



OXFORD
ECONOMICS

STRATEGIES FOR ECONOMIC GROWTH IN THE BAHAMAS

REPORT FOR THE ORGANIZATION FOR
RESPONSIBLE GOVERNANCE

FEBRUARY 3, 2017

Oxford Economics

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modeling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts, and analytical tools on 200 countries, 100 industrial sectors, and over 3,000 cities. Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Headquartered in Oxford, England, with regional centers in London, New York, and Singapore, Oxford Economics has offices across the globe in Belfast, Chicago, Dubai, Miami, Milan, Paris, Philadelphia, San Francisco, and Washington DC. We employ over 230 full-time people, including more than 150 professional economists, industry experts, and business editors—one of the largest teams of macroeconomists and thought leadership specialists. Our global team is highly skilled in a full range of research techniques and thought leadership capabilities, from econometric modeling, scenario framing, and economic impact analysis to market surveys, case studies, expert panels, and web analytics. Underpinning our in-house expertise is a contributor network of over 500 economists, analysts, and journalists around the world.

Oxford Economics is a key adviser to corporate, financial and government decision-makers and thought leaders. Our worldwide client base now comprises over 1000 international organizations, including leading multinational companies and financial institutions; key government bodies and trade associations; and top universities, consultancies, and think tanks.

January 2017

All data shown in tables and charts are Oxford Economics' own data, except where otherwise stated and cited in footnotes, and are Copyright © Oxford Economics Ltd.

The modeling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

To discuss the report further, please contact:

Dan Levine
Practice Leader, Location Strategies
Oxford Economics
5 Hanover Sq., 8th Floor
New York, NY 10004, USA
Tel: +1 646-503-3067
danlevine@oxfordeconomics.com

TABLE OF CONTENTS

Executive summary	3
1. Introduction.....	4
1.1 National economic overview	4
1.2 Report overview	5
2. Improving supply chain access: manufacturing and agriculture	7
2.1 The economic development opportunity.....	7
2.2 Current export situation.....	8
2.3 Tackling barriers through policy initiatives	9
2.4 Increasing supply chain opportunities.....	15
2.5 Economic impact of agricultural and manufacturing expansion	17
3. Logistics activity: shipping and port-based manufacturing	21
3.1 The economic development opportunity.....	21
3.2 Tackling barriers through policy initiatives	21
3.3 Economic impact of logistics expansion	24
4. Tourism opportunities: boutique hotels and home rentals	26
4.1 The economic development opportunity.....	26
4.2 Tackling barriers through policy initiatives	29
4.3 Economic impact of second home expansion	31
5. Conclusion.....	33

EXECUTIVE SUMMARY

Real GDP per capita in the Bahamas is lower today than it was in 2000. Absent significant economic development reforms, we do not forecast any significant improvement through to 2020. Against this backdrop, the Organization for Responsible Government (“ORG”) commissioned this study to examine creative economic development solutions that might help turn this situation around.

This study focuses on three sectors selected by ORG that show potential to contribute more significantly to the national economy, yet are underrepresented in current policy discussions. The aim of the report is to identify new and achievable strategies for promoting growth in each of the three sectors. To best explore untapped opportunities, we interviewed experts and business leaders in each of the sectors; many of whom expressed a lack of confidence in the Bahamas’ economic future. At the same time, many of those interviewed identified specific policy recommendations that they believed would help inspire confidence and investment. Here we combine the insights of these experts with independent economic research to identify and quantify areas of growth potential.

The key findings are set out below for each of the three sectors:

Manufacturing and agriculture: The study initially explored whether increasing exports offered a route to economic growth. However, our recommendation is that such an approach may be premature. Instead, more resources should be focused on increasing the amount of locally produced content in the supply chain that supports the tourist industry, which is currently dominated by foreign imports. This step is an important precursor to being able to compete in international markets.

Logistics: Supporting new break bulk operations in Freeport would help facilitate the emergence of high-value light assembly manufacturing in the port region. Reforms that promote customs transparency and efficiencies are a key first step.

Tourism: The fast growing home rental market offers a great opportunity to bring more tourists and additional second home investment to the outer islands. Policies that encourage more direct flights to the outer islands or modify rules for non-primary resident (vacation) homes in these locations would be helpful.

Other recommendations included in this report would reach wider than these three sectors. Modifications to the Foreign Work Permit program or allowing more off-the-grid investment in renewable power to help companies better manage electric costs, as examples, would each offer a possible mechanism to boost growth more generally than in just these three sectors.

Importantly, however, no one suggestion is a magic bullet. But here we demonstrate that new strategies can be identified that can be expected to result in substantial new economic development, if even some were implemented. Importantly, taking small measured steps on some of the ideas presented would go a long way toward convincing private investors that the government is committed to trying new approaches to promoting economic development.

1. INTRODUCTION

The economy of the Bahamas is at a crossroad. Many of its key economic assets are at risk. The country's position as an international financial center, its tourism, shipping and manufacturing industries all face multiple pressures. The potential for damaging consequences was highlighted dramatically in December 2016 when Standard & Poor's downgraded the country's bonds to junk status.

To help chart a better path forward, the Organization for Responsible Government (ORG) commissioned this study in order to identify new strategies for promoting economic growth in key areas of the economy.

Interviewed for this study, the consistent message from over a dozen business leaders throughout the Bahamas was a sense of discouragement, frustration at the difficulty of doing routine business, and a lack of confidence in the economic future of the country. At the same time, many of these leaders argued that bold new steps could re-engage investors in the economic future of the Bahamas, and they articulated a range of insightful and proactive ways to help turn the situation around.

The most pressing concern, which ultimately trumped all others, was a perceived lack of confidence by investors in the integrity and efficiency of government economic development programs. Without this, it will be all but impossible to attract the level of investment needed for the Bahamas to reach its full potential.

1.1 NATIONAL ECONOMIC OVERVIEW

The Bahamas strongly felt the impact of the Great Recession, and the need for economic reform is clearly evident in a review of key macroeconomic data. For example, the unemployment rate increased from 8.7% in 2008 to 14.2% in 2009, and has remained persistently elevated all across the country since, at over 14% (see Fig. 1). The Oxford Economics baseline forecast has unemployment remaining over 13% through 2020. As of November 2015, roughly 27,500 people were looking for work (see Fig. 2).¹

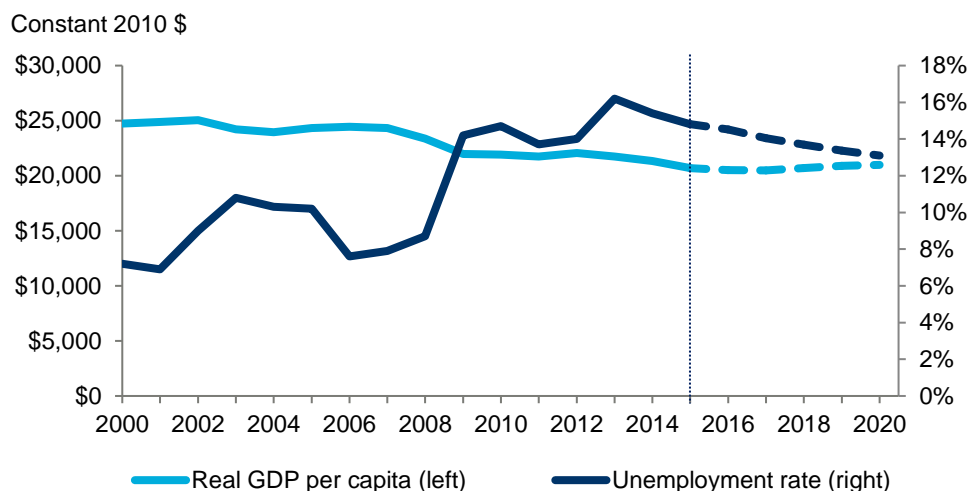
A general pessimism in the face of such data is reported in the IMF's most recent Article IV report on the Bahamas:

"Economic activity stalled in 2015, weighed down by weak domestic demand and goods exports... Going forward, the outlook remains challenging, especially with high youth unemployment and low productivity growth."²

¹ Unemployment rates in Fig. 2 are from the Department of Statistics "Labour Force and Household Survey Report," May 2016.

² "The Bahamas 2916 Article IV Consultation" July 2016, page 2.
<http://www.imf.org/external/pubs/cat/longres.aspx?sk=44074.0>

Fig. 1. **GDP growth and unemployment in the Bahamas, 2000-2020**



Source: Oxford Economics

Fig. 2. **Labor market conditions throughout the Bahamas, November 2015**

	Employed	Unemployed	Unemployment rate	Labor force participation rate
Bahamas	180,820	31,375	14.8%	75.6%
New Providence	126,430	23,885	15.9%	74.7%
Grand Bahama	25,090	4,140	14.2%	72.5%
Abaco	9,630	1,030	9.7%	77.3%

Source: Bahamas Department of Statistics

Note: Figure 1 is seasonally adjusted whereas Figure 2 is not hence there are minor differences

1.2 REPORT OVERVIEW

This report focuses on increasing activity in three critical sectors of the economy:

- the export of agricultural and manufacturing products;
- shipping and logistics activity; and
- second home construction and home rental activity.

For each, we explore the economic development opportunity that could be pursued; the policy or program initiatives that would support growth in the sector; and the scale of economic growth that could be expected if successful.

METHODOLOGICAL OVERVIEW

Identification of Sectors: The three sectors selected for inclusion in this study were chosen by ORG in close consultation with Oxford Economics. Oxford Economics has completed many economic development and impact studies in the Bahamas, several of which examined the economic impact of large hotel projects. In addition, several studies by other firms are currently underway regarding the future of the financial services industry in the Bahamas. Consequently, mega-hotel developments and the financial services sector were excluded from this study. The three subject areas for this report were selected because each:

- Already has a significant presence in the country.
- Appears able to support additional growth.
- Has not been examined in detail in other recent reports.

