New Providence or abroad. In many cases, air transport is the only reasonable option available to isolated island communities for the movement of people across significant distances.
- 1.5 There are a total of 53 licensed airports in The Bahamas: (i) 18 airports serve as international ports of entry with customs and immigration facilities, while also providing domestic services; (ii) 8 solely serve to the domestic commercial market; and (iii) 27 are secondary airports for general aviation, out of which 22 are private. Lynden Pindling International Airport in Nassau, is the main international gateway and domestic hub of The Bahamas, concentrating over two thirds (68%) of the available domestic and international seats; Grand Bahama International Airport in Freeport, is second in importance with 11% of capacity; Marsh Harbour, Exuma and North Eleuthera follow, each with approximately 4%; the remaining airports account for 9%.<sup>7</sup> Air transport in The Bahamas is provided by 17 international and 5 domestic airlines, including the Bahamian flagship carrier *Bahamasair*. The international airlines connect The Bahamas directly to Canada, Jamaica, the United Kingdom, Cuba, and the USA.

<sup>5</sup> The Bahamas in figures, 2013. The Department of Statistics of The Bahamas.

<sup>6</sup> Approximately 80% of all tourist arrivals in The Bahamas are cruise ship passengers. However, average expenditure per cruise ship passenger (US\$82,38) is far lower than that per stopover (air) passenger (around US\$1,300).

<sup>7</sup> Data provided by the MTA.

Nassau is connected with non-stop services to 21 markets in the USA, the Caribbean, Canada, and the United Kingdom.

1.6 **The importance of Exuma, North Eleuthera and Marsh Harbour/Treasure Cay airports.** The FI airports are divided in three Tier levels according to the facilities and services provided<sup>8</sup> ([OEL#6](#)). Marsh Harbour / Treasure Cay airports, located in Abaco; Exuma airport (also known as George Town airport), located in the Exumas; and North Eleuthera airport, located in Eleuthera and Harbour Island,<sup>9</sup> are the top Tier 1 airports by number of passengers. These airports represent a significant port of entry for the FI with economic opportunity to be operationally sustainable. The airports have both international and national destinations, summing in 2015 up to 187,100 passengers in Exuma; 120,000 passengers in North Eleuthera; and 328,400 passengers in Marsh Harbour/Treasure Cay; accounting for 57% of the FI traffic. The total traffic for the 4 analyzed airports is expected to grow at an annual ratio of 2.9% reaching 1.45 million passengers by 2042. North Eleuthera and Exuma Airports are currently at capacity while Marsh Harbour Airport joint with Treasure Cay, is expected to reach saturation level in the mid-term (2020-2030).

1.7 Marsh Harbour airport, the highest traffic level in the FI, has seven international regular destinations, all of them in North America. Almost 50% of the scheduled commercial flights are operated by aircrafts with less than 35 seats and only 20% of the flights are operated with medium-large aircraft. Treasure Cay airport functions as a Marsh Harbour complement ([OEL#12](#)) since both are located only 45 km away. It receives those flights that cannot be operated from Marsh Harbour airport, because of its shorter runway length,<sup>10</sup> and it serves as a second air transport infrastructure in order to mitigate the risk of infrastructure availability.<sup>11</sup> Exuma and North Eleuthera airports, the second and third respectively highest traffic level in the FI, have four international regular destinations and two domestic connections. 60% of its commercial flights are also used by aircrafts with a capacity inferior to 35 seats and only 4% with medium-large aircraft.

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<sup>8</sup> Six Tier 1, seven Tier 2, and fifteen Tier 3 airports. Several Tier 2 and Tier 3 airports do not have commercial operations. Tier 2 airports provide customs services where there is existing international traffic to support shared services, Tier 3 airports only offer domestic services subject to local coordination.

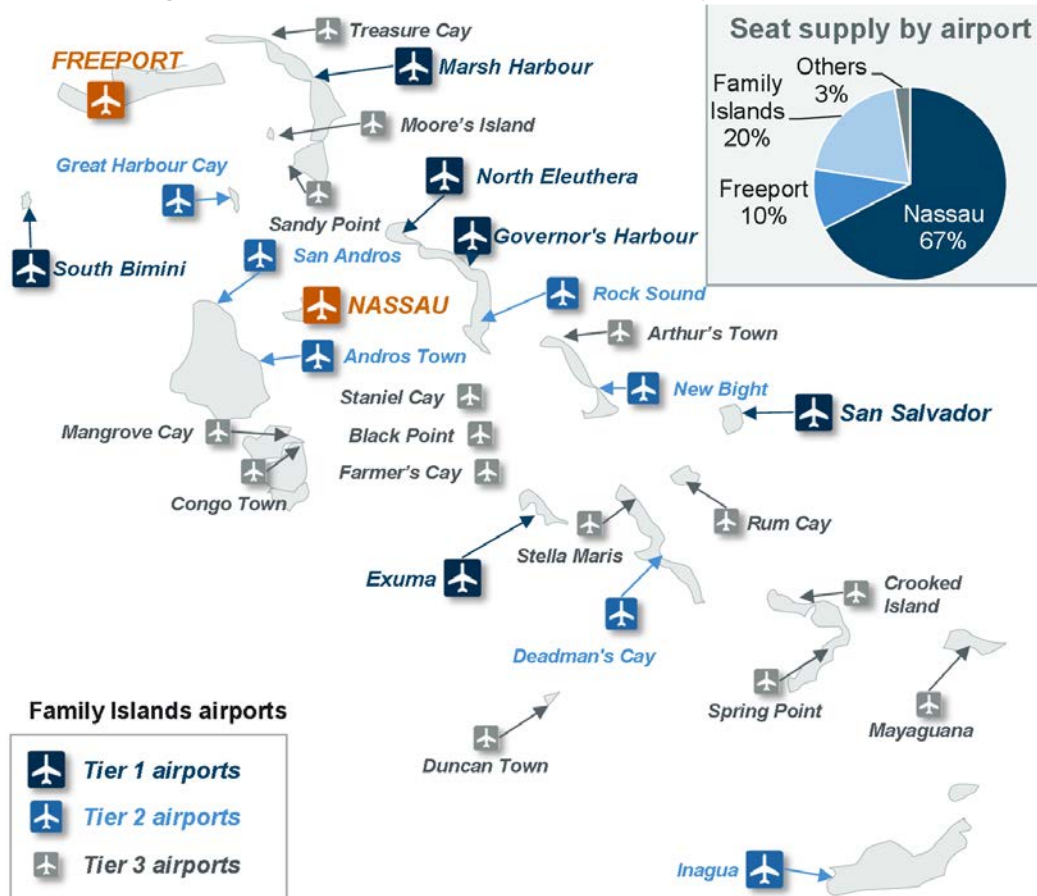
<sup>9</sup> Abaco has a population of 17,097 inhabitants; 921 hotel rooms and 91,804 stopover visitors annually with an average length of stay of 10.1 days (2013). The Exumas Islands have a population of 6,928 people; 755 hotel rooms; 41,062 visitors annually and an average of 8.2 of length of stay (2013). Eleuthera and Harbour Island have a population of 11,515 people; 563 hotel rooms; 35,510 visitors and 8.8 average length of stay (2013).

<sup>10</sup> Marsh Harbor runway is 1,859 x 30 m, restricting the operation of wide-body aircraft. Only narrow body and regional aircraft can operate such as the Boeing 737 and part of the Airbus A320 family, covering destinations located in east and central USA, southeast Canada, Central America and the Caribbean. Treasure Cay's 2,134 x 45 m runway is able to accommodate all target aircraft: all narrow-body aircraft with no further restrictions and some wide-body aircraft with some weight restriction allowing flights from the entire USA, Canada and Europe. Moreover to receive these target flights that cannot be operated from Marsh Harbour, Treasure Cay accounts routes with Fort Lauderdale (9 freqs/week) and Nassau (2 freqs/week).

<sup>11</sup> Climate related events can risk the availability of Marsh Harbour airport (¶1.10). In that case the existence of second facilities, such as Treasure Cay, becomes essential for the supply of air transport services.



Figure 2. Location of Nassau, Freeport and Family Islands airports



Source: Advanced Logistics Group, 2015

1.8 **Institutional organization.** The Ministry of Transport and Aviation (MTA) organizes, carries out and promotes measures for the development of civil aviation and for the advancement of safety and efficiency in the use of civil aircraft. The MTA is responsible for: (i) overseeing the operation and development of air transport; (ii) development of regulations; (iii) establishing and implementing State Safety Programs for civil aviation; (iv) the provision of adequate systems for air navigation and air traffic services; (v) establishing and maintaining aerodromes; and (vi) contracting the supply of goods and execution of works for the discharge of its functions.<sup>12</sup> The MTA through The Bahamas Civil Aviation Authority is in charge of implementing safety programs and performs security operations, and can be considered as the main responsible for the operation of Exuma, North Eleuthera, and Marsh Harbour / Treasure Cay airports. As a result of the reforms promoted in the sector (§1.16) the Airports Authority (AA), depending from the MTA, will be responsible for the operation of all Family Island airports. AA is already responsible of the management scheme in Nassau airport through a private operator.<sup>13</sup>

<sup>12</sup> [Civil Aviation Bill.](#)

<sup>13</sup> The government entered into a 10-year management agreement with Vantage Airport Group, for the management, operation and redevelopment of the Lynden Pindling International Airport, evidence in the country of airport infrastructure development and airport management.

