

PUBLIC EXPENDITURE REVIEW FOR THE BAHAMAS



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Abbreviations

ALMP	Active Labour Market Programming	MoSS	Ministry of Social Services
CHISS	Caribbean high income small states	NDP	National Development Plan
COFOG	Classification of Functions of Government – an international standard and a dataset	NEP	National Education Plan
CSS	Caribbean small states	NIB	National Insurance Board
DoSS	Department of Social Services	NIS	National Insurance and Social Security (Trinidad and Tobago and Barbados)
ECLAC	Economic Commission for Latin America and the Caribbean (also CEPAL)	OECD	Organisation for Economic Cooperation and Development
ECD	Early Childhood Development	PE	Public Enterprises
ECDE	Early Childhood Development and Education	PER	Public expenditure review
FRA	Fiscal Responsibility Act	PHA	Public Hospitals Authority
FY	Fiscal year	PISA	Programme for International Student Assessment
GA	Government agency using the meaning under the PFM Act.	PMDU	Prime Minister's Delivery Unit
GBE	Government business enterprise using the meaning under the PFM Act.	SOE	State owned enterprise
GER	Gross Enrolment Ratio	SIDS	Small island developing states
GFC	Global financial crisis	SPV	Special purpose vehicle
GFS	Government Finance Statistics – dataset and standards	STR	Student teacher ratios
HIC	High income countries	UMIC	Upper middle income country
IDB	Inter-American Development Bank	UN	United Nations
IEA	International Education Assessment	UNESCO	UN Educational, Scientific and Cultural Organization
IMF	International Monetary Fund	UNODC	United Nations Office for Drugs and Crime
LAC	Latin America and Caribbean	UB	University of The Bahamas
LAPOP	Latin American Public Opinion Project	UWI	University of the West Indies
LFS	Labour Force Survey	VAT	Value-added tax
MAB	Main Aggregates and Balances	VfM	Value for money
MoF	Ministry of Finance	WDI	World Bank World Development Indicators
		WEO	IMF World Economic Outlook

State groupings

The following state groupings are referred to in the text.

CHISS	Antigua and Barbuda, The Bahamas, Barbados, St Kitts and Nevis, Trinidad and Tobago
CSS	Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago
Caribbean tourism economies¹	Antigua and Barbuda, Aruba, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
OECD	See https://www.oecd.org/about/members-and-partners/
SIDS	See the UN classification as of September 2021 https://sustainabledevelopment.un.org/topics/sids/list
Small states	See the World Bank classification as of September 2021 https://data.worldbank.org/region/small-states
High Income Countries	See the 2020 classification under https://datahelpdesk.worldbank.org/knowledgebase/articles/906519
Upper Middle Income Countries	See the 2020 classification under https://datahelpdesk.worldbank.org/knowledgebase/articles/906519

Terms used

Primary expenditure	Non-interest government expenditure
Net enrolment ratio	Correct-aged children in school for a particular stage of education (for example primary education) divided by the population of correct school age for that level.
Gross enrolment ratio	Children of any age in school for a particular stage of education (for example primary education) divided by the population of correct school age for that level.

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Other notes

UK English spelling is used throughout.

The fiscal year in The Bahamas begins on 1st July. The school year begins 1st September and ends on the 31st August.

2019/20 actual expenditure differs by around 1% of expenditure between the Pre-Election Update and MoF Excel-based sources, by around \$21 million for primary expenditure, but this difference is not regarded as material for the PER conclusions.

This PER was conducted as a desk exercise between September and December 2021.



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Main Findings

REVENUE

In The Bahamas, the development of several tax bases has not been undertaken. There are several tax bases where plans have been outlined by the Government but which remain on the waiting list, partly due to COVID-19. Other bases which are sources of revenue in almost all other high income countries, are not taxed in The Bahamas. At present, the National Health Insurance Authority (NHIA) is around one-third funded according to its own estimates. NHIA relies on a government subvention, with no direct contribution system yet in place. A 2013 ILO recommendation to increase National Insurance Board contributions to a minimum of 13.6% of earnings was not carried out. Water and energy rates are set well below cost. There is no income tax nor inheritance tax; natural resource extraction appears lightly taxed at best; and with the exception of VAT and import charges, most revenue lines have been stagnant in nominal terms for a decade. Attempts to partially fund tertiary education through student loans have also been set aside.