Qualitative Analysis: Industry leaders were identified from within each of the three selected sectors, and from this group, nearly two dozen were interviewed. The purpose of the interviews was to gain insight into current constraints, limiting investment in a given sector, and to identify the opportunities for growth that might be possible if the right mix of policies were in place. The interviews were all conducted in the Bahamas and involved site visits to New Providence; Grand Bahama Island and Abaco Islands. Because the interviews were conducted over a one-week period, it was possible to test ideas presented in one interview against a different interviewee from the same sector. This allowed some degree of confirmation and confidence that views being expressed were independently shared by at least several key individuals operating within that sector. Most of the policy recommendations included in this report were first expressed during these interviews although many took on more sophisticated iterations as they were tested against outside data sources and other interviewees.

Quantitative Analysis: Oxford Economics built an input-output model of the Bahamas economy and using this model produced estimates for how much additional economic growth might occur at the national level if more effective pro-development policies were implemented. For more detail on this model, please see the box section titled “Introduction to input-output analysis” in section 2.5. Using this model, Oxford Economics generated estimates for how much additional economic growth might result if a mix of new pro-development policies were implemented. These estimates are intended to give an order of magnitude of the scale of additional growth in each sector and implications for the Bahamas’ economy rather than an estimate of the economic benefit that would result from one specific policy idea or another.

2. IMPROVING SUPPLY CHAIN ACCESS: MANUFACTURING AND AGRICULTURE

2.1 THE ECONOMIC DEVELOPMENT OPPORTUNITY

The Bahamas participates in a number of trade agreements including the Caribbean Basin Initiative (CBI) and the Economic Partnership Agreement (EPA) with the European Union; and is working towards joining the World Trade Organization. Given these agreements and close proximity to the US the question initially posed was whether the Bahamas could, with more favorable economic policies, take better advantage of these agreements to increase exports and promote growth. In the course of interviews, two answers to this question emerged:

- In Freeport, there were specific tax and logistics advantages that seemed sufficient to potentially recruit new manufacturing investment. This opportunity is explored in Section 3 on Logistics.
- For all regions outside of Freeport, the size and nature of Bahamas manufacturing and agriculture did not seem particularly well positioned to make significant inroads into the United States export market.

Rather than focusing on exports, it appeared that policies and programs that help local manufacturing and agriculture producers successfully break into the tourism industry supply-chain in the Bahamas seem more promising. In fact, this appeared to be a prerequisite to any ambition to increasing exports to the United States. With more than six million tourists visiting the Bahamas each year, huge demand exists for high quality manufactured and farmed goods on the Islands. At present, this demand is almost entirely met by imports, mainly from the US but also from other Caribbean nations. This means that a major opportunity for domestic producers exists to secure a larger share of this domestic market. If properly supported, this could help to drive economic growth.

Arguably, the introduction of further trade agreements will make this an even more urgent step. Bahamian producers must first reach the scale and efficiency to compete with imports before considering increased export opportunities. As a first step, Bahamas' producers should strive to break into tourism supply chains and substitute more locally manufactured and farmed content for goods that are currently imported (largely from the United States). After first succeeding in the local market, Bahamas producers might then be closer to offering the quality and pricing required to successfully export to the United States.

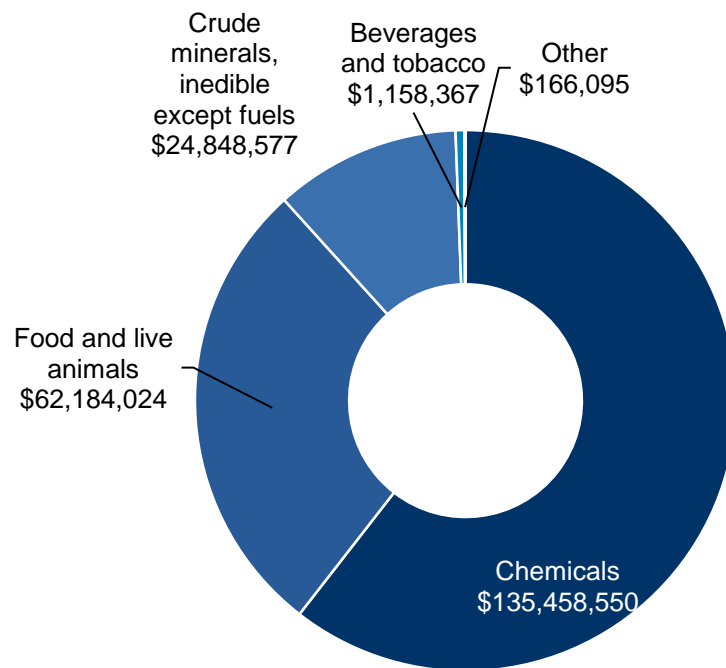
Moreover, if as expected the Trump administration takes a hard line toward further trade agreements, export to the United States might become even more challenging. For all of these reasons, increasing competitiveness by focusing on increasing local content in the tourist supply chain is a key challenge to address.

2.2 CURRENT EXPORT SITUATION

The Bahamas population of 377,000 people is spread among several principal islands making it difficult for domestic producers to reach the scale necessary to profitably export to the United States. Once required to ship from one island to another even within the domestic archipelago, Bahamian producers lose much of the competitive advantage that would normally accrue to a domestic producer in competition with a foreign import.

In addition, the Bahamas does not currently export agricultural or manufactured products in any significant quantity. As shown in Fig. 3, the Bahamas' 2015 domestic export of goods (i.e. excluding both tourism and service exports and re-exports) totaled \$224 million, of which 60% were chemicals (mostly polystyrene and heterocyclic compounds), 28% were food and live animals (mostly lobster, crab, conch, and coral), and 11% were crude minerals (mostly salt and crushed stone).³

Fig. 3. Bahamas 2015 domestic goods exports



Source: Bahamas Department of Statistics

Several successful exporters to the United States were interviewed during this study. For example, Aboco Neem, of Marsh Harbour, is a small exporter of natural health care products. Likewise, the Symonette Group reported recent expansion of agricultural exports to the US. These examples demonstrate that a few companies

³ See Bahamas Department of Statistics "The 2015 Annual Foreign Trade Statistics Report".

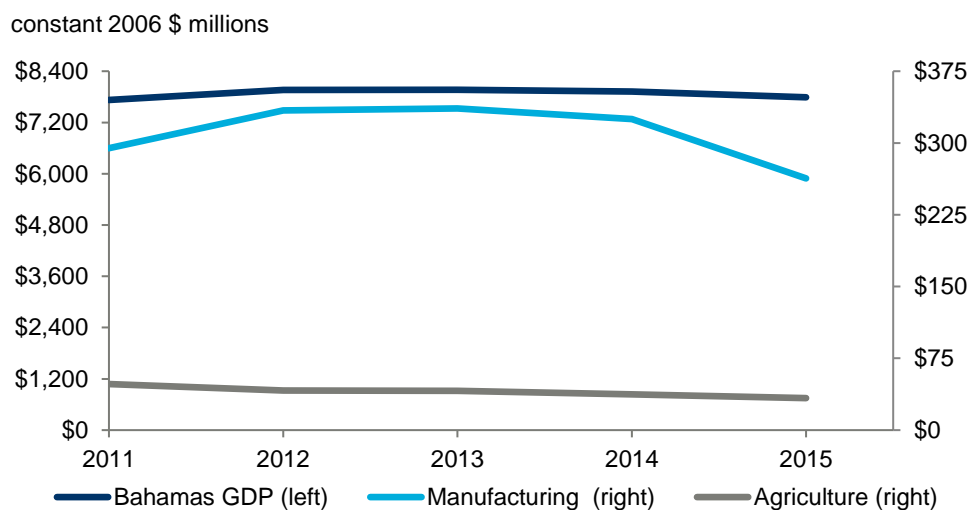
(often with a specialized situation) do find exporting to the United States a feasible strategy.

More typically, it was found that producers in the Bahamas lacked a clear competitive advantage or scale to make export feasible. In fact, it was often the case that basic food imports—even from other Caribbean nations—have successfully penetrated the Bahamas market.

2.3 TACKLING BARRIERS THROUGH POLICY INITIATIVES

Both the agricultural and manufacturing sectors are declining in the Bahamas. This adds impetus to a drive to build them up but also suggests that fundamentally different business conditions might need to be cultivated to reverse these trends. Specifically, real value added in manufacturing declined 10%, and real value added in agriculture dropped 31% between 2011 and 2015 (see Fig. 4).

Fig. 4. Real GDP and value added in manufacturing and agriculture in The Bahamas, 2011-2016



Source: Bahamas Department of Statistics National Accounts Report 2015

Our interviews with business leaders in these sectors identified a whole range of constraints that were affecting the ability of these industries to thrive. These include the small size of the Bahamas domestic market; high labor costs, high energy costs, high capital costs, and difficulty obtaining work permits for foreign workers. Many of these problems will resonate outside of these two sectors as well, but here we explore them with a focus on how agriculture and manufacturing might become growth industries of the future in the Bahamas.

2.3.1 High electric costs damaging viability

Undoubtedly, being an island nation contributes to high energy costs and our interviewees cited high electric costs as a significant impediment to efficient production. An executive from a manufacturing firm, for example, described in detail how electric costs were having a severe impact on his company's bottom

line. For every \$100 of gross margin earned (gross sales minus cost of materials); electric costs were absorbing \$33 of the total. In this case, such a sizeable impact on potential profit would have been enough to undermine the viability of the whole operation were it not for the fact that, in this example, the company received a substantial tax benefit as a consequence of its location in Freeport.