- 1.9 The Ministry of Works and Urban Development (MWUD) is organized in the Department of Public Works, Building Control Division, Urban Development and the Department of Physical Planning, and its main responsibilities are the construction, maintenance and upkeep of public infrastructure including government buildings, roads and road corridors among others. The principal legislation administered by the MWUD include the related with Public Works<sup>14</sup> and Building Regulations.
- 1.10 **Climate change.** The Bahamas, as a small island developing state, is highly vulnerable to the impacts of climate change primarily because of its fragile ecosystems and geographic location. A study on historical climate trends and projections in The Bahamas ([OEL#5](#)) shows that temperatures have increased at a rate of 0.13°C/year between 1901 and 2014 and are projected to keep on increasing toward the 2050's.<sup>15</sup> Historically, mean rainfall has overall increased 0.092 mm/month and is projected to decrease during the dry season and increase during the wet season toward the end of the century.<sup>16</sup> Hurricanes have dramatically increased in frequency and duration since 1995, and are projected to keep on increasing in frequency and become stronger -Eleuthera seems to be especially susceptible to these climatic events. Finally, observed regional sea level raise has been up to 3.2 mm/year from 1993 and 2010 and is projected to rise at a mean rate of 0.44 - 0.72 m by the end of the century. In light of this current, past and projected situation, it is recognized that The Bahamas, although only contributes with a very small amount of total greenhouse gas emissions, faces an overwhelmingly vulnerability to climate change effects. The Government has committed to take all necessary and feasible actions at the national and international levels to meet the United Nations Framework Convention on Climate Change (UNFCCC) goals. As a signatory country, it understands the need to implement both climate resilient interventions and to reduce its carbon footprint. Specific mention has been made to the transportation sector, as a main contributor to the country's GHG emissions profile, and interventions both in terms of adaptation and mitigation have been set as a priority.<sup>17</sup>
- 1.11 The Bahamas counts with a good set of building codes which contributes to the resilience of its infrastructure. The climate change standards being proposed as part of the design of the civil works refer to both adaptation and mitigation interventions - water conservation and energy efficiency measures ([OEL#14](#)). Also considerations related to future sea level rise will have to be taken into account for the proposed works in Marsh Harbour airport since the western end of its runway is in close proximity to the shoreline and vulnerable to inundation and/or coastal erosion. In the case of North Eleuthera airport, special attention to inundation and resilience to hurricanes will also be considered, part of its runway floods up to two times a year due to torrential rains, causing the airport to close in several occasions.

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<sup>14</sup> [Public Works Act.](#)

<sup>15</sup> Projected changes by 2039 for Great Exuma, Eleuthera and Great Abaco are increases in: 1.22-1.69°C, 1.18-1.74°C and 1.14-1.73°C, respectively.

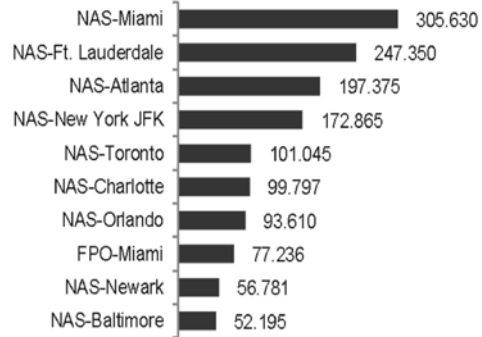
<sup>16</sup> Projected changes by 2039 for Great Exuma, Eleuthera and Great Abaco are: -10.21 to +21.10%, -4.97 to +11.82% and -4.97 to +11.82%, respectively.

<sup>17</sup> The Bahamas Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change, November 2015, as well as The Bahamas Second National Communication to the UNFCCC, September 2014.

1.12 **Air Transport and Regional Integration:**

Air transport plays a key role for the economic integration of The Bahamas, through its catalytic effects on tourism. The connectivity provided by international air transport facilitates the fast-growing global tourism industry by increasing the relative attractiveness to leisure travelers. The overall tourist growth between 2008 and 2014 was 1.2%. In terms of tourist arrivals for the regional Caribbean area, North America and European market share remained constant while Latin America market gained share (63.3%, 21.4% and 6.8% respectively). The Bahamas tourism market is one of the largest in the region, although its share decreased during the last decade.<sup>18</sup> International traffic to The Bahamas is very dependent on North America accounting for 96% of the international supply (airplane seats). Internally, the FI account for nearly 40% of the domestic traffic and 10% of the international traffic. Main routes of Bahamas' domestic market arrive/depart from Nassau, which accounts for 46% of the total seat supply.

**Figure 3. Top ten international routes by departing seats**



Source: Advanced Logistics Group, 2015

1.13 Airport infrastructure is an important element for economic integration given its potential influence on tourism generation.<sup>19,20</sup> Viable air transport links are one of the factors influencing the decision of international firms when investing in a country.<sup>21</sup> Improved connectivity and reduced travel cost can attract foreign direct investment, by contributing to the creation of a favorable business environment for foreign firms to operate within.<sup>22</sup> Air transport lies at the heart of global business and tourism, providing key infrastructures that connect cities and markets.<sup>23</sup> Particularly in The Bahamas, where tourism is the main export industry,<sup>24</sup> airport infrastructure is a key part of the whole integrated tourism system with commercial air transport services providing access to regional and global markets ([OEL#4](#)).

<sup>18</sup> The share of international tourism versus the Caribbean was 9% in 2006 and 6,9% in 2014 .

<sup>19</sup> Seetanah and Khadaroo (2009) concluded that in the Island of Mauritius a 10% increase in transport capital stock is seen to be associated with international integration such as a rise in the number of tourist arrivals to the order of 2.8% in the long run.

<sup>20</sup> An ex post evaluation on the Busuanga Airport Development Program in the Philipipines (KOICA, 2013) has shown an increase in the number of hotels, restaurants and resorts by about 1.5 times from 2010 to 2012, and tax revenues in 2012 were up by 2.3 times compared to 2006 before the airport developments were implemented.

<sup>21</sup> Hong (2007) state that foreign investors from manufacturing firms value cheap labor and convenient airway transport when making location decision. Source: Hong J. (2007). Firm-specific effects on location decisions of foreign direct investment in China's logistics industry. *Regional Studies* 41: 673-683.

<sup>22</sup> Research conducted by Bannò, M. and Redondi, R. (2014), evidences that improved air connectivity in Italy increased overall FDIs by 33.7 % in the 2 years after opening of the new routes. Source: Bannò, M. and Redondi, R. *Air*. (2014). "Connectivity and Foreign Direct Investments. The economic effects of the introduction of new routes".

<sup>23</sup> As stated by Oxford in *Economic Benefits from Air Transport in the Caribbean Islands*.

<sup>24</sup> According to The Bahamas' Central Bank, currency earnings from tourism totalized around \$2.2 billion in 2013, accounting for 77% of total export earnings.

- 1.14 **Identification of the problem.** The conditions of the FI main entry ports are limitation for the regional and global integration of The Bahamas. The main ports of entry for the FI, Exuma, North Eleuthera and Marsh Harbour/Treasure Cay, are in need of investment and require a wide range of aviation and infrastructure upgrades. Security deficiencies like visual aids, lighting and marking, mobile equipment, the layout of the runway, apron and taxiways,<sup>25</sup> impose a risk to the operation and compromises new traffic demand. The airports face challenges to meet the International Civil Aviation Organization (ICAO) safety and security standards<sup>26</sup> and to respond to events related to climate change. Such events require action in order to maintain certification by the Bahamian Civil Aviation Authority, to guarantee safety for passengers and crew, and keep the operation of this transport mode. Delayed implementation of these measures could also have an adverse impact on future traffic flows,<sup>27</sup> and the economy. For the country, to have a strong market presence in the competitive Caribbean tourism industry, it is crucial that the island gateway airports offer the highest possible level of safety and quality of aviation infrastructure and services.
- 1.15 According to traffic demands, various analyses performed have identified and prioritized required investments ([OEL#1](#) and [OEL#11](#)), and the revenues and costs expected from each airport. Increased capital expenditures to bring the airports up to ICAO standards, improve the operating procedures, safety management system, emergency response plans, and internal capabilities in the Bahamian Airports Authority are recommended. Enhancing of local capacities within the MTA and The Bahamas Airports Authority will be needed to put in place a management framework to ensure the sustainability of the upgraded assets, and a proper airport operation. This framework can take the form of a public-private partnership (PPP) with a risk sharing scheme or a management contract through an airport operator, as is current in place in Nassau.
- 1.16 **Bank experience in the sector.** The Bank has been involved in programs with The Bahamas to promote safe, secure and efficient air transport development in adherence to international standards. This is done through a comprehensive reform of the existing institutional and regulatory structure, which requires the implementation of new institutional, legal frameworks and master plans.<sup>28</sup> In order to promote these developments, the Bank has supported the country with two non-reimbursable TCs (ATN/MT-9073-BH<sup>29</sup> and ATN/OC-15345-BH)<sup>30</sup> and

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<sup>25</sup> As an example, North Eleuthera airport has a lateral separation between the aircraft parking area and the runway which forces aircraft to park within less than 75 m from the runway centerline. Other improvements would be adequate visual aids and improved conditions of the runway. Feasibility study ([OEL#1](#)) describes other security improvements needed.