COVID-19 and Hurricane Dorian combined expenditure measures were relatively modest as a share of GDP, at an estimated 2.9% of GDP for central government as of July 2021, when compared to other high income countries' COVID-19 responses. VAT revenues are expected to substantially recover in 2021. However, the decline in GDP in 2020 which persisted throughout most of 2021 was very substantial. The small size of the state, together with reasonably good efficiency of public service provision, makes expenditure-led fiscal adjustment and expenditure efficiency seeking in The Bahamas, more difficult compared to a more typical high income country with a higher tax burden. It also results in The Bahamas using tax expenditures more extensively to address crises (for instance, the 2021 back-to-school VAT suspension for computers and stationery), which may be more expensive and not as accurately targeted at those most in need, relative to expenditure-side measures such as vouchers.

 Main Findings cont'd**EQUITY**

To help put The Bahamas on a sustainable fiscal path, substantial efficiency improvements could be enacted. There are significant 'missing' public services compared to other high income countries, and several underfunded areas of public service provision, in addition to relatively sparse state redistribution towards poorer Bahamians. This notwithstanding, citizen satisfaction levels in The Bahamas were high relative to the Latin America and Caribbean region when last measured in 2014.

The tax configuration is regressive, because the government relies on capped fees and consumption taxes with few exemptions. The effect of this revenue configuration on lower income households is exacerbated by low levels of income redistribution. Public sector spending as a share of GDP is on the lower side for everything except for public order and safety.

Access to tertiary education and vocational education is low compared to similar countries. There is considerably higher government spend per tertiary student compared to other levels of education, but there are not many students relative to other high-income countries. Subsidies to private schools require greater transparency, a clearly stated purpose, and prioritisation towards specific policy aims.

Access to hospital-based healthcare when last measured in 2013, was tilted heavily in favour of the richest quintile. Since 2013, government spending continues to grow sharply on hospital care, alongside significant and rising recent investment in primary care via insurance and central government provision. National health insurance to fund primary care has been proposed as a per-head fixed charge, which would account for a disproportionate share of the cost of employment for low-income workers. Even if the head charge is paid as employee contributions, it is an effective and high tax on low-paid work. The approach to targeting national health insurance payment exemptions is to use blanket age-based exemptions, which could raise less resources than a progressive insurance charge on income.

Limited social assistance and missing social services are apparent. There is no family assistance, including no child benefits (outside of fostering); no pre-kindergarten Early Childhood Development support from government. Outside of COVID-19 programming, there is little in the way of working-age assistance of any kind, except for food assistance. Outside of COVID-19 measures, social assistance as internationally defined is extremely low as a share of GDP, below 0.4%. There is some NGO support for disabled people, domestic abuse survivors and some foster care support, but it is extremely limited, and grants to NGOs have remained stagnant for more than five years. Some support for juveniles appears to be incorporated into the justice sector; however, many countries do not regard the justice sector as an ideal 'early resort' for juvenile care. A 2016 IDB study concluded that housing support covers few households relative to need, and that most housing support programming is targeted at the middle class, rather than the poorest.

"Indigence" is a status granted by the government in order to receive working-age support. Despite a high indigence income threshold, rejection rates for social assistance claims by NIB appear to be high, even for initial COVID special measures. This suggests either a lack of information to assist claimants in presenting accurate documentation, or a deliberately tight regime. The number of people actually recognised as indigent is not clear. Given high rates of labour force participation, a very tight regime might not be required, and a tight regime risks missing out many people who might genuinely qualify for the support. No NIB program in isolation was (on average) sufficient to take claimants over the indigent line, but several programmes appear generous compared to the international poverty line for upper middle income countries (\$5.50 PPP per day).

Despite reforms to statistical institutions, recent survey-based information that could shed light on equity of government provision is scant. In particular, this Review has little to say on geographical service delivery variations, due to a lack of available data.

Main Findings cont'd

EFFICIENCY AND EFFECTIVENESS

Social protection – **Both NIB and central government DoSS and MoSS administration costs are high relative to the modest size of managed funds and programs.** However, MoSS/DoSS administration may include an element of frontline provision, for example, social workers. The documentation requirement for NIB recipients is arduous and repetitive relative to many countries. Digitization may help ease the burden, but implementation so far has been limited. The ratio of pensions to prior incomes for NIB-insured people (the “replacement rate”) is lower than in comparator countries in the region and in the OECD, due in part to the low historical insured wage ceiling (recent charges to the law have addressed this) and the relatively recent introduction of NIB. November 2021 measures to increase pensions may have mitigated this, but these measures also increased already relatively generous civil service pensions. The lack of increases to NIB contributions means that the NIB fund will be exhausted more quickly.

Despite the low “replacement rate” of pensions relative to prior incomes, poverty incidence was low among the elderly, and work participation for over-65s appears similar to other countries. Low coverage of the working-aged unemployed is concerning, as are low self-employed national insurance subscriptions. Unemployment-related contribution thresholds (the minimum number of weeks of contributions prior to a claim) are not very suitable for vulnerable employment. This means that the vulnerably employed subsidise the elderly and the securely employed. NIB coverage of the poor and unable to work is very limited. There is little information available on food assistance cost-effectiveness or coverage. The lack of data and low coverage of government interventions makes it difficult to discern a strategic approach for reducing poverty and getting people back to work.