Policy implication: Reducing the burden of high energy costs on businesses would markedly improve profitability and hence growth potential for many businesses. To achieve this, the Bahamas could consider more strategic investments in renewable energy sources (wind, solar) to help improve reliability and reduce its reliance on imports. Our interviewees suggested that policies which allowed renewable power to be sold to the grid at competitive prices would be particularly helpful in spurring more private investment. Similarly, more equitable rate setting between public and private electric consumers would result in less extreme pricing policies that negatively impact future investment.⁴

2.3.2 Difficulties in raising capital for investment

Our interviewees also explained that businesses in both agriculture and manufacturing face significant hurdles in raising capital. In part, it was argued that this reflects the high interest rate, set by Central Bank to maintain the fixed exchange rate to the US dollar while avoiding the outflow of foreign currency reserves. As figure 5 demonstrates, interest rates in the Bahamas are higher than in the United States but lower than other Caribbean basin countries that peg their currencies to the dollar or in Mexico. However, it must be noted that in the Bahamas, foreigners and residents often do not have access to the same financial products (borrowing rates).

Fig. 5. **2016 lending rates**⁵

	2016 Lending rates
United States	3.51%
Bahamas	4.75%
Aruba	7.93%
Belize	9.86%
Mexico	4.52%
Panama	7.52%

Source: IMF International Financial Statistics

⁴ Oxford Economics has previously examined the economic impact of several proposed new generation facilities in our 2013 report entitled “Economic impact of the Bahamas Generation and Utilities Corporation proposed power plant facilities in the Bahamas” released in 2013.

⁵ Simple average of IMF lending rates for (all available months of) 2016. The IMF describes the lending rate as “...the rate that usually meets the short- and medium-term financing needs of the private sector. This rate is normally differentiated according to creditworthiness of borrowers and objectives of financing.” Aruba, Belize, and Panama all peg their currencies to the US dollar to some extent.

In addition to relatively high interest rates, a well-developed market for equipment leasing as a financing option does not seem to exist as an option on the Islands. This places a significant constraint on the ability of local businesses to obtain capital machinery. In many developed countries—including the United States—government price support, through crop insurance or direct support helps farmers obtain capital financing by ensuring a steadier revenue stream. This reduces repayment risk associated with significant price fluctuations. In the Bahamas, farmers are further limited in their ability to purchase crown land for agricultural use. Constraints on land ownership both limit the scale of production and restrict access to important collateral which they might otherwise be borrowed against. A lack of land ownership is also reported to limit the ability of resident farmers to establish joint ventures with foreign investors. Joint ventures offer the promise of major capital investment in agriculture and access to new markets in the foreign investors home country. However, without significant banking and land reform, financing will continue to constrain Bahamas industry and farmers.

Specific challenges within the domestic banking system also constrain growth in other ways, for example, in some instances by competing directly for limited government resources. For example, at the end of 2016 it was widely reported that the National Insurance Board intended to invest \$40 million in support of the Bank of the Bahamas. Regardless of the motivation for the investment, the mere fact that it was needed illustrates the growing divergence between the domestic and international banking sectors in the Bahamas; an unwelcome development that might result in further downward pressure on Nassau’s reputation as an international banking center.

Policy implication: Partnerships with foreign investors are more feasible when farmers own the land in which the joint venture is investing and many forms of financing become more feasible when land is available as collateral. Reform of land ownership laws and concerted efforts to improve access to finance for businesses wishing to expand could have a transformative impact on agriculture.

2.3.3 High costs of labor as a barrier to growth

The business leaders interviewed expressed frustration at various aspects of the labor market in the Bahamas, often comparing their experiences to other locations in the Caribbean. Opinions on the quality of the workforce were mixed and often reflected the level of wages they paid - large employers-of-choice being more satisfied than companies that paid their employees close to the minimum wage.

There was a consensus view, however, that wages in the Bahamas are higher than in other Caribbean basin locations with which the Bahamas often competes for investment projects. In particular, shipping experts indicated that the wage cost of operating in Panama was substantially lower than in the Bahamas. Similarly, agricultural experts indicated that wages in Mexico were substantially below those in the Bahamas. Data analysis of wage levels across these locations corroborated

this industry impression. Figure 6 presents labor costs for the Bahamas, Panama, and Mexico.⁶

Fig. 6. **Comparative Wages Bahamas, Panama, Mexico**

Occupation	Bahamas (Accommodation and food services)			Panama (All industries)		Mexico (Manufacturing)
	Mean weekly wage	Mean hours per week	Implied hourly wage	Median monthly wage	Implied hourly wage	Mean hourly wage
Overall	\$393	40	\$9.83	\$656	\$3.78	\$4.40
Managers	\$827	40	\$20.68	\$1,104	\$6.37	
Professionals	\$683	40	\$17.08	\$1,208	\$6.97	
Technicians	\$526	39	\$13.49	\$857	\$5.07	
Clerical	\$405	39	\$10.38	\$662	\$3.92	
Service & Sales	\$311	39	\$7.97	\$555	\$3.28	
Agricultural	\$477	40	\$11.93	\$397	\$2.29	
Craft	\$447	38	\$11.76	\$677	\$4.11	
Plant operators	\$314	38	\$8.26	\$686	\$4.16	
Elementary Occupations	\$233	38	\$6.13	\$416	\$2.53	

Source: Bahamas, Mexico, and Panama statistical agencies and Oxford Economics calculations

Higher wage costs need not necessarily be an obstacle to increasing manufacturing and agricultural production; so long as there are other off-setting advantages (e.g., proximity to the tourist industry). Higher wage costs become a significant hurdle if competing against lower-cost producers of basic commodity products (e.g., fruits, farm produce) in highly competitive markets such as the United States and whenever price is the principal differentiator. Fig. 7 compares labor productivity between the Bahamas and the US across key sectors.

⁶ Bahamas wage rates are from the December 2015 Department of Statistics publication “Market Information Newsletter Volume 30 No. 41” and reflect 2014 wages in the New Providence accommodation and food services industry, which reports mean weekly wages and mean hours per week. Panama data are from table 441-29 produced by INEC Panama and reflect August 2016 cross-industry wages, which reports median monthly wages. The calculated Panamanian hourly wages assume the same hours are worked per week by occupation as in The Bahamas. Mexican wages are a 2015 average figure for manufacturing industries, from INEGI.

Fig. 7. 2015 Labor productivity in the Bahamas and the United States⁷

Industry	Bahamas			US
	GVA (\$ millions)	Employment	GVA / worker (\$ thousands)	GVA / worker (\$ thousands)
Ag, forestry & fishing	\$143	2,855	\$50	\$49
Mining & utilities	\$299	2,905	\$103	\$292
Manufacturing	\$269	7,700	\$35	\$166
Construction	\$556	17,210	\$32	\$74
Trade	\$1,009	26,120	\$39	\$83
Hotels & restaurants	\$905	33,705	\$27	\$37
Transport & Comm.	\$788	14,850	\$53	\$138
Finance/ Bus. Services	\$2,757	13,120	\$210	\$127
Personal services	\$2,113	67,870	\$31	\$62
Overall	\$8,839	186,335	\$47	\$93

Source: Department of Statistics, US BEA, and Oxford Economics calculations

Note that even relative to the United States, Bahamas productivity is fairly comparable in key industries such as agriculture and tourism. As was noted previously, large scale manufacturing to the United States appears feasible only when there are substantial tax or shipping advantages (i.e., Freeport) that offset the wide difference in productivity.

Policy implication: It is not clear how much of the Bahamas' higher wage rate is attributable to governmental policy, although some did cite termination and leave laws as particularly onerous. Nevertheless, it is important to recognize that higher wages might be a deterrent to future investment and that if they cannot be reduced, then it is important to focus on other business competitive initiatives over which the government does have significant influence or control.

2.3.4 Using foreign work permits to benefit domestic suppliers

The issue of foreign work permits is always contentious and the Bahamas is no exception. With a total workforce of just slightly more than 200,000 workers, dispersed among several islands, interviewees raised the issue of labor availability (or specific labor skills) in the existing labor force, often with implications for the ability of firms to attract investors and expand. This constraint has been long recognized in the Bahamas with the result that foreign work permits are made available. Married to this approach has been a commitment to make the availability of foreign work permits conditional on the requirement that a local resident also be trained in the specific function for which the permit has been issued with the objective of quickly replacing the foreign worker with a newly trained Bahamian replacement.

⁷ Bahamas employment by industry is actually from March 2016, the only figures available, and discount 2,025 workers, or 1% of the total, whose industry of employment was unknown.

This approach has seemingly frustrated most parties. One of the most contentious issues brought up during the interviews was the appropriateness of issuing foreign work permits for specific high profile projects. Opinions expressed ranged from incredulity that permits were not issued for projects being considered in the Bahamas (including several that reportedly went elsewhere when permits were not issued) to outrage that permits had been issued for projects that seemed not to be making any effort to train replacement Bahamian workers.

In 2015, the Bahamas issued 9,208 work permits (see Fig. 8), of which the largest share (42%) were for elementary occupations, followed by agricultural, service & sales, and professional occupations (10% each).