<sup>26</sup> The required investment to meet ICAO standards focuses on the non-compliance related to airfield physical characteristics, maintenance and firefighting & security.

<sup>27</sup> Once each airport reaches saturation, it will start affecting demand growth as follows: (i) during the first 5 years after reaching saturation, demand will continue to grow unconstrained (assuming that airlines could adapt to the new situation by trying to operate off-peak periods); (ii) between years 5 and 15 after saturation, traffic growth rates could become 50% lower than the ones expected with upgraded airports; and finally (iii) after 15 years, it is considered that traffic will not continue to grow.

<sup>28</sup> Continuing the efforts of the Bank in the sector, it has been agreed with ICAO to implement a safety action plan for the Exuma, North Eleuthera, Marsh Harbour and Treasure Cay airports is to be implemented.

<sup>29</sup> Strengthening of Airport Security, US\$450,000 approved in January 2005.

<sup>30</sup> Support for the development of a National Airlift Diversification Plan, US\$500,000 approved in November 2015.

one Policy Based Loan (PBL) (2682/OC-BH)<sup>31</sup> which also includes a reimbursable TC component. The loan is a multi-tranche operation, having one tranche already disbursed and the conditions for the last tranche significantly advanced. Other experience of the Bank in the air transport sector can be seen in [OEL#15](#).

- 1.17 **Rationale for the Bank's participation.** The FI's air transport infrastructure is in need of improvements to comply with international aviation standards and to achieve a resilient stock of infrastructure against climate change. The IDB supports this improvement process given the Bank's experience in air transport infrastructure. This operation will finance the upgrade of the main airports in the FI -Exuma, North Eleuthera and Marsh Harbour/Treasure Cay- in order to ensure compliance with ICAO regulations and adaptation to climate change, increase capacity to attend high demands and ensure appropriate operation and maintenance. The selected airports have been prioritized in accordance with the Government's air traffic Master Plan ([OEL#7](#) and [OEL#8](#)) and validated by a feasibility study conducted during the program preparation as elaborated below ([OEL#1](#)).
- 1.18 The feasibility study entails a technical and financial assessment of the selected airports identifying the investments needed to support a secure airport operation in accordance to ICAO Annex 14 and 17.<sup>32</sup> A two phased approach has been followed for the study: (i) a preliminary overview of the potential opportunities for private investors in the airports; and (ii) a detailed feasibility assessment. In addition, a consultant has been engaged to undertake projections in order to: (a) assess local weather and climatological data assessment to determine norms and trends, and recent changes which have, or will yield climate change impacts; and (b) conduct a modeling exercise using data to make realistic projections on the likely future climate over the medium to long term for the country ([OEL#5](#)). This study will inform the design and execution of the civil works in selected airports under this program.
- 1.19 **Airport infrastructure development as a government priority.** Modernization of the air transport sector and its supporting infrastructure continues to be a high priority for the Government of The Bahamas given its importance to the country's economic drivers. This program follows the established Comprehensive Strategy for Optimization of the FI airports ([OEL#6](#)), and the guidelines of the MTA. FI airports have been evaluated by the government in order to provide the context for the technical assessments, recommendations and strategy for investment and policies that will shape the airport environment for years to come.
- 1.20 **The IDB's Country Strategy (CS)** The Commonwealth of The Bahamas 2013-2017 (GN-2731) identified the subject of efficiency of inter-island mobility across the 28 inhabited islands as one of the transport dialogue topics. This operation is also aligned with the priorities of the CS Coastal Risk Management and the Climate Change Adaptation, as it seeks to support the country to rehabilitate, update and provide climate resilience to the existing infrastructure and equipment to ICAO standards.

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<sup>31</sup> Air Transport Reform Program, 47.5 million approved in December 2011.

<sup>32</sup> [ICAO Aviation Security Policy Section](#).



- 1.21 **Strategic alignments.** The program is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and it is strategically aligned with the developmental challenges of economic integration. The program is aligned with the cross-country focus criteria, as it supports a national investment oriented to improve air transport connectivity and the integration of the FI into the national and regional economy, so as to contribute increasing the competitiveness of the country, supporting the diversification of the tourism sector and attracting foreign direct investment. The program is also consistent with the criteria of National Subsidiarity, as the project contributes to compliance with the international aviation security standards and recommended practices defined by the ICAO. The program is aligned with the UIS cross-cutting theme of climate change and environmental sustainability as the proposed intervention will address climate change adaptation. The program is further aligned with the IDB's Integrated Strategy for Climate Change Adaptation and Mitigation and Sustainable Renewable Energy (GN-2609-1) and the Action Plan (GN-2609-3). Additionally, the program is aligned with the Corporate Results Framework 2016-2019 (GN-2727-6) (CRF) by the following set of indicators that are included in the Results Matrix of the project: airports upgraded and operating which is consistent with the CRF indicator of "airports built or upgraded".
- 1.22 The program is aligned with the Strategy for Sustainable Infrastructure for Competitiveness and Inclusive Growth (GN-2710-5). The Strategy contributes by supporting transportation infrastructure, quality improvement and fostering private sector involvement in infrastructure. Moreover, the program is consistent with the Transport Sector Framework (GN-2740-7) contributing to the dimension of quality transportation infrastructure and services, and the Climate Change Sector Framework (GN-2835-3) as it relates to the promotion of risk reduction, climate change adaptation and the building of resilience to natural disasters and climate change.

## **B. Objective, Components and Cost**

- 1.23 **Objective.** The main objective of the program is to contribute regionally and globally to the sustainable integration of The Bahamas through secure air transport infrastructure improvements in the Family Islands (FI) airports. Specifically, the program aims to improve air transport connectivity and flow of people to the FI. Such connectivity will be done through infrastructure improvements and climate change resilience by upgrading, rehabilitating and maintaining selected airports to comply with international aviation standards taking into account climate change considerations. The operation is expected generate travel time savings.
- 1.24 **The program** is a multiple works investment loan and is divided in two components:
- 1.25 **Component 1. Civil Works and equipment.** This component will finance investments needed to upgrade the FI airports to comply with international aviation standards. Ranging from air and landside, the investments in equipment and infrastructure include security systems and specifications for adaptation and

mitigation of climate change.<sup>33</sup> Works will be undertaken within its current right of use<sup>34</sup> and include: (i) runway, taxiway and parking aprons to cater for projected traffic and climate resilience; (ii) runway lights, markings and fencing for safety and security compliances; and (iii) terminal works to equip the airports with infrastructure capable of handling passengers while providing energy efficiency and resilience to climate change. Equipment includes the Rescue and Firefighting (RFF) vehicles, and X-ray machines for passenger terminals. The Project Management and supervision of the works, the engineering designs, and the civil work contingencies are also considered within this component. A summary of the civil works to be undertaken per airport are described below, while a comprehensive description is presented in the [OEL#1](#).

- 1.26 To evaluate and implement the program, an analysis has been carried out of certain representative airports -more than the 30% of the loan amount<sup>35</sup>- for which preliminary engineering and economic studies and environmental and social assessments have been prepared ([OEL#1](#)). FI airports to be included in the program are subject to comply with the eligibility criteria (¶1.33).
- 1.27 Civil works and equipment considered are:
- 1.28 **Exuma airport.** Acquire fire fighting vehicle; install new aerodrome beacon and maintenance of runway lights; construct runway end safety areas; install wind direction indicator; partial reconstruction of existing Fixed-Base Operator (FBO) to handle commercial traffic; construction runway turn pads; repair apron floodlighting; define new marking for runway, taxiway and apron; install security fence to approximately 80% of the airport boundary, jet-blast deflector wall and security gates; construct new passenger terminal, car parking lot and access roads on the current location of the FBO; and construct new combined service building and associated car parking.
- 1.29 **North Eleuthera airport.** Construct new aerodrome beacon; install lights and windsock; acquire fire fighting vehicle and security equipment; construct runway end safety areas; expand runway turn pads; full runway re-paving; construct drainage wells at the lowest points of the runway; construct new commercial apron and two runway access taxiways, including lighting system; define marking for runway, taxiways and apron; install security fence and security gates; construct new passenger terminal, car parking lot and access roads; and construct new combined service building and associated car parking.
- 1.30 Design and civil works bidding documents for the Exuma airport has been assigned to an architecture firm; the civil works would be ready to start by the first trimester of 2017. Another architecture tender has already started in order to prepare the construction designs and civil works bidding documents for the North Eleuthera airport. A Project Management firm has also been contracted in order

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<sup>33</sup> Construction designs will consider [OEL#5](#) set of information to adequately dimension the upgraded infrastructure (drainage systems, pavement design, wind effects and load factor design, etc) and [OEL#14](#) for an efficient energy and water consumption.