Health. **Life expectancy in The Bahamas is the third lowest among high-income countries.** Leading causes of death are distinctive relative to other high income countries and regional high income comparators; HIV/AIDS and violence are among the top five

causes of death in The Bahamas, although HIV incidence is falling. The causes of low life expectancy include diabetes and obesity, although obesity rates are far from the worst globally, and infant mortality is reasonably low compared to the region. **Historically limited government support for primary healthcare is improving**, but as of late September 2021, rationing of new NHIA General Practitioner acceptance was in place on several islands, which is possibly due to an exhaustion of the NHIA subvention.

Recent reforms to introduce state insurance coverage for primary health care are addressing the spending imbalance within the sector, but there is no strategy in place to equitably fund tertiary health care, nor to contain growing costs for the sector as a whole. As a result, the Bahamian government is paying for two revenue mechanisms in the same sector – in NHIA and PHA – that aren’t functionally in place, as both organisations rely on subventions for virtually all of their resourcing.

Cost control and efficiency faces pervasive challenges at PHA. Costs, particularly staff costs, have risen sharply, even as the number of inpatient discharges relative to the population has decreased substantially since 2013. PHA staff compensation and conditions appear to be extremely generous relative to the rest of government, and have increased substantially in recent years. There are notable overlaps in health provision for some groups, particularly for civil servants.

Education. **Tertiary efficiency could be improved, as student-to-teacher ratios are low compared with all OECD countries. Spending per tertiary student is relatively high, while access is limited to both tertiary and vocational education, and tertiary graduation appears low.** Costs in pre-tertiary education have been tightly contained since 2010/11 relative to the health sector and the rest of central government. There appear to be enough teachers in the primary and secondary systems overall, but there are well-known problems starting at the primary level with education quality (the amount of learning actually taking place in classrooms), which results in a high out-of-school secondary-aged share of children.

 Main Findings cont'd

Out-of-school rates are high relative to other high income countries and LAC countries. The low high school graduation rate is a symptom of these issues.

There is little information about school-to-school or geographical inequities in education, and no formula in place for non-salary payments to schools.

However, spending more money without reforms to, and a greater understanding of, pedagogy, and obstacles to student learning at present, is unlikely to increase education quality substantially. It is unclear as to whether tertiary scholarships are targeted according to the ability to pay. It is also unclear whether courses and scholarships are aligned to the economic growth needs of The Bahamas. The ongoing pre-primary rollout is highly cost-effective, but pre-primary enrolment ratios require further increases in resource levels to catch up with comparator countries, and there is no detectable government ECD support for the pre-K level.

Recent Prime Minister's Delivery Unit priorities have been on very well-evidenced, potentially very cost-effective and socially effective areas of education. Learning assessments could extend and deepen the information available on which to base ongoing reform efforts in this critical area.

The PFM system is relatively healthy, with substantial reform over recent years and relatively good central government budget transparency. Budget credibility at the aggregate levels (by ministry, and by expenditure type) is usually very good. Deepening ongoing PFM reforms, particularly regarding: tax expenditures; managing government agency fiscal risks; examining the value for money of government spending; and increasing financial and non-financial information coverage and timeliness for government agencies and government business enterprises; remain priorities.

Legal undertakings in the PFM Act to produce an Establishment Register are welcome, and would allow deeper understanding of staff deployment than this Review can offer. **Capital expenditure reporting** doesn't provide a sufficiently complete picture to inform an assessment of value for money or allow those outside of government to assess aspects of the capital project lifecycle, such as budget alterations across budget years, and timeliness of projects. **Digitization** proceeds at pace, but total spending on digitization should be managed carefully. **The lack of recent audit reports for the government and many GBEs and GAs should be a pressing concern.**

Debt management and cost control across government. Debt management risks stem mainly from outside of health and education government agencies, but that is due to relatively comprehensive and open-ended central government subvention for health and education; costs for staff and allowances in UB and PHA have risen substantially in recent years, and NIB, already heading for deficit, is dissaving to fund higher unemployment benefits and most of the cost of the COVID unemployment assistance grants. The government assumed significant amounts of debt from GBEs and GAs during the COVID-19 crisis as refinancing conditions became more difficult.

The long term expenditure pressure and potential areas for reform and expenditure efficiency in the 'social cluster' (health, education and social protection spending areas) are substantially contained in PHA, UB and NIB. However, allowances and outsourcing costs have also increased in recent years across government. Overall, government spending on the social cluster is very low relative to GDP per capita, as is revenue.