Fig. 8. **Work permits by occupation issued in 2015**

Occupation	Work permits	Share	Top source country
Total	9,208	100%	Haiti
Elementary occupations	3,870	42%	Haiti
Agricultural	949	10%	Haiti
Service & sales	946	10%	China
Professionals	927	10%	USA
Managers	857	9%	USA
Craft	720	8%	Philippines
Technicians	612	7%	Canada
Clerical	151	2%	Haiti
Plant operators	22	0%	Haiti
Others	154	2%	

Source: Bahamas Department of Statistics

Both feedback from our interviews and the data in Fig. 8 suggest that the policy to enforce a specific link between foreign worker permit functions and training local residents to perform the same function, does not seem to be working particularly effectively. For example, approximately 50% of the work permits issued in 2015 would, according to this data, appear to require little specific skills training. Rather, these permits (for less skilled positions) seem to reflect employer difficulties in enticing local residents into accepting lower-paid positions in agriculture and low-end service occupations.

In addition to its small workforce, the Bahamas is struggling with the quality of its educational system. Trying to use the foreign work permit program as a type of apprenticeship 'on-the-job training' program is unlikely to work for high-skill positions in which the employer has highly specialized requirements that cannot be satisfied by the local workforce. In other situations, such as technical skills, the foreign work permit program should not be designed to serve training purposes for which technical schools would be much better suited.

One possible solution is for the Bahamas to adapt a visa approach similar to that pioneered in the Canadian Provincial Nominee Program. In that program, visa

applicants with difficult-to-recruit skills (as determined by the provinces) receive expedited visa and citizenship processing from the federal government. In the Bahamas, for example, states could be assigned a certain number of foreign work permits for difficult to recruit positions (determined in conjunction with local businesses). Moreover, rather than making permit award conditional on specific matching of demand to training, it might prove more effective to link the award of work permits to a commitment by the receiving company to increase the number of Bahamas residents that it employs. For example, the receiving company would hire a certain number of residents, even if those residents work in positions that differ from those in which the work permits were issued. This flexibility might help address concerns about disincentives to investment while also encouraging receiving companies to hire additional local workers.

Policy implication: A better balance between the need for businesses to bring in specialized foreign talent and the concern that foreigners not take jobs away from Bahamas citizens needs to be reached. Linking foreign work permits to increases in local employment at the job site—as opposed to focusing on training residents in highly specialized functions—would seem to offer a much more constructive approach.

2.4 INCREASING SUPPLY CHAIN OPPORTUNITIES

The section above has explored a number of overarching constraints within the Bahamas' economy that are perceived to be affecting the ability of the agriculture and manufacturing sectors to expand (including into export markets). But as identified earlier there is also an untapped opportunity to increase the role of domestic producers in servicing tourism-driven demand on the Islands.

Before focusing on competing in export markets, it makes more sense for local producers to focus on penetrating the supply chain that supports the tourism industry; which today is largely serviced by imported supplies. This is a concept known as import substitution—wherein imports of foreign products are substituted by goods produced locally. The discussion below focuses on barriers and policies that could increase domestic engagement in these supply chains for the manufacturing and agricultural sectors.

The quantity of goods imported for the tourism sector in the Bahamas is vast. For example, we estimate that tourists consumed \$295 million of food in 2015.⁸ Precise figures on the share of tourists' consumption from imports are not available, but even among locals, roughly 55% of food is imported.⁹

For some of those we interviewed, the sheer size of the market ruled out the possibility of their engagement in domestic supply. Despite this, the lesson from other places is that there exists ample opportunity for craft manufacturers and agricultural producers to participate far more than they currently do in niche tourist

⁸ Or roughly 12% of total tourist spend of \$2.5 billion. Oxford Economics calculations based on Bahamas IO tables and 2015 tourism expenditure statistics.

⁹ Oxford Economics calculations based on Bahamas IO tables.

markets in the Bahamas. On a small scale, several interviewees reported examples of this occurring already. The challenge is designing and implementing a strategic approach to spur significant domestic expansion of local production and increase local content in the tourism supply chain.

One important strategy, for example, is to properly match Bahamian suppliers with hotels and restaurants that are of an appropriate size to meet their demand. For example, a mid-size supplier might supply a mid-size hotel located on the same island; whereas it is highly unlikely that a very large hotel would consider establishing a relationship with a supplier who could only meet a small portion of that hotel's total demand (for that specific product). Some organizational coordination will be needed in order for a holistic approach to be adopted. For example, the tourist supply chain typically requires uniformly grade A product; yet not everything coming from the field will be at that standard. Therefore, relationships with local supermarkets become an important outlet as they typically have more purchasing flexibility than a boutique hotel or specialized restaurant.

Another risk, raised by most business interviewees was increased competition from Cuba. In response, it was suggested that more focus should be made to develop cultural tourism opportunities, with boutique hotels being encouraged to accentuate the particular culture (arts, music, food) of the Islands. In addition to providing a new cultural experience, Bahamas-themed hotels would provide the opportunity to showcase locally manufactured goods (baskets, furniture, and arts). The broader impact on the tourism sector of expanding boutique hotels and home rental property options is more broadly discussed in Section 4.

CULTURALLY THEMED HOTEL: AN AFRICAN EXAMPLE

Lamantin Beach Resort in Saly, Senegal is a West African-themed hotel that is a good example of how a culturally themed boutique hotel can help promote local manufacture and arts. Local designs and materials are incorporated throughout the resort, including locally-produced laterite bricks, woods, and linens and cloths.

The hotel has a special relationship with the Au Grenier d'Afrique; a Saly-based cooperative for local artists. Au Grenier d'Afrique supplies all the artwork used throughout the resort and visitors to Lamantin are encouraged to visit the cooperative (located nearby) if they have an interest in purchasing locally-produced artwork. In addition to promoting the sale of local artwork; excursions to the cooperative encourages Lamantin visitors to leave the resort and visit the nearby community, spreading wealth outside the resort.

Organizing and training small farmers to better serve the local tourist market will require some degree of government support, some of which is already in place. For example, the government has tried to support agriculture training through the

establishment of the Bahamas Agriculture and Marine Science Institute (BAMSI); now a part of the College of the Bahamas, on Andros. Originally set up to train students in agricultural practices, concerns are now being raised that the BAMSI has itself become a major producer of fresh produce that is competing with local farmers. In best case examples, goals of training initiatives are strategically aligned with specific industry business goals; in this case increasing domestic share of the hotel supply chain.

Policy implications: There are a variety of strategies that the government might consider to encourage tourist operators and restaurateurs to buy more local content (both agricultural and manufactured goods). For example, business registration fees could be reduced in a formula linked to the amount or percentage of revenue generated by the sale of qualifying local merchandise or produce. Tax policy can be a very effective tool to both encourage local establishments to utilize more local products, or to simply reduce outright the cost of goods and services intended to enhance the tourist experience. For example, for targeted higher value manufactured crafts, VAT rates might be reduced to encourage more local consumption.

2.5 ECONOMIC IMPACT OF AGRICULTURAL AND MANUFACTURING EXPANSION

This section estimates the magnitude of potential gains from import substitution in the food and manufactured goods consumed by tourists to the Bahamas. This is done using an input-output model, which is described in greater detail at the end of this section. The purpose of this section, as well as sections 3.3 and 4.3 below, is to give a sense of the magnitude of potential impacts on the Bahamas of successful policy reform. These magnitudes should be judged in comparison to the Bahamas economic statistics presented in section 1.1, e.g. unemployment of roughly 27,500 workers (Fig. 2).

The specific scenario modeled in this section assumes that 10% of current tourist spending on food and manufactured goods is shifted from imports to local production.

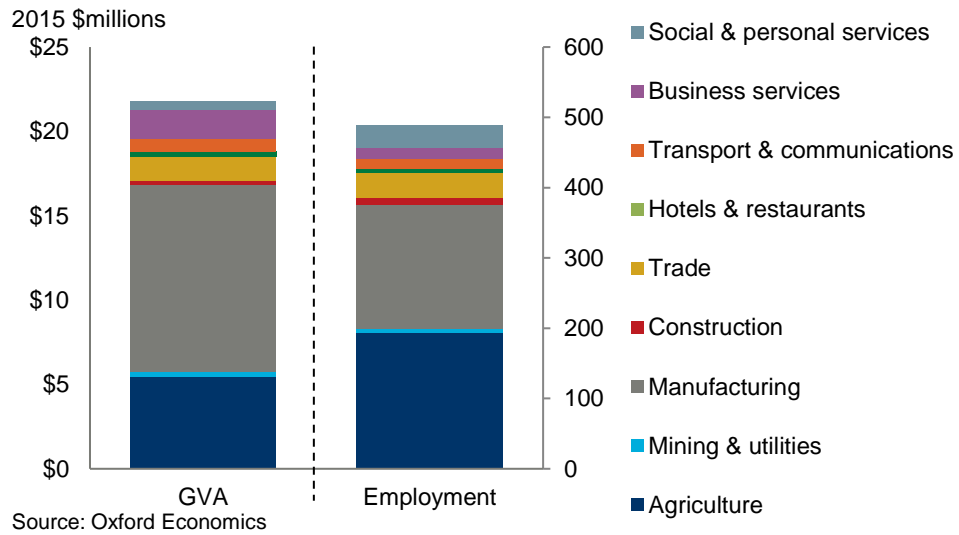
In 2015, tourists to the Bahamas spent roughly \$201 million on direct purchases of manufactured goods, and another \$295 million on purchases of food, directly or indirectly through spending at restaurants and hotels.¹⁰ Out of this \$496 million, \$103 million was spent on goods in which the Bahamas has no production, such as watches or gasoline (and in which we assume there is little chance of developing a domestic industry from scratch). Of the remaining \$393 million, a large, but unquantifiable, share is spent on imports.

¹⁰ Oxford Economics calculations based on Bahamas IO tables and 2015 total tourist expenditure of \$2.5 billion. The remainder of tourist spend is in services, such as hotels. Food totals exclude service margins at restaurants and hotels.