<sup>34</sup> With the exception of a small area in North Eleuthera airport, registered as Common Land which will not require a jurisdiction modification.

<sup>35</sup> [OEL#13](#) provides a cost summary per airport.

to coordinate the construction designs and construction phase of Exuma and North Eleuthera airports.

- 1.31 **Marsh Harbour airport.** Install wind direction indicators and maintenance of runway lights; install obstacle hazard lights and markings; construct new aerodrome beacon; and terminal building repairs.
- 1.32 **Treasure Cay airport.** Acquire fire fighting vehicle and security equipment; define marking for runway, taxiways and aprons; construct runway end safety areas; construct runway turn pad; install security fence and security gates; and full terminal building refurbishment and repairs.
- 1.33 **Eligibility criteria.** The eligibility criteria for specific project financed-airports will be set out in the Program Operating Manual (POM) and relate to ensuring due technical, environmental and social feasibility such as: (i) having technical feasibility studies; (ii) fulfillment of the requirements set forth in the Environmental and Social Management Report (ESMR) ([REL#4](#)), including being categorized as B or C by the Bank as per its Environment and Safeguards Compliance Policy,<sup>36</sup> and (iii) an economic internal rate of return (EIRR) greater than 12%.
- 1.34 **Component 2. Implementation support and institutional strengthening.** This component will finance activities to develop capacities within the MWUD and the MTA to address the investments of the program, technical and environmental audits, program evaluations, and performance and completion reports. This component also comprises climate change knowledge training for the MWUD focusing on climate change projections for The Bahamas, its implications, responses and the incorporation of climate change into design and execution of civil works. Finally, this component will also finance the creation of a Program Implementation Unit (PIU) in charge of attracting others investments needed in the mid and long terms for the sustainability of the upgraded infrastructure. This unit will manage the technical and legal services needed to structure a management contract as soon as the investments are finished.
- 1.35 **Amount and structure of financing.** The program's total cost is US\$53.80 million of which US\$35 million will be financed with resources from the Bank's Ordinary Capital and US\$18.80 million will be financed with resources from the Government of The Bahamas local counterpart.<sup>37</sup> Table 1 details the costs and financing.

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<sup>36</sup> [Environment and Safeguards Compliance Policy](#)

<sup>37</sup> The local counterpart will be financed with resources from national budget or may be raised as part of the Public Private Partnership (PPP) structure.



**Table 1: Costs in million and financing structure**

Components		IDB		Local		Total
		US\$ millions	%	US\$ millions	%	US\$ millions
1	Civil works and equipment	33.00	64	18.80	36	51.80
1.1	Airport CAPEX infrastructure	33.00	66	16.70	34	49.70
1.2	Security equipment and RFF vehicles	0.00	0	2.10	100	2.10
2	Implementation support and institutional strengthening	1.50	100	0.00	0	1.50
2.1	Trainings	0.30	100	0.00	0	0.30
2.2	Structuring of management contract	0.43	100	0.00	0	0.43
2.3	Program implementation unit	0.57	100	0.00	0	0.57
2.4	ICAO Audit	0.20	100	0.00	0	0.20
Financial audit & Monitoring and Evaluation		0.50	100	0.00	0	0.50
Total		35.00	65	18.80	35	53.80

1.36 **Sustainability of the investments.** The program preparation has considered short, medium and long term investments as a measure of maintaining the value of the upgraded airport infrastructure assets. The operation of the selected airports and the medium and long term investments can be performed through an operator - under a PPP risk sharing scheme or a management agreement - that would also be responsible for the maintenance of the airport infrastructure once the investments considered within this program are implemented.<sup>38</sup> The program will seek to involve the local community in airport management over decision and consultation spaces through advisory committees.

### C. Key Results Indicators

1.37 The program is designed to obtain the following key results, which will be evaluated in accordance with the indicators set forth in the [Results Matrix](#): (i) number of passengers traveling through the Marsh Harbour, Exuma, North Eleuthera and Treasure Cay airports; and (ii) number of commercial international passengers traveling through the Marsh Harbour, Exuma, North Eleuthera and Treasure Cay airports. The outputs and outcomes indicators will be verified directly and compared against the values listed in the results matrix.

1.38 **Economic viability.** An economic evaluation ([OEL#2](#)) was conducted for the airports in the representative sample considering a social discount rate of 12%. The economic evaluation for Marsh Harbour and Treasure Cay airports<sup>39</sup> yielded an Economic Net Present Value (ENPV) of US\$10.6 million and an Economic Rate of Return (ERR) of 55.8%. Exuma airport has shown an ENPV of US\$16.5 million and an ERR of 16.9% while North Eleuthera an ENPV of US\$3.1 million and an ERR of 13.2%. A sensitivity analysis of economic viability

<sup>38</sup> The feasibility study ([OEL#1](#)) shows financial viability (1.40) and space for private sector participation with a typical management period of 25 years and a user fee of US\$16.5 per international passenger and US\$8.6 per domestic passenger. All conditions for the management of the asset and its operation are to be negotiated between the public and private sector based on competitive offers to be potentially received. Other alternatives for the operation of the upgraded asset are contract management which could also be implemented for shorter periods of time, typically 8 to 15 years, if a PPP is not finally agreed between the government and potential private investors.

<sup>39</sup> [OEL#12](#) explains the methodological approach to consider Marsh Harbour and Treasure Cay as a sole airport in terms of socioeconomic costs and benefits evaluation.

indicators was performed using various scenarios considering a variation in traffic and capital expenditures (OEL#2). Once analyzed the potential developments, it is concluded that the positive socio-economic impact of the project is not negligible.

- 1.39 **Beneficiary population.** The identified social beneficiaries of the program are the 367,000 people who make up the population of The Bahamas. Bahamians benefit from the contributions to the local economy and the public treasury made by the tourism sector specifically enabled by the project. Factors used to calculate socio-economic benefits are based on the estimated average expenditure per visitor in The Bahamas which is US\$2,000, tax included (OEL#2). Moreover, local population in the selected islands will be directly benefited from the economic activity enabled by the project, employment and local consumption made by tourists who would not visit the selected islands if the proposed developments do not materialize, and will gain connectivity, enabling air transport mobility, the main source of international accessibility for the islands. In total, 15,903 habitants will directly benefit from the airport upgrades being: 5,728 habitants from the Marsh Harbour and Treasure Cay influence area; 3,247 habitants from North Eleuthera; and 6,928 from Exuma.
- 1.40 **Financial viability.** Additionally to the technical analysis, a financial evaluation has been performed analyzing potential factors to introduce the private sector in the program. This analysis was done for an operation period of 25 years (OEL#1) with an Internal Rate of Return from 12.5% to 3.2% depending on the Rescue and Firefighting equipment and other security facilities operated by the public or the private sector. This return is above the cost of capital associated to the air transport sector in The Bahamas, estimated around 10.8%. Cash flow throughout the operation period remains mainly positive.<sup>40</sup> The return period for initial investment carried out by the private sector is estimated to be 14 years.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing Instruments

- 2.1 The proposed financing instrument is a multiple work investment loan, as the program calls for independent airports improvements and upgrades pursuant to eligibility criteria and it includes a representative sample for evaluation and execution (¶1.26). The disbursement period will be five years from the effective date of the loan contract. The tentative disbursement schedule is shown in Table 2 below.

**Table 2 Tentative disbursement schedule (US\$ millions)**

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	0.47	5.49	10.45	10.36	8.23	35.00	65%
Counterpart	0	3.50	5.10	5.10	5.10	18.80	35%
Total	0.47	8.99	15.55	15.46	13.33	53.80	100%

<sup>40</sup> Apart from the initial cash-out period, only those years with major recurrent investment push the cash flow down to the negative side.

## **B. Environmental and Social Safeguard Risks**

2.2 Considering the environment of the four airports and the type of works and activities contemplated, the potential environmental and social impacts of the project are expected to be moderate, centralized and temporary. Therefore, the project is classified as a Category “B” under the Environment and Safeguards Compliance Policy (OP-703). Environmental and social risks of the upgrades and works contemplated are limited in space and time, and are expected to be managed with standard construction management practices. On the other hand, regular operations of airports have certain key potential socioenvironmental impacts and risks. In particular, noise from aircrafts, air pollution, water pollution (from among others, petroleum/chemicals facilities), oil spills, health and safety, wildlife (risk to and from wildlife) and wastes to be properly managed will be identified and analyzed in detail through Environmental and Social Assessments to assess potential risks and mitigation measures.