1. Introduction

1.1 Aim of the PER

This PER aims to meet several objectives, including identifying savings and possibilities for more efficient and effective public spending. According to the Pre-Election Fiscal Update 2022, the Government of The Bahamas was aiming for an overall balance of 0.5% of GDP by 2024/25 in line with reverting to the path mandated by the 2018 Fiscal Responsibility Act 2018, with an ambitious target to reduce the debt-to-GDP ratio to 50% by 2030/31 (reaffirmed in the 2021 FSR), almost five percentage points of GDP each year from 2022/23, which will require significant revenue and expenditure measures. Moreover, to reduce the risks to economic growth and social cohesion which are posed by fiscal consolidation, the government would need to underpin significant improvements in human capital, economic opportunity and the social safety net by increasing the quality of expenditure.

The PER will examine expenditure trends in relation to the 'results chain' and the economic and wider fiscal context. The methodology section provides an outline of the approach taken². A clear recommendation of which parts of the analysis undergone are worth doing, and reasonably easy to do, regularly within government. The PER also tries to make clear which parts of the analysis are based on stronger or weaker evidence in terms of international comparisons and recommendations.

Where possible, and bearing in mind the current level of disruption to the Bahamian economy and society stemming from multiple crises since September 2019, the analysis points towards opportunities for economic transformation and increasing resilience. This PER also provides unit cost tables for the social transfers to individuals, as well as detailed cost and cost effectiveness comparisons where data allows, as well as a table (or "action plan") on estimated savings and timescales for recommended policy options in line with the magnitude of fiscal consolidation required.

The main findings are in the executive summary. Recommendations are summarised also for each sector.

Introduction cont'd

1.2 Methodology

The analytical approach to PER analysis is outlined in this subsection.

- » **Inputs** include financing, physical, and human inputs. Human capital scarcity analysis is possible and would shed light on constraints, but would require more data from the most recent LFS, as well as an Establishment Register.
- » **Efficiency** has three dimensions for the purposes of this review:

Process efficiency	Allocative efficiency	Policy credibility
<ul style="list-style-type: none"> • Is programming optimally planned (with clear goals), implemented (delivered or procured), and monitored (assessed)? • <i>uses PFM, national and sector plans as well as process review to the extent possible.</i> 	<ul style="list-style-type: none"> • is the set of government interventions (in terms of total costs and outputs) appropriate compared to similar contexts with similar GDP per capita levels, costs/availability of input, and other constraints? How does resourcing compare across sectors? 	<ul style="list-style-type: none"> • Is the intervention sufficiently scaled and relevant to the government's main priorities? <i>Interventions can be efficient relative to outputs– but are they socially efficient ways to achieve societal goals?</i> • Are interventions jointly efficient across sectors or agencies and ministries?

Source: author

- » **Effectiveness** is also usefully arranged into three dimensions.

Cost Effectiveness	Delivery effectiveness	Policy effectiveness
<ul style="list-style-type: none"> • Are the interventions worthwhile given the financial and opportunity costs? Should they be stopped, reduced, or refocused given the fiscal situation? • Are they duplicated elsewhere? • How does The Bahamas compare with what other governments are doing in terms of cost-effectiveness and risk management? 	<ul style="list-style-type: none"> • Could a different set of inputs and outputs achieve a similar or better outcome at lower cost or risk? • Could a different delivery modality (choices include buy, delegate or implement directly) achieve the same results with lower costs or reduced risks? • Are interventions delivered at the right time? 	<ul style="list-style-type: none"> • Are appropriate measures and systems (for instance, procedures, surveys, data, staff) in place to measure effectiveness of government policies and practices? How is information actually used to inform and adapt policy?

Source: author

Introduction cont'd

- » **For equity, the core questions are to establish who services are provided to, and who doesn't get them; and whether the quality of services is equitable.** Equity considerations can be horizontal (for example, school funding and staffing variation between similar pupils in the same year at different schools) and vertical – for example, spend targeted at poorer groups compared to spend on universal, untargeted provision.
- » **Sector spending by the government is identified according to expenditure heads, item descriptions, and spending units³.** This means that, for example, spending that is not labelled as health spending in any way, but which is spent on health interventions from the budget of the PM's office or MoF, may be missed out.

Costs such as pensions and civil servants' national insurance contributions and health insurance premia are not separated by sector, although it is possible to simply apportion the cost (\$212 million in 2019/20 actual expenditure, which is 8.3% of central government non-interest expenditure and 31% of core wages and salaries) according to the share of the core wages and salaries allocation for each intervention, sector, or 'cluster' of related sectors⁴.
- » **The focus areas for