We estimate below the economic impact of shifting 10% of this spending, or roughly \$39 million of spending, from imported to domestic goods.¹¹ The choice of 10% is arbitrary—a 5% shift would have resulted in an impact half as large and a 20% shift, an impact twice as large.

The impact of this hypothetical import substitution are presented in Fig. 9. The intervention results in a GDP impact of \$21.8 million, of which 51% is in manufacturing and 25% in agriculture. This corresponds to 489 new jobs, 40% in agriculture and 36% in manufacturing. It is worth noting that \$5.4 million impact on the agriculture sector represents a 4% increase in the Bahamas' current agriculture GVA of \$143 million.¹²

Fig. 9. **Economic impact of agricultural/manufacturing scenario**



¹¹ Importantly, in shifting this spending from imports to domestic suppliers, trade and transport margins on the goods, often a significant fraction of the ultimate price paid, are assumed to be unaffected.

¹² Excluding fishing, agricultural GVA is only \$60 million. Much of the \$5.4 million impact is in agriculture proper, not fishing. See Department of Statistics “National Accounts Report 2015.”

INTRODUCTION TO ECONOMIC IMPACT ANALYSIS

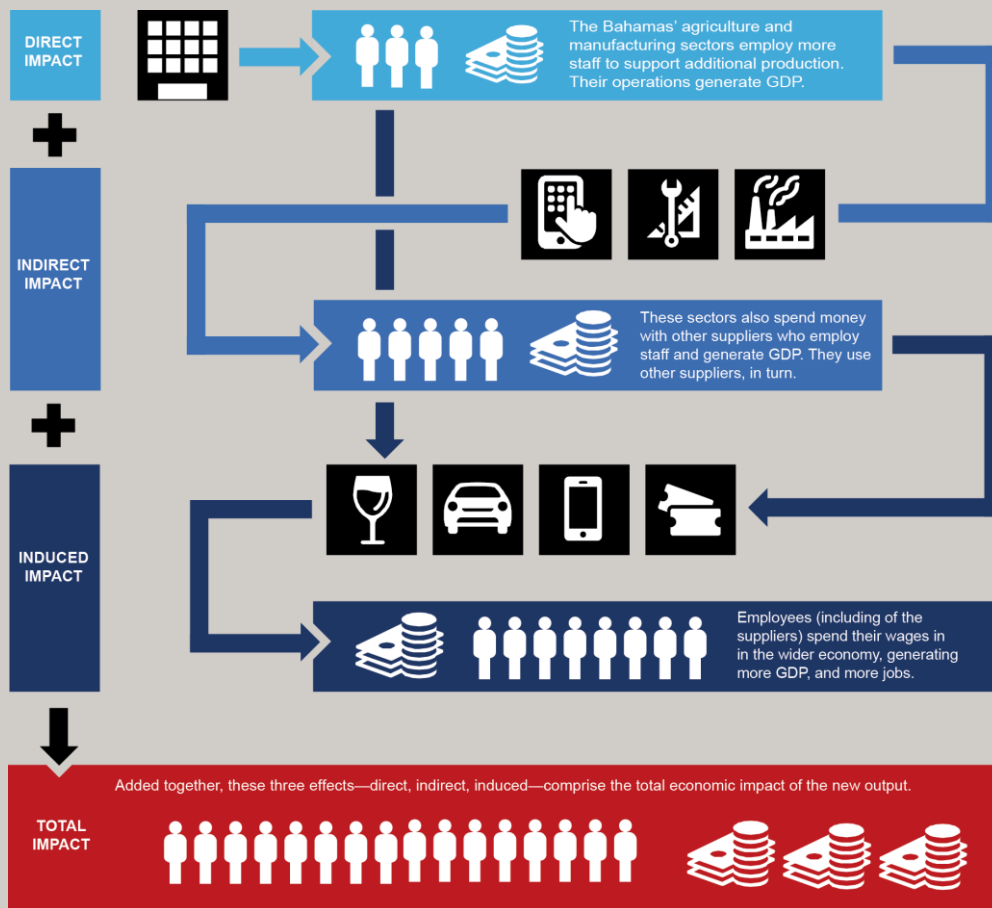
The economic impact of new agricultural or manufacturing output in a region can be measured using a standard means of analysis called an economic impact assessment. These impact falls into three core ‘channels’ of impact that comprise the economic footprint, of this new activity:

- Direct impact, which relates to the output of the firms that produce the new output itself;
- Indirect impact, which encapsulates the activity and employment supported in the supply chain of those firms that produce the new final output; and
- Induced impact, comprising the wider economic benefits that arise when employees of the firms producing the new final output plus those in the supply chain, spend their wages in the wider consumer economy, for example in local retail establishments.

Using these pathways, a picture of the full economic footprint in the Bahamas economy of the new activities can be presented, using two key metrics:

- GDP, or more specifically, the gross value added (GVA) contribution to GDP; and
- Employment, as the number of people employed, measured on a headcount basis.

Fig. 10. Economic impact diagram



SOURCES AND TECHNICAL NOTES

The main data source is a set (i.e. a make table and a use table) of input-output tables (“IO Tables”) produced by and obtained from the Bahamas statistical agency. These tables are for 2007, and have 59 industries.

The IO tables do not directly report employment levels for these 59 industries. Instead, employment levels for nine broad industries were obtained from the Bahamas statistical agency. These employments were distributed among the 59 detailed industries proportionally to wages in those industries.

Standard techniques were used to calculate the direct, indirect, and induced impact of the new final output using the Bahamas IO tables.

It is worth noting that input-output analysis implicitly assumes that the existing purchasing patterns and inter-relationships between industries in the economy continue to hold in meeting new increases in final demand. This may not be valid in practice if, for example, new increases in final output overwhelm local supplies of a particular intermediate good. For example, local production of lumber might meet the existing demand for building supplies, but a large expansion in construction activity might exceed the ability of the local industry to provide additional lumber. In this case, the excess demand would likely be met by increased imports, while the IO model would assume that the relative share of imports in this industry remains unchanged, and would thus overestimate the local economic impact of the new activity.

3. LOGISTICS ACTIVITY: SHIPPING AND PORT-BASED MANUFACTURING

3.1 THE ECONOMIC DEVELOPMENT OPPORTUNITY

An early premise of this study was to examine the opportunity to expand the existing logistics and shipping sector in Freeport and create a more robust logistics sector. As described in this chapter, this premise seems valid and also might bring a significant benefit in port-based manufacturing.

As was the case with manufacturing and agriculture more widely, our interviews raised several potential difficulties to be addressed in order to succeed. Examples include difficulties in establishing or expanding break bulk business operations and the question of inefficient inter-island logistics within the Bahamas archipelago. These are explored below along with the policy implications of each. We then quantify the scale of the potential economic boost that solving these challenges could generate.

3.2 TACKLING BARRIERS THROUGH POLICY INITIATIVES

In both the Nassau and Freeport ports, subject matter experts interviewed described untapped business potential in the logistics sector. For example, Nassau has one of the most efficient ports in the Caribbean. Reportedly there is plenty of dockside warehousing available for potential exporters but rates are higher than most small producers can afford. If pricing is in fact a hurdle to small exporters seeking access to port warehouse space, it seems a worthwhile exercise for a potential public-private partnership to explore possible solutions.

In another, very specific, example, a shipping executive described how his company genuinely wanted to consolidate an international planning function in the Bahamas, but was thwarted by the foreign permit restrictions described in section 2.2.4. The function was to be staffed by very senior shipping personnel (often with previous experience as ship captains). Reportedly, only short-term work permits were offered and even then on condition that local Bahamas' residents be trained in the positions. Senior executives were unwilling to relocate families to the Bahamas if their long-term stay was in doubt; and the company was unwilling to replace highly skilled shipping executives with freshly trained local workers. That project reportedly went to another Caribbean location in nearly the same form as was proposed for the Bahamas.

Policy implications: As noted previously reform to the foreign work permits might prove effective. In addition, more analysis should be conducted to assess whether creative financing solutions (especially in Nassau) might make available warehousing more affordable for small exporters.

3.2.1 Grasping the break bulk opportunity

It was generally agreed during interviews that Freeport is a logical location for break bulk shipping operations—the process of off-loading containers, moving contents to warehouses, and then reshipping on smaller vessels or to specific ports depending upon the cargo involved. The natural features of Freeport's harbor, proximity to the United States, and unique tax advantages in place work in Freeport's favor.

Our discussions identified a perception that the government might be reluctant to provide the investment needed to make bulk break possible (for example, land in the immediate port area would have to be raised and levelled at considerable cost) because it might not generate much additional direct tax revenue. Undoubtedly, the major gain from bulk break would be indirect—it would vastly increase the desirability of the location for light assembly manufacturing (see next section)—but expansion would also increase federal taxes directly. It would be associated with an increase in the volume of containers passing through Freeport (i.e., per container revenue fees). In addition, break bulk is slightly more labor intensive than other port operations and so the tax take would increase as a result of an increase in the number of longshoremen and warehouse operators.

Interviewees repeatedly raised concerns about the operations of the customs department—citing inefficiency at best, corruption at worst—and how detrimental this was to any ambition toward increasing exports or modernizing the port. In fact, more than one port interviewee argued that improved customs operations are an important pre-condition to any new investment in break bulk operations. One specific custom reform often mentioned was the publication of updated and streamlined tariff regulations so that it is clear which duties will be applied to well-defined specific categories of goods. This would make such determinations less likely to be subject to the discretion of an individual customs agent. In addition, reliance on statistical sampling to test the veracity of the cargo manifest was also mentioned as a best practice common in most other ports but not in the Bahamas. In ports with modern sampling techniques typically 2% of cargo is inspected. By comparison, in the Bahamas nearly 100% of the cargo is inspected, making this a very costly and time-consuming procedure. Replacing the manual inspection of all goods transported through the port and movement to an electronic customs format for payment and paper processing would both improve transparency and operational efficiencies.