2.3 Certain developments contemplated under this operation will have to undergo more detailed Environmental and Social Assessments in the future, including Environmental and Social Impacts Assessments (ESIAs) as per local law. Indeed the assessment of certain impacts needs a detailed planning and design, which will be achieved at a later stage of the present operation. The key Environmental and Social appraisal document of the operation at this stage is an Environmental and Social Assessment Report (ESAR). For more details, refer to [REL#4](#). **As a special contractual clause of execution prior to the execution of works in each airport, the Executing Agency shall present evidence: (i) that an Environmental Assessment or Environmental and Social Impact Assessment (ESIA)<sup>41</sup> if required by local law<sup>42</sup>, including an Environmental and Social Management Plan (ESMP), covering both the works contemplated in the airports facilities and related to the airports operation, is prepared and consulted with relevant affected parties to the satisfaction of the Bank; and (ii) of compliance with the conditions established in the Environmental and Social Management Report (ESMR) and the POM.**

## **C. Fiduciary Risk**

2.4 Based on the IDB's Institutional Capacity Assessments of the MTA and MWUD, and the Project Risk Management exercise, the program has a medium fiduciary risk. The risks are associated with potential delays in procurement and financial reporting due to limited experience applying IDB policies and procedures with possible delays on the contracts to build the infrastructure under Component 1. As mitigation measures the program includes the creation of a PIU (¶3.3) including a procurement officer and a POM (¶3.4).

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<sup>41</sup> The Environmental Assessment will include noise footprints for any of the intervened airports with the program. Exuma and North Eleuthera airports already count with noise footprints prepared by an independent firm and, although acoustic emissions are not a major operational constraint, similar noisy studies will be also developed for Marsh Harbour and Treasure Cay airports within the Environmental Assessments to be developed.

<sup>42</sup> In compliance with OP-703, public consultation events have been undertaken for each airport. Further consultations will be also implemented as deemed necessary.

## D. Other Key Issues and Risks

- 2.5 A risk assessment was conducted and the risks, risk classification and proposed mitigation measures are included in Appendix I. The key risks that were identified for the operation and classified as medium level are limited monitoring and accountability of the investment which will be mitigated granting a construction permit from The Bahamas Environment Science and Technology Commission and hiring extra monitoring, evaluation and financial officers to the staff assigned to the execution of the program; lack of coordination between principal actors and level of commitment by the borrower and executor which will be mitigated by the preparation of a Program Operations Manual, hiring a Coordinator for the program to reinforce the capacity; and delays or inconsistency in the information of flow of funds which will be also mitigated by the provision of adequate staff for financial management.
- 2.6 **Lessons learned on cost overruns.** Based on the Bank's programs in the transport sector, some recommendations to mitigate the risk of cost overruns have been incorporated in the design of this program and will later be incorporated during the execution. The main recommendations are: (i) a careful dimensioning of the project, in size and scope, to take into account the real needs of local counterpart funding; (ii) an appropriate institutional capacity analysis of the executing agency in order to incorporate institutional strengthening measures early in the implementation stage; (iii) the tender budget should consider project delays, risk transfers,<sup>43</sup> private sector opportunity costs,<sup>44</sup> and any provision for price escalation and contingencies; (iv) close supervision of the project to minimize cost overruns caused by execution delays; (v) the involvement of a procurement expert to assist the government during the execution of the loan, and reinforce the Bank's supervision and involvement in the procurement processes; (vi) if a design/build procurement system is decided, its implementation requires an environment of developed technical oversight capability on the part of the executing agency. The hiring of an engineering services firm with ample experience in this construction modality would be an appropriate measurement to support the executing agency's capabilities; and (vii) environmental concerns must be identified and discussed during design, pre-tender and pre-contract stages of projects with the involvement of the stakeholders, particularly the contractor and the national entity responsible for environmental oversight.
- 2.7 The preparation and execution of the present operation will carefully take into consideration all of the above recommendations in order to ensure a satisfactory execution. Additionally, other conclusions that will be considered during the implementation are: (i) construction works to be performed in the FI require additional supervisory oversight; (ii) tender board delays to be minimized by having a mechanism in place for prioritizing project procurements at the highest level in the Ministry of Finance; (iii) ensure that PIU staff have the appropriate skills and competitive processes are adhered to; and (iv) ensure that staff within

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<sup>43</sup> The costs of transferring risks in design-build modalities for example.

<sup>44</sup> The higher costs that companies incur for working on small island environments, where production assets may not have other uses besides the actual project.

the ministries that are already experienced in Bank projects are utilized to the extent possible.

- 2.8 **Risk of cost overruns.** The program has been designed in view of the complete life cycle of the works. Various feasibility studies have been performed for the selected airports by the government ([OEL#7](#) and [OEL#8](#)) which have been reviewed in a second feasibility study by the Bank ([OEL#1](#)). The MWUD has the technical expertise to review technical designs, to prepare bid documents, execution, and contract management with special emphasis on controlling costs and quality throughout the life cycle of the work until final delivery. Moreover, a PIU will be created to accommodate the extra workload that will result from the program. Designs and budgets will be updated prior to letting the works and price adjustment formulas incorporated. As an especial contractual clause of execution, **prior to the tender of the works the Executing Agency shall present evidence that: the construction designs for tender have been finished in accordance with the terms previously agreed with the Bank and that the Bank's non-objection has been granted.** All of these measures reduce the likelihood that: (i) bids will exceed the estimated budget due to a lack of detail in the designs; (ii) substantial changes will occur in the design and/or in work quantities during construction; and (iii) timetables for the works will be extended as a result of revisions to the design and/or increased quantities. Further to all these measures, a contingency budget proportional to the 5% of the civil works has been considered within the cost of the program (¶1.35).<sup>45</sup>

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of Implementation Arrangements

- 3.1 **Borrower and executing agency.** The borrower will be The Commonwealth of The Bahamas, and the Executing Agency will be the MTA. A PIU will be established within the MTA properly staffed with specialized personnel (¶3.5) and legal advisor if needed. This PIU will maintain close coordination with the MWUD for the technical lead of Component 1, the execution of the civil works and the procurement of such goods and services. The MTA is currently executing the IDB funded Air Transport Reform Program (2682/OC-BH) which is a PBL with a TC component. This program is supported by a program coordinator and a procurement officer contracted to assist the MTA, so there is already some built in institutional capacity of which the proposed program can benefit.
- 3.2 The MWUD in coordination with the PIU will collaborate with the execution of Component 1, scheduling the works and services to be contracted, preparing the bidding documents, and conducting the tender processes. It will manage and oversee the contracts, ensuring compliance with all technical and socioenvironmental specifications, and implement the Environmental and Social Management Plan. The MTA will lead Component 2, contracting trainings, ICAO audits, the structuration of the management contract and the implementation of

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<sup>45</sup> The estimate of the local contribution of the borrower does not imply a limitation of the obligation of the borrower to timely provide the additional resources necessary for the complete and uninterrupted execution of the program.

- the PIU among other activities within this component. Roles and responsibilities of the MWUD, MTA, and the PIU and the mechanisms for coordination among them will be determined by the POM (¶3.4) and by a collaboration agreement to be signed between the MTA and the MWUD if necessary.
- 3.3 Regarding fiduciary control, the MTA within its role of program's executor will be responsible through the PIU for: (i) implementing and maintaining contract management systems, accounting and financing management, and administering the internal control system for managing program resources in accordance with Bank requirements; (ii) submitting disbursement requests and eligible expense documentation on a timely basis; (iii) preparing and submitting semiannual financial reports, which are to accompany the semiannual progress reports, including the status and use of funds disbursed in the form of advances of funds and the program's consolidated financial reports; (iv) maintaining a separate bank account for management of Bank resources and financial reports and for submitting disbursement requests; (v) maintaining an adequate filing system for documents supporting eligible expenses for verification by the Bank and by external auditors; and (vi) keeping all public information available and updated on the entity's website, including procurement processes, progress on contracts, outcomes achieved, and financial statements.
- 3.4 **Program Operating Manual (POM).** An Operating Manual will describe the procedures to execute the program. The POM will specifically include, at least, the following elements: (i) institutional arrangements, terms, conditions, roles and coordination practices between the agents involved in the execution of the program; (ii) procurement requirements for project financing under the program (¶3.6); (iii) social and environmental, and fiduciary procedures (¶2.2 and ¶2.4); (iv) quality of the civil works through technical standards, procedures of performance and monitoring requirements; (v) content of the necessary agreements to be signed with local governments to ensure the airport local governance; (vi) procedures for the supervision of the project; (vii) the minimum scheduling activities to be performed and the time control procedures; (viii) a communication plan including management of communications; and (ix) the identification of risks (¶2.5), its control and responses.
- 3.5 **Prior to the first disbursement of the resources of the loan, the Executing Agency shall provide evidence that: (i) a PIU has been created and a program coordinator, procurement, financial, monitoring and evaluation specialists have been selected, pursuant to the terms of reference satisfactory to the Bank; and (ii) the POM has been approved in the terms previously agreed with the Bank, including fiduciary management arrangements and execution plan.**
- 3.6 **Procurement of goods, works, and services.** Procurements will be governed by the loan contract and the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9). The provisions of the loan contract and procurement plan (Annex III), which establish the type of review, processes, and monitoring of procurements under the program, will also be followed. The Bank will conduct ex ante reviews of all procurement processes. Any procurement

processes conducted by local governments will be wholly financed by local counterpart resources and will be subject to local procurement laws and regulations.