Policy implications: A commitment to modernizing customs procedures would not only improve the public's confidence in the integrity of customs operations; it would also be an important signal that the government intends to explore smart policy solutions that support and leverage port development.

3.2.2 Promoting a port-based manufacturing industry

The preceding chapter has made clear that in most instances agricultural and manufacturing producers in the Bahamas would find that expansion into the tourism supply chain is a logical precursor to becoming successful exporters. In

particular, the size of the domestic market makes scale efficiencies difficult to achieve, and logistical and cost challenges are a significant impediment to successful export. A major exception to this exists in Freeport which has both a world-class deep sea harbor and a very advantageous tax regime.

The real benefit of expanded break bulk operations would be in the development of new assembly or light manufacturing plants that might take advantage of the unique combination of deep sea port, proximity to the United States, and favourable tax and export treatment. Virtually all of the value added created on-site in the Port District would be tax-free in the Bahamas and likely duty free entering the United States. This is particularly true for a wide range of products made tariff-free for United States entry through the Caribbean Basin Trade Partnership Act (CBTPA). Although the Trump administration might take a more hard-line approach to US participation when the agreement comes up for renewal in 2020, as it stands now, operators could realize substantial logistics and tax advantages if break bulk operations expanded to better support the manufacture or assembly in the Port District.

Policy implications: Land improvements to make more portside manufacturing investment feasible ought to be considered. This type of infrastructure improvement is common in many of the world's most successful ports including, for example, in the foreign enterprise zones that comprise South Korea's primary port districts.

3.2.3 Tackling intra-islands logistics

Reliance on existing mail carrier boats for the transport of goods and people between islands within the Bahamas was often raised as a business constraint. In one example, a restaurateur on Abaco reported that stone had to be imported from Florida (for construction) even though better stone was available in Freeport (just 20 miles away) because shipping stone between the islands was not possible. One reason that shipping to Florida is easier than shipping between islands within the Bahamas is the domestic reliance on inefficient mail carrier ferries. Although the circumstances of this one particular restaurateur might be unusual, the general complaint regarding inter-island logistics was a prevalent concern.

For example, one shipping executive pointed to limitations on foreign shippers operating domestic ferry services as an obstacle that was preventing the modernization of inter-island transport. At least one major international shipper operating in the Bahamas also operates state-of-the-art ferry services in other regions of the world but is prevented from operating a comparable service in the Bahamas unless they are willing to take a minority interest in a joint venture with a Bahamas entity.

Policy Implications: Opening up domestic ferry service to international competition might result in equipment and operational improvement in inter-island ferry transportation.

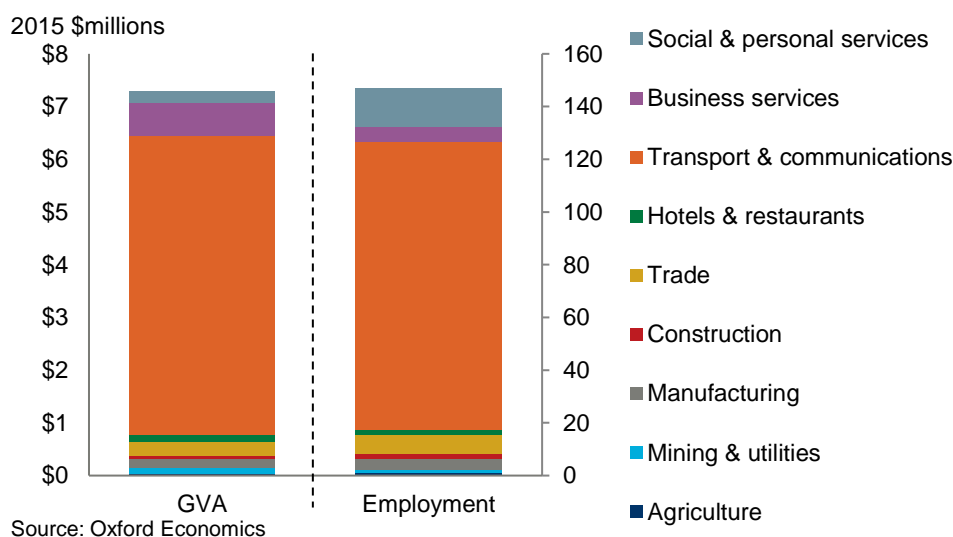
3.3 ECONOMIC IMPACT OF LOGISTICS EXPANSION

This section estimates the magnitude of potential gains from increased port activities. The methods involved are similar to those in section 2.5 above and are described in more detail in the box in that section.

The first specific scenario considered here is of an expansion in the economic activity of the “services allied to shipping” industry (e.g. break-bulk processing) sufficient to directly employ an additional 100 workers, which we estimate corresponds to roughly \$7 million of increased output in this sector.¹³ This increased direct output also generates additional jobs in other sectors through supply chain and induced (spending out of workers’ wages) effects.

This scenario results in a \$7.2 million GDP impact, and 147 new jobs (100 direct new jobs, plus 47 indirect and induced jobs). Not surprisingly, the largest impact is in the transport, storage, and communication sector, which alone accounts for 78% of the GDP and 74% of the employment gain.

Fig. 11. **Economic impact of logistics scenario**



Additionally, as we discuss above, development of break-bulk cargo processing might also lead to the development of allied manufacturing in the Freeport area. Therefore, we also model an expansion of manufacturing activity in the Bahamas equivalent to 200 new manufacturing jobs, which we estimate corresponds to approximately \$28 million in new manufacturing output.¹⁴

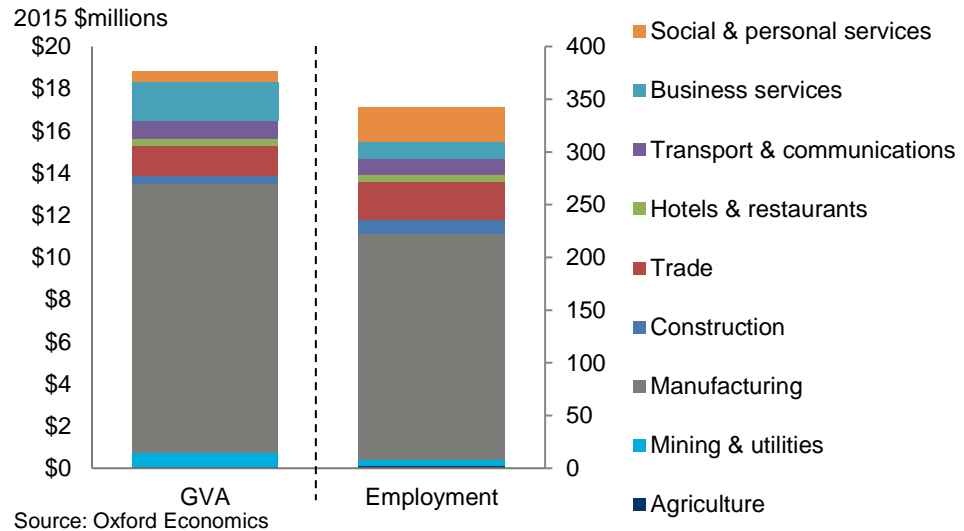
This scenario results in a GDP impact of \$18.8 million, including direct, indirect, and indirect effects, 68% of which is in the manufacturing sector and 10% in the

¹³ Calculations based on Bahamas IO tables, but the precise magnitudes are subject to considerable uncertainty.

¹⁴ This output is modeled across manufacturing industries, proportional to their current share in the Bahamas manufacturing sector. The precise distribution of industries does not strongly affect the overall results.

business services sector. This corresponds to 343 new jobs overall, 63% of these in the manufacturing and 11% in the wholesale and retail trade sectors.

Fig. 12. **Economic impact of manufacturing scenario**



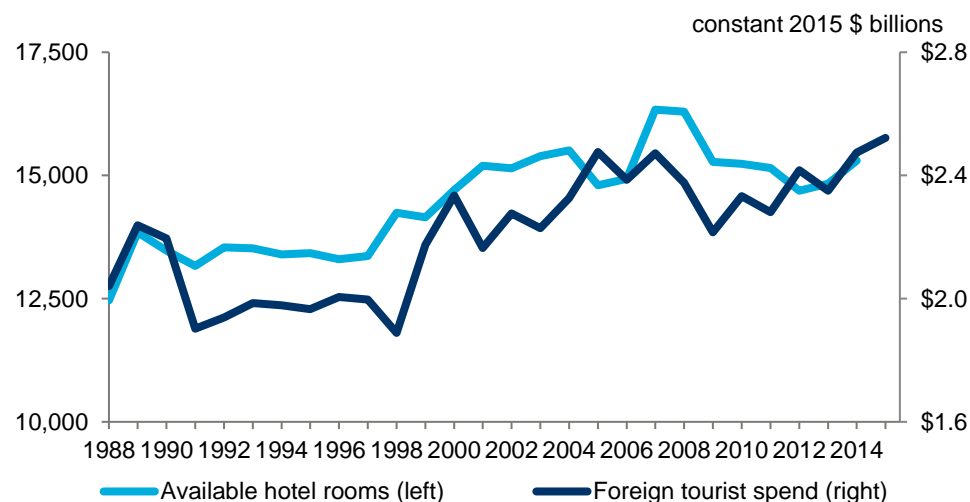
4. TOURISM OPPORTUNITIES: BOUTIQUE HOTELS AND HOME RENTALS

4.1 THE ECONOMIC DEVELOPMENT OPPORTUNITY

The fast growing home rental market promoted through services such as Airbnb and HomeAway is creating new opportunities for the Bahamas to develop new tourism markets (especially on the outer islands). Policies that promote this trend might also help encourage foreigners to more heavily invest in the second home market.

Tourism is a major part of the Bahamas' economy. Notwithstanding that tourists spent roughly \$2.5 billion in the Bahamas in 2015, some of those interviewed expressed the general perception that tourism has declined in recent years. Indeed, according to the Ministry of Tourism the number of available hotel rooms in the Bahamas peaked in 2007 at 16,335 compared to only 15,300 in 2014 (see Fig. 13).¹⁵

Fig. 13. Tourism trends in the Bahamas, 1988-2014



Source: Ministry of Tourism and Oxford Economics Global Travel Databank and calculations

However, there are several reasons to be more optimistic than these figures suggest. When Baha Mar opens, the increase in available hotel rooms will result in the Bahamas reaching or surpassing its previous high. In addition, recent years

¹⁵ "Hotel Rooms in the Islands of the Bahamas 1967-2014." Research Dept., Ministry of Tourism.
<http://www.tourismtoday.com/services/statistics/hotels>.

have seen a rapid rise in home rentals for the tourist market, a market that although in its earliest stages is one in which the Bahamas is well suited to compete¹⁶.

When considering overall tourism, it is important to note that nearly three-quarters of the 6.1 million visitors to the Bahamas in 2015 arrived by cruise ship. Undoubtedly the cruise ship industry makes a large impact on the Bahamas economy; however, the spend by overnight visitors is much larger. Specifically, the 1.5 million visitors who stayed overnight in the Bahamas during 2015 represented 87% of the total tourist spend (see Fig. 14). Policies that increase the number of overnight visitors are particularly important to the Bahamas economy.

Fig. 14. **Tourism by category of tourist, 2015**

Category of tourists	People		Spend	
	(thousands)	%	(\$ million)	%
Cruise	4,513	74%	\$337	13%
Overnight	1,484	24%	\$2,224	87%
Day	129	2%	\$4	0%
All	6,126	100%	\$2,564	100%

Source: Bahamas Ministry of Tourism and Oxford Economics

4.1.1 Hotels and vacation homes

Fig. 15 presents data on hotels and private houses rented through Airbnb in the Bahamas and three other countries.¹⁷ Note that there are other home rental services listing in the Bahamas as well and therefore the total size of this emerging market is substantially larger than what is presented. However, due to the problem of cross-listing homes on different services, only Airbnb data are included.

¹⁶ In 2013 Oxford Economics released a report that measured the economic impact of the Baha Mar project on the Bahamas economy.

¹⁷ Differences in number of hotel rooms when compared with figure Fig. 13 are due to differences in sourcing; the figures presented here are consistent across countries. **Hotel rates are indicative** and do not control for the actual mix of rooms rented, but rather are weighted (by number of rooms) averages between hotels of unweighted averages within hotels across room types (where a hotel has more than one room type: single, double, suite). GDP for Turks and Caicos is from 2015. AirBNB data are mostly for the months of September-November; because annual data are unavailable, we are not able to correct for seasonality.

Fig. 15. Comparison with other countries

	Bahamas	Bermuda	Cayman Islands	Turks and Caicos
Scale measures (2016)				
population (thousands)	392	62	61	34
GDP (US\$ millions)	\$8,962	\$5,837	\$3,272	\$797
Land area (sq. km)	13,880	54	264	948
Tourism drivers (2015)				
Overnight visitors (thousands)	1,484	220	385	
Tourist spend (US\$ millions)	\$2,522	\$398	\$515	
Hotel data (2016)				
Hotels	117	23	58	37
Boutique hotels	4	1	0	3
Hotel rooms	13,295	2,071	3,751	2,908
High rates	\$607	\$590	\$560	\$916
Low rates	\$349	\$390	\$273	\$370
Airbnb data (2016)				
Total properties	1,878	271	377	684
Active properties	908	201	248	344
Mean occupancy rates	17.0%	38.0%	22.0%	16.0%
Mean nightly rate	\$306	\$204	\$281	\$640
Mean guest rating	4.6	4.8	4.8	4.7

Source: STR Global, AirDNA, World Bank, CIA World Factbook, and Oxford Economics

Fig. 16 breaks this out by island group. Note that on some of the outer islands like Eleuthera and Abaco, the total amount of properties expressing interest in home rental (as measured by registration with Airbnb) is already approaching 50% of the total number of hotel rooms available. On these islands, in particular, the home rental market will allow the tourist market to expand rapidly, provided that access to these island for overnight visitors is improved.

Fig. 16. Types of accommodations by island group, 2016

Hotel data (2016)					
Island group	Hotels	Boutique hotels	Hotel rooms	High rates	Low rates
New Providence	42	1	8,146	\$748	\$428
Grand Bahama	16	2	2,732	\$304	\$192
Biminis	5	0	568	\$320	\$285
Eleuthera	18	1	487	\$671	\$281
Abaco	13	0	470	\$436	\$276
Exuma	8	0	419	\$677	\$259
other	15	0	473	\$319	\$189
Airbnb data (2016)					
Island group	Total properties	Active properties	Mean occupancy rates	Mean nightly rate	Mean guest rating
New Providence	759	394	22.4%	\$223	4.6
Grand Bahama	211	125	14.7%	\$230	4.7
Biminis	40	24	11.1%	\$400	4.7
Eleuthera	347	162	13.7%	\$491	4.6
Abaco	227	85	12.5%	\$328	4.7
Exuma	148	77	16.2%	\$446	4.6
other	142	41	8.4%	\$246	4.8

Source: STR Global, AirDNA, and Oxford Economics calculations

4.2 TACKLING BARRIERS THROUGH POLICY INITIATIVES

4.2.1 Improving the market for vacation homes

Currently, the Bahamas Investment Authority (BIA) must approve all vacation homes (that is, any home that is not the principal residence of the owner). Because of the International Persons Landholding Act, the rules are especially strict for foreigners. While vacation home owners and foreign owners can overcome these hurdles, this comes at a cost in terms of time and money. In the view of interviewees, most of the complexity reflects laws that are designed with mega-resorts in mind. For example, if the owner is not the primary occupant, then the applicant must present detailed business plans that addresses issues such as how many people will be employed, traffic issues, etc. For the vacation home rental market, this is not a practical approach.

One solution is to establish a new investment category that recognizes that questions suitable for large investments are not relevant for foreigners who just want to build a vacation home. This new investment category, for example, might allow expedited and simplified approval in exchange for the homeowner agreeing to register as a new business and agreeing to collect VAT (or Hotel Guest Taxes) on home rentals made to tourists.

It should be noted that many foreigners who might wish to invest in a second home in the Bahamas have no desire to live full time in the country. For example, it was noted during several interviews that the poor quality of health care was a particular concern for elderly, wealthy Americans who might otherwise consider making a Bahamas property investment. Therefore, leveraging the opportunity presented by the fast growing home rental vacation market could be a valuable strategy for attracting foreign dollars (from investors who might not want to live year-round in the Bahamas). Zoning rules would address most obvious objections, e.g. limit the number of days a home can be rented, make sure beaches maintain public access, etc.

In addition, these more relaxed investment requirements might only be made available only in specially designated “Trade Development Zones” (TDZ’s) situated where the greater availability of home rentals, coupled with increased ferry or airport access, would have the greatest economic impact. TDZ’s would allow the Government to experiment with different policy prescriptions in specific limited areas before fully committing to a much larger or permanent program.

TDZ’s would also afford the government the opportunity to experiment with tax schemes to promote equity. One goal, for example, might be to bring more equity to visitor occupancy taxes so that regardless of whether the visitor stays in a home rental or hotel the tax burden is the same or comparable. For example, within the TDZ homeowners who voluntarily registered to collect occupancy taxes on home rentals might receive property tax reductions proportionate to the amount of occupancy tax remitted. In this way, registration schemes for the collection of occupancy taxes from renting homeowners can be experimented with so that only proven and effective programs get implemented on a national level.

Policy implications: Policies that promote increased foreign investment and those that promote increased tourism through home rentals should be considered in tandem. Special economic zones on specific islands where foreign visitors have direct access should be considered for experimental treatment. For example, relaxed rules on foreign home investment in such zones might encourage both more tourism and more home investment in those areas.

4.2.2 Incentivizing the development of boutique hotels

Boutique hotels can become a critical component in how the country responds to the rising competition from Cuba as a cultural destination. Many of those interviewed recognized that sun, sand, and sea will not be enough for the Bahamas to reach its full tourist potential and that a modern tourism brand will need to be developed on a more recognizable “Bahamas cultural theme.”

The opportunity for boutique hotels to provide contemporary cultural-based tourist demand dovetails well with key manufacturing and logistic issues discussed above. Incentives to source tourism products locally and create more Bahamian-themed hotels could help promote tourism on the family Islands. Furthermore, this opportunity could be better exploited with improved direct transport to the Family Islands—especially from US and Canadian destinations.

Policy implications: Tax policies that promote more investment in the tourist supply chain should be considered. For example, business registration fees could be reduced in accordance with schedules that reward purchases from qualified local producers. Similarly, specific crafts and products utilized in the tourist industry could be made tax-exempt.