- 3.7 **Disbursements.** The Government of The Bahamas's preferred method of disbursement is through reimbursements, but the options for fund advances and direct payments may be reconsidered by the Government of The Bahamas as necessary during execution. The frequency of these disbursements will be determined by the program's financial programming, to be periodically updated by the executing agency. The Bank may release a new advance of funds once 80% of all funds disbursed in the form of advance payments have been justified. Disbursement requests will be subject to ex post review.
- 3.8 **Retroactive Financing.** The Bank may finance retroactively under the loan, eligible expenses of Component 1 incurred by the borrower prior to the date of the loan approval, up to the amount of US\$7,000,000 (20% of the proposed loan amount), provided that all the requirements substantially similar to those set out in the loan agreement requirements. These expenses must have been incurred on or after June 10th, 2016 (Project Profile approval date) and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.
- 3.9 **Auditing.** The borrower, acting through the executing agency, will select and hire an independent auditing firm in accordance with Bank policies and for the entire project execution period, including any extensions of the disbursement period. Annual Audited Financial Statements (AFS) of the project are to be submitted to the Bank within 120 days after the close of each fiscal period of the PIU, in addition to final audited financial statements, which are due for submission to the Bank within 120 days of the close (last disbursement date) of the project. The government is also given the option to use the services of the Office of The Auditor General (OAG).

## **B. Summary of Arrangements for Monitoring Results**

- 3.10 The program's monitoring and evaluation arrangements include inspection visits, management missions, semiannual progress reports, annual external audits including the PIU's technical, environmental, and financial considerations, a midterm evaluation of outcomes, and a final outcome evaluation report ([REL#3](#)).
- 3.11 **Monitoring.** Comprehensive program monitoring will be performed by the project team and the Bank's Country Office in Bahamas. The project team will conduct inspection visits to the program every six months during the operation's execution period. In addition, the team will conduct annual management missions to assess progress. For its part, the PIU will submit semiannual execution progress reports to the Bank within 60 days following the end of each six-month calendar period, as described in the monitoring and evaluation plan, including action taken to comply with the Bank's environment and safeguards policies. These reports will include at a minimum, the following: (i) executive summary, analyzing the program's physical and financial execution; (ii) monitoring report; (iii) updated Project Execution Plan (PEP) and Annual Operational Plan (AOP); (iv) risk matrix update; and (v) procurement plan update.



- 3.12 Monitoring will include a contractual execution clause requiring the executing agency to submit an updated AOP to the Bank no later than 45 days before the end of each year of program execution. The AOPs will, at a minimum, include information relating to the activities and projects to be financed during the following calendar year.
- 3.13 **Evaluation.** The executing agency will compile, store, and preserve all information, indicators, and parameters, including semiannual reports, AOP, procurement plans, midterm and final reviews to: (i) support the Bank in preparing the Project Completion Report (PCR); and (ii) support the Bank's Office of Evaluation and Oversight (OVE) in evaluating the impact of this operation. The evaluation methodology to be used, will consist in measuring the program's outcome indicators before (baseline) and after the executing agency has taken delivery of the works, and comparing the measurements to confirm achievement of the expected targets. Using loan proceeds, independent evaluators will be hired to conduct: (a) mid-term evaluation, which will be presented to the Bank up to sixty 60 days after 40% of the Loan resources have been disbursed; and (b) a final evaluation of the program, after 90% of loan resources have been disbursed, which will include an Operation Performance Measures and Ex-post Evaluation. This evaluation should take as a baseline the figures included in the Air Passengers Database from MTA at the start of the operation, as well as the ex-ante technical analysis performed regarding the compliance with ICAO and climate change adaptation standards. This external evaluation will be carried out subsequent to the final acceptance and implementation of the works at the selected airports.

### C. Other

- 3.14 **Gender additionality.** Female labor participation in The Bahamas is one of the highest in LAC (69.1% vs. 52% in 2014).<sup>46</sup> However, women are still under-represented in the infrastructure sector.<sup>47</sup> Taking this into account, the Technical Cooperation (TC) (RG-T2618)<sup>48</sup> will carry out a study on the value chain of the air transport sub-sector from a gender perspective to identify and analyze gender gaps. Based on this information, this project will incorporate activities aimed at promoting gender equality in the subsector.

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<sup>46</sup> Source: UN Women. The Bahamas: Overview of the country gender equality status; and International Labor Organization (ILO, 2016). Women at Work: Trends 2016, Geneva.

<sup>47</sup> According to UN women data, women in The Bahamas represented 9% of the construction sector and 39% of the transport, storage and communication sector in 2011.

<sup>48</sup> The Bank is currently hiring a consulting firm to carry out this study, which subject to the Government's non-objection, would include The Bahamas and 10 other countries.



Development Effectiveness Matrix Summary			
<b>I. Strategic Alignment</b>			
<b>1. IDB Strategic Development Objectives</b>		Aligned	
Development Challenges & Cross-cutting Themes		-Economic Integration -Climate Change and Environmental Sustainability	
Regional Context Indicators			
Country Development Results Indicators			
<b>2. Country Strategy Development Objectives</b>		Not Aligned	
Country Strategy Results Matrix			
Country Program Results Matrix		The intervention is not included in the 2016 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		The program is aligned with the Government of The Bahamas. The program follows the established Comprehensive Strategy for Optimization of the FI airports, the guidelines of the Ministry of Transport and Aviation (MTA) and the Department of Civil Aviation. The FI airports have been evaluated by the government in order to provide the context for the technical assessments, recommendations and strategy for investment and policies that will shape the airport environment for years to come.	
<b>II. Development Outcomes - Evaluability</b>			
	Evaluable	Weight	Maximum Score
	8.6		10
<b>3. Evidence-based Assessment &amp; Solution</b>	9.6	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	3.6		
3.3 Results Matrix Quality	3.0		
<b>4. Ex ante Economic Analysis</b>	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
<b>5. Monitoring and Evaluation</b>	6.1	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	3.6		
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>			
Overall risks rate = magnitude of risks*likelihood		Medium	
Identified risks have been rated for magnitude and likelihood		Yes	
Mitigation measures have been identified for major risks		Yes	
Mitigation measures have indicators for tracking their implementation		Yes	
Environmental & social risk classification		B	
<b>IV. IDB's Role - Additionality</b>			
The project relies on the use of country systems			
		Fiduciary (VPC/FMP Criteria)	
		Non-Fiduciary	
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality		Yes	Female labor participation in The Bahamas is one of the highest in LAC (69.1% vs. 52% in 2014). However, women are still underrepresented in the infrastructure sector. Technical Cooperation (RG-T2618) will carry out a study on the value chain of the air transport sub-sector to identify and analyze gender gaps. Based on this information, this project will incorporate activities aimed at promoting gender equality in the subsector.
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The remoteness and low population densities of The Bahamas islands present significant challenges to connectivity. Residents and tourists depend mainly upon the airways for inter-island and international mobility. Airports in the family islands (FI) under the current infrastructure conditions, do not comply with safety and security standards, are not prepared to respond to climatic events and are close to or at capacity, imposing risks to the future flow of passengers. Project BH-L1041 seeks to solve this situation by improving air transport connectivity and flow of people to the FI, which will result in travel time savings. This objective will be achieved through infrastructure improvements and climate change resilience by upgrading, rehabilitating and maintaining selected airports to comply with international aviation standards taking into account climate change considerations. The project will also finance activities to develop capacities in the Ministry of Works and the Ministry of Transport and Aviation, to address the investments. The airports considered are Marsh Harbour, Treasure Cay, Exuma, and North Eleuthera, located in three of the FI.

The vertical logic has been correctly identified, by quantifying and explaining the main determinants of the general and specific problems. The results matrix, which reflects the diagnosis and proposed intervention, is correctly defined. Milestones have been included in the civil works component for each product representing an upgraded and operating airport in compliance with International Civil Aviation Organization standards including climate change adaptation designs.

The economic analysis shows separate results of the economic evaluation for each airport (considering Marsh Harbour and Treasury Cay as one given their proximity and location in the same island). By applying a 12% social discount rate, the analysis displays a positive net present value for all the airports except North Eleuthera. The sensibility analysis considers combined scenarios of airport traffic reduction and investment costs increases, showing no stress or borderline returns when both negative scenarios are combined. North Eleuthera airport is the exception; however the safety concerns and the current non-compliance of standards could lead to international routes suspension, and when a scenario with no project considers this suspension, a return higher than the social discount rate is obtained.

The monitoring and evaluation plan is adequate and consistent with the intervention. It correctly identifies the phases, responsibilities, budget and timelines. The ex post evaluation of results proposes a before and after methodology which will validate the benefits on connectivity in terms of travel time savings related to the rehabilitation of the airports.

The overall risk for this project has been valued as medium. The medium risks identified in the risk matrix are: (i) limited monitoring of investment, (ii) lack of coordination between the principal actors, (iii) decreased level of commitment by the borrower or executor, (iv) delays in procurement and impossibility of making them, and (v) delays or inconsistency in the information on flow of funds. All the risks present mitigation measures.

## RESULTS FRAMEWORK

<b>Project objective</b>	The main objective of the program is to contribute regionally and globally to the sustainable integration of The Bahamas through secure air transport infrastructure improvements in the Family Islands (FI) airports. Specifically, the program aims to improve air transport connectivity and flow of people to the FI. Such connectivity will be done through infrastructure improvements and climate change resilience by upgrading, rehabilitating and maintaining selected airports to comply with international aviation standards taking into account climate change considerations.
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<b>Expected outcomes</b>	The operation is expected to generate travel time savings.
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Outcome indicator	Baseline (2015)	Goal (2020)	Means of verification
Number of passengers traveling through the Marsh Harbour, Exuma, North Eleuthera and Treasure Cay airports	636,000	767,000	MTA based on data provided by the operator
Number of commercial international passengers traveling through the Marsh Harbour, Exuma, North Eleuthera and Treasure Cay airports	252,000	342,000	MTA based on data provided by the operator

Output indicator	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<b>Component 1: Civil Works</b>								
<b>North Eleuthera airport</b> upgraded and operating in compliance with ICAO standards and including climate change adaptation designs	0	0	0	0	0	1	1	Semiannual progress report
Square meter of new passenger terminal area created	0	0	500	500	500	462	1962	
Square meter of runaway, apron and taxiway rehabilitated or constructed	0	0	27,510	27,510	0	0	55,020	
Number of new airport fire stations and service building	0	0	0	1	0	0	1	
Number of firefighting equipment	0	1	0	0	0	0	1	Semiannual progress report
<b>Exuma airport</b> upgraded and operating in compliance with ICAO standards which includes climate change adaptation designs	0	0	0	0	0	1	1	
Square meter of new passenger terminal area created	0	0	500	500	500	462	1962	
Square meter of runaway, apron and taxiway rehabilitated including hazard lights and marking	0	0	48,015	48,015	0	0	96,030	

Output indicator	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Number of new airport fire stations and service building	0	0	1	0	0	0	0	
Number of firefighting equipment	0	1	0	0	0	0	1	
<b>Marsh Harbour airport</b> upgraded and operating in compliance with ICAO standards which includes climate change adaptation designs	0	0	0	0	0	1	1	Semiannual progress report
Square meter of new passenger terminal area repaired or refurbished	0	0	0	250	0	0	250	
Square meter of runway, apron and taxiway rehabilitated including hazard lights and marking	0	0	27,885	27,885	0	0	55,770	
Number of new airport fire stations and service building	0	0	0	0	0	0	0	
Number of firefighting equipment	0	0	0	0	0	0	0	
<b>Treasure Cay airport</b> upgraded and operating in compliance with ICAO standards which includes climate change adaptation designs	0	0	0	0	0	1	1	Semiannual progress report
Square meter of new passenger terminal area repaired or refurbished	0	0	0	420	0	0	420	
Square meter of runway, apron and taxiway rehabilitated including hazard lights and marking	0	0	32,010	32,010	0	0	64,020	
Number of new airport fire stations and service building	0	0	0	0	0	0	0	
Number of firefighting equipment	0	1	0	0	0	0	1	
<b>Component 2: Implementation support and institutional strengthening</b>								
Number of trainings to GoBH staff	0	3	3	0	0	0	6	Semiannual progress report
Number of management contract drafted	0	0	0	0	0	4	4	Semiannual progress report
Program Implementation Unit created and operating	0	1	0	0	0	0	1	Semiannual progress report
Audits performed to evaluate the compliance of each airport with the Standards and Recommended Practices of ICAO	0	0	0	0	0	4	4	Semiannual progress report

## **FIDUCIARY ARRANGEMENTS**

**Country:** The Commonwealth of The Bahamas  
**Project Number:** BH-L1041  
**Name:** Airport Infrastructure Program  
**Executing Agency:** Ministry of Transport and Aviation (MTA)  
**Prepared by:** Mario Castaneda (FMP/CBH) and René Herrera (FMP/CJA)

### **I. EXECUTIVE SUMMARY**

- 1.1 The executing agency will be the Ministry of Transport and Aviation (MTA).
- 1.2 The Bank's methodology for Project Risk Assessment was used to identify the project's risks and to determine the corresponding mitigating measures. The Institutional Capacity Assessment System was used to assess the capacity of the MTA and MWUD to carry out the project's fiduciary responsibilities. Both assessments resulted in a medium fiduciary risk average level.
- 1.3 For the purposes of execution of the program, it has been agreed that a program Implementation Unit (PIU) will be established within the MTA, properly staffed with specialized fiduciary personnel. This PIU will maintain close coordination with the MWUD for the technical lead of Component 1, which represents 96% of investments. The rationale for establishing the PIU within the MTA related to the coordination, fiduciary and reporting responsibilities to be assumed by the MTA as the airport works, falls within their direct area of influence within the government. The execution agreement between the two ministries and the approval of a Program Operating Manual will ensure clarity of roles, responsibilities and procedures applicable for program execution. IDB's procurement policies and procedures will be applied.

### **II. EXECUTING AGENCIES FIDUCIARY CONTEXT**

- 2.1 The Constitution of The Bahamas is based on the Westminster Model and dates back to 1973. The Cabinet constitutes the executive branch and has general direction of the government. The Constitution authorizes the National Assembly to make laws by passing bills, including approval of government's budget. In addition to its constitutional functions, the National Assembly has established a Public Accounts Committee to maintain oversight of the government's financial matters. The Constitution also states that there is an auditor general who is independent of both government and the National Assembly.
- 2.2 Public Financial Management is defined in the Financial Management and Audit Bill (2010 and 2013 amendment). The Bill outlines the functions of financial officials, budget administration, control over expenditures, bank accounts, accounts and audits, as well the external control exercised by the Auditor General. The fiscal year is inter-annual, going from July 1<sup>st</sup> to June 30<sup>th</sup>.
- 2.3 In 2010, the country initiated a reform of the national public procurement system, undertaken by the Ministry of Finance (MOF). This reform effort is still underway

and the country's public procurement systems are not yet recommended for this program. MOF maintains a close oversight of project implementation by channeling all disbursement requests to the IDB and stays involved particularly in major issues regarding project implementation. The 2013 amendment calls for the establishment of a central procurement unit and an electronic procurement system to allow online bidding and monitoring of public bids. These unit and online system have not yet been fully implemented.

### III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The results of applying the Risk Assessment Matrix for the fiduciary component after mitigation actions were considered of medium risk; also, the institutional capacity assessment resulted in a medium level rating. The analysis also considered the PEFA scores for the Budget Cycle- scores for accounting and external audit were particularly low. Therefore the successful implementation of the program would require the hiring of appropriate specialized staff for the PIU.
- 3.2 It is recommended that the MTA gives careful consideration to include in the program's design some key members in the PIU to strengthen its institutional capacity. Appropriate selection/appointment of Financial Management and Procurement Specialists are necessary to ensure adequate fiduciary accountability and controls during program execution.

**Table 1. Fiduciary Risks and recommended mitigation actions**

Risks/weakness	Action recommended	Compliance by
Delays in procurement due to limited experience applying IDB procurement policies and procedures and coordination between the two Ministries coordination. Determined as medium.	<b>1. Selection of a Procurement Specialist</b> under the PIU. The Bank will offer a progressive training plan to procurement staff in the PIU and explain acceptable bidding methods. This specialist will consolidate the overall procurement plan. <b>Supervision of procurement will be conducted in ex ante modality.</b>	Program startup date.
Delays in financial reporting due to limited experience applying IDB financial management policies and procedures. Determined as medium.  The delays in reporting relate to the inefficiencies observed in other programs in other government agencies in relation to the documentation process of the centralized accounting and treasury systems, which make it difficult to gather the information necessary to make payments, conduct documentary reviews and prepare disbursement requests.	<b>2. Selection of a Financial Management Specialist</b> under the PIU. The Bank will offer progressive financial management training for the PIU staff. The training will also incorporate financial planning. This specialist will consolidate all financial program financial information and reporting.	Program startup date.

Risks/weakness	Action recommended	Compliance by
<p>Also, the Ministry of Finance has determined the <b>Reimbursement of Expenses as their preferred method to access loan resources</b>, which is already applied to current portfolio. This approach may lead to inefficiencies that limit the ability to have accurate financial planning due to long treasury processing turnaround. These structural inefficiencies have also led to late presentation of audited financial statements in other programs as information for testing purposes is not readily available, even in those cases in which the audit has been performed by the Office of the Auditor General (OAG).</p>	<p><b>3. Still maintain the option for using Advances of Funds for disbursing loan resources, also maintaining the 80% minimum justification requirement for the processing of new advances of funds to the program.</b> However, if necessary during implementation, we will seek application of flexibility according to Financial Management Guidelines criteria to reduce the standard percentage (80%) of justification of funds required for new advances to a more manageable minimum.</p> <p>4. The GOBH has been given the option to have the <b>Office of the Auditor General to audit the program. Audited Financial Statements (AFS) must be presented to the Bank within the 120 days following the closing of each fiscal year. If the option of using the OAG services is not applied</b>, an Independent Audit Firm should be used.</p>	<p>During execution.</p>
<p><b>Lack of coordination.</b> Coordination between the MTA and MWUD will be critical for the implementation of Component 1.</p>	<p>5. Clarity of execution roles and responsibilities and expected levels of coordination between ministries for the implementation of the program will be ensured through a <b>Program Operating Manual</b> which should also have sufficient details of procedures of the organization for execution of the program.</p>	<p>To be required in the loan contract.</p>

#### IV. ASPECTS TO BE CONSIDERED IN THE SPECIAL CONDITIONS OF CONTRACT

- 4.1 Based on the fiduciary risk evaluation and mitigation actions, the fiduciary arrangements that are recommended are the following:
- a. **Special Contractual Clauses prior to the first disbursement:** the executing agency shall provide evidence that: (i) a Program Implementation Unit (PIU) has been created and a program coordinator, procurement, financial, monitoring and evaluation specialists have been selected, pursuant to the terms of reference satisfactory to the Bank; and (ii) the Program Operating Manual (POM) has been approved in the terms previously agreed with the Bank, including fiduciary management arrangements and execution plan.

#### V. FIDUCIARY ARRANGEMENTS FOR PROCUREMENT EXECUTION

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

- a. **Procurement of Works, Goods and Non-Consulting Services.** The contracts for Works, Goods, and Non-Consulting Services<sup>1</sup> generated under the program and subject to International Competitive Bidding will be executed through the use of the Standard Bidding Documents (SBDs) issued by the Bank. The processes subject to National Competitive Bidding (NCB) will be executed through the use of bidding documents based on the above-mentioned standard documents and satisfactory to the Bank. The technical specifications review during the preparation of the selection process is the responsibility of the program sector specialist.
- b. **Selection and Contracting of Consultants.** The consulting services contracts generated under this program will be selected and contracted using the Standard Request for Proposals issued by the Bank, when advertising at the international level and a document satisfactory to the Bank when advertising at the local level. The terms of reference review for the selection of consulting services is the responsibility of the program sector specialist. **Selection of Individual Consultants.** Contracts of individual consultants will be carried out using procedures per Section 5 of Policies GN-2350-9. Posting of opportunities for individual consultant contracts may be advertised internationally or locally in order to attract qualified individuals.
- c. **Training.** Training will be provided to the MTA, PIU and MWUD staff in charge of the financial management and procurement execution prior to starting activities and based on the Annual Operations Plan (AOP).
- d. **Recurrent Expenses.** The program contains coverage of recurrent expenses that are required to start and maintain the program during execution and will be financed by the program within the annual budget approved by the Bank and Bahamas Financial Parameters. Among those identified there is funding for hiring consultants to assist the PIU in program management and supervision, monitoring and evaluation and contingent costs identified in the cost structure. These personnel are necessary to ensure proper staffing of the PIU to carry out the program activities, and are consistent with Country Financing Parameters.
- e. **Retroactive Financing.** The Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval, up to the amount US\$7,000,000 (20% of the proposed loan amount), provided that all the requirements substantially similar to those set out in the loan agreement requirements. These expenses must have been incurred on or after June 10<sup>th</sup>, 2016,<sup>2</sup> and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.

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<sup>1</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank ([GN-2349-9](#)) paragraph 1.1: The services different to consulting services have a similar process as procurement of Goods. The exchange rate considered was 1 US dollar = 1 BS dollars.

<sup>2</sup> Project Profile approval date.

**Table 2. Thresholds (US\$)**

International Competitive Bidding Threshold *		National Competitive Bidding Range ** (Complex Works and non-common goods)		Consulting Services
Works	Goods	Works	Goods	International Short List
≥3,000,000	≥150,000	150,000 – 3,000,000	50,000 -150,000	≥200,000

\* When procuring simple works and common goods and their amount is under the International Competitive Bidding thresholds, Shopping may be used.

\*\* When procuring complex works and non-common goods with amounts under the NCB range, Shopping shall be used.

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

5.2 To access the complete procurement plan, click [here](#).

## VI. PROCUREMENT SUPERVISION

6.1 The supervision method for procurement execution will be established ex ante until the Procurement expert has gained experience observing and executing Bank policies, procedures, and use of standard bidding documents. The ex post modality may be recommended by the Procurement Specialist to the Team leader in accordance to outcomes of supervision visits, if appropriate evidence is presented to demonstrate capacity to perform under the ex post supervision modality. Supervision visits will be performed every 12 months and as indicated in the program supervision plan. When ex post review is recommended, the supervision visits will be performed jointly with supervision visits.

## VII. SPECIAL STIPULATIONS

7.1 As indicated in Section IV.

## VIII. FINANCIAL MANAGEMENT

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

8.2 The Borrower has committed to allocate, for each fiscal year of program execution, adequate fiscal space to both ministries to guarantee the unfettered execution of the program; as determined by normal operative instruments such as the Annual Operations Plan (AOP), the Procurement Plan and Financial Plan.

8.3 **Accounting and Information Systems.** As the government accounting system does not provide sufficient details of program financial execution, it will be



- necessary to maintain auxiliary records at the PIU level, under the responsibility of a financial specialist, to fully comply with IDB requirements of internal control and records.
- 8.4 **Disbursements and Funds Flows.** The Ministry of Finance has expressed their decision to use the Reimbursement of Expenses as their preferred method to disburse loan resources.
- 8.5 The option of using advances of funds on the basis of a financial plan will be maintained. For this purpose, the Treasury Department is in agreement to establish a Special Account at the Central Bank of The Bahamas, denominated in US Dollars in the event that MOF returns to using Advances of Funds. This account will have exclusive use to cover for program expenditures. Advances will be requested and deposited into this account on the basis of a financial plan.
- 8.6 The PIU commits to maintain strict control over the utilization of loan resources so as to ensure the easy verification and reconciliation of balances between the executing agency's records and IDB records (WLMS1 Summary Report). Other methods of disbursement such as direct payments will be considered on a case by case basis.
- 8.7 The program will provide adequate justification of the existing Advance of Funds balances, whenever at least 80% of said balance has been spent; if necessary, a lower percentage may be considered following the criteria established in the revised Financial Management Guidelines. When used, advances will normally cover a period not exceeding 180 days and no less than 90 days.
- 8.8 Supporting documentation for Justification of Advances and Reimbursement of Payments Made will be kept at the office of the PIU. Copies of the support documentation only in the case of direct payments will be sent to the Bank for processing. **Disbursements' supporting documents may be reviewed by the Bank on an ex post basis.** These reviews do not entail a blanket approval, based on the samples reviewed, of the whole universe of expenditures.
- 8.9 In order to request disbursements from the Bank, the executing agencies will present the following forms and supporting documents:

**Table 3. Type of Disbursement**

Type of Disbursement	Mandatory Forms	Optional forms/ information that can be requested by the IDB
Advance	Disbursement Request/ Financial Plan	List of commitments physical/financial progress reports
Reimbursements of payments made	Disbursement Request/ program Execution Status/ Statement of Expenses	List of commitments physical/financial progress reports
Direct payment to supplier	Disbursement Request/ Acceptable Supporting Documentation may include invoices and acceptance of completion of works and/or delivery of goods and services to satisfaction of GOBH.	List of commitments physical/financial progress Reports/Evidence that goods/services have been satisfactorily received

- 8.10 **Internal Control and Audit.** The internal control capacity is estimated to be satisfactory. To the extent possible, the internal audit unit will provide oversight to the program.

- 8.11 **External Control and Reporting.** The government is given the option to use the services of the OAG to conduct the external control of the program. A private eligible audit firm will be in charge of the external audits if the use of the services of the OAG were not possible.
- 8.12 **Financial Supervision Plan.** Financial, Accounting and Institutional Inspection visits will be performed at least annually, covering the following: (i) review of the Reconciliation and supporting documentation for Advances and Justifications; (ii) compliance with financial and procurement procedures; (iii) review of compliance with the lending criteria; (iv) conducting ex post Review of Disbursements; and (v) follow up on audit work plan and audit recommendations. Financial Supervision will be developed based on the initial and subsequent risk assessments carried out for the program. To the extent possible, the Fiduciary Specialist will join administration missions and other project supervision activities.