4.2.3 Expand tourist access to outer islands

Several of our interviewees suggested that more government subsidy of air transport to locations outside of Nassau could be a route to economic growth. This seems particularly relevant for Marsh Harbor, Abaco where the airport can accommodate larger planes; but also true for Freeport, Grand Bahama Island. Subsidy might take the form of actual carrier subsidy as is currently done on some United States flights to Nassau, or through reduction of national excise taxes on some flights to these locations. In addition, as discussed earlier, modernized ferry service might further improve tourist access to the outer islands.

Policy implications: Cheaper flights direct to the outer islands (particularly to markets not already served by the cruise ship industry) can spread the tourist benefit more evenly throughout the country and open the country up to a new class of tourist. This seems an appropriate use of a reduction on airline taxes since the lost revenue would be more than made up for through the increased tourist spend. There are also the sizable societal benefits of creating more tourist and economic opportunity on the outer islands.

4.3 ECONOMIC IMPACT OF SECOND HOME EXPANSION

Expanding the second home market may generate a number of benefits to the Bahamas, including increased direct tax revenue, increased land values, inflows of hard foreign currency, and economic impacts of new home construction. These benefits can be quite substantial. For example, in an earlier study in Grand Bahama Island, Oxford Economics estimated that the construction of 500 new second homes would create over 2,000 construction jobs and nearly 150 full time jobs as homes were rented and home service demand increased¹⁸. In this section, however, we abstract from these benefits and only consider the impacts from increased spending by new tourists to the Bahamas.

Specifically, this scenario assumes an increase of 50% in the current level of Airbnb activity in the Bahamas. An input-output model of the Bahamas economy (see section 2.5) describes the effects of this increase. Importantly, it is assumed that this increase represents entirely new tourists to the Bahamas--none of the new Airbnb tourists are cannibalized from existing hotels.

According to the Airbnb data presented in Fig. 15, there are currently 908 active Airbnb rentals in the Bahamas, with an occupancy rate of 17%; this implies a total of 56,000 room-days of rentals.¹⁹ We further assume an average of 2.0 people per

¹⁸ See "Optimizing Economic Development: Post Hawksbill Creek" by Oxford Economics (2015).

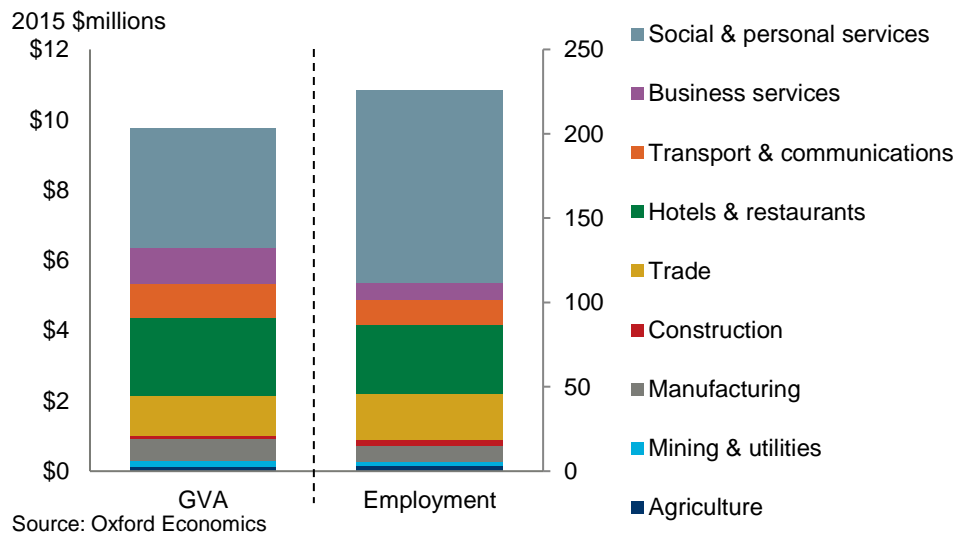
¹⁹ Again, this applies rates from September-November to the whole year because annual data are unavailable.

Airbnb property, and a total of 6.7 nights per visitor to the Bahamas, for a total of 16,700 tourists to the Bahamas currently staying in Airbnb out of 1.5 million overnight visitors. With an average spending of \$1,500 per overnight visitor to the Bahamas, this implies spending of \$25 million by those staying in Airbnbs, including their spending on the Airbnbs themselves.²⁰

This scenario models an increase in new tourists equal to 50% of the current Airbnb activity in the Bahamas (i.e., an additional 8,350 tourists to the Bahamas, spending an additional \$13 million). However, spending on the Airbnb rental costs estimated at roughly half this spend, is excluded from the economic impact presented below.²¹

The full economic impact—direct, indirect, and induced—of additional spending by these new tourists is estimated at \$9.8 million of additional GDP and 225 new jobs. The sectors most affected are community, social, and personal services, which receives 35% of the GDP impact and 50% of the jobs impact, and hotels and restaurants, which receives 23% of the GDP and 18% of the jobs impact.

Fig. 17. Economic impact of home sharing scenario



²⁰ Average length of stay of overnight visitors to the Bahamas from Oxford Economics Global Tourism databank. Average occupants per AirBNB is an approximate figure. Spend per overnight visitor is from Bahamas Ministry of Tourism. Note that some tourists may split their time between AirBNBs and hotels. These tourists would be partially attributed to the AirBNB sector in this scenario.

²¹ The hotel sector nevertheless sees an impact in this scenario, mostly through meals purchased at hotels.

5. CONCLUSION

The Bahamas economy is by any reasonable measure underperforming relative to its full potential. In part this is because there are strong headwinds adversely affecting traditional sources of economic growth in the country. For example, there are the challenges of operating an international financial center in a stricter regulatory landscape, or new competitors for Caribbean tourists (notably Cuba). In this environment it is critical for policymakers and business leaders to leverage any available opportunity to promote additional economic growth.

This paper touched on three economic development scenarios and suggested many policy recommendations that would increase investor confidence and promote greater economic growth. No one strategy is a magic bullet nor are all recommendations easy to implement. Take land development as an example. Easing restrictions on farmers owning crown land seems largely a matter of changing policy directive whereas building up land in the port district at Freeport will require considerable public investment. Similarly, changing the foreign worker permit program might be politically difficult, but is not a costly measure to implement.

By design there are a range of options presented for each scenario and the recommendations presented can be implemented incrementally. In that way these ideas can be improved upon based on actual experience before rolling out on a national level. For example, perhaps initially only one state is given more flexibility to administer foreign worker permits in a manner more akin to the Canadian approach described in the report. A different state might then host the first Trade Development Zone and yet another location might be selected to experiment with tax breaks to encourage a Bahamas-themed boutique hotel. Public-private task forces might be organized around recommendations of particular interest so that more specific implementation strategies can be developed.

The Bahamas does face economic challenges but its core competitive strengths remain intact. What we believe would be most effective for improving investor confidence is for the government to begin taking measured steps to introduce at least some of these measures so that business leaders and the public regain confidence in the Bahamas economic future.



**Europe, Middle East,
and Africa:**

Global headquarters

Oxford Economics Ltd
Abbey House
121 St Aldates
Oxford, OX1 1HB
UK

Tel: +44 (0)1865 268900

London

Broadwall House
21 Broadwall
London, SE1 9PL
UK

Tel: +44 (0)20 7803 1418

Belfast

Lagan House Sackville Street
Lisburn
County Antrim, BT27 4AB
UK

Tel: + 44 (0)2892 635400

Paarl

12 Cecilia Street
Paarl 7646
South Africa

Tel: +27(0)21 863-6200

Frankfurt

Mainzer Landstraße 41
60329 Frankfurt am Main
Germany

Tel: +49 69 95 925 280

Paris

3 Square Desaix
75015 Paris
France

Tel: +33 (0)1 78 91 50 52

Milan

Via Cadorna 3
20080 Albairate (MI)
Italy

Tel: +39 02 9406 1054

Dubai

Jumeirah Lake Towers
Dubai,
UAE

Tel: +971 56 396 7998

Americas:

New York

5 Hanover Square, 19th Floor
New York, NY 10004
USA

Tel: +1 (646) 786 1879

Philadelphia

303 West Lancaster Avenue
Suite 2e
Wayne, PA 19087
USA

Tel: +1 (610) 995 9600

Mexico City

Emerson 150, Despacho 802
Col. Polanco, Miguel Hidalgo
México D.F., C.P. 11560

Tel: +52 (55) 52503252

Boston

51 Sawyer Road
Building 2 - Suite 220
Waltham, MA 02453
USA

Tel: +1 (617) 206 6112

Chicago

980 N. Michigan Avenue,
Suite 1412 Chicago
Illinois, IL 60611
USA

Tel: +1 (773) 372-5762

Los Angeles

2500 Broadway, Building F,
Suite F-125
Santa Monica, 90404

Tel: +1 (424) 238-4331

Florida

8201 Peters Road,
Suite 1000
Plantation,
Miami 33324
USA

Tel: +1 (954) 916 5373

Toronto

2425 Matheson Blvd East
8th Floor Mississauga, Ontario
L4W 5K4
Canada

Tel: +1 (905) 361 6573

Asia Pacific:

Singapore

6 Battery Road
#38-05

Singapore 049909

Tel: +65 6850 0110

Hong Kong

30/F, Suite 3112
Entertainment Building
30 Queen's Road Central

Tel: +852 3103 1096

Tokyo

4F Tekko Building
1-8-2 Marunouchi
Tokyo
100-0005

Tel: +81 3 6870 7175

Sydney

Level 56, MLC Centre
19-21 Martin Place
Sydney, NSW

Tel: +61 2 9220 1707

Email:

mailbox@oxfordeconomics.com

Website:

www.oxfordeconomics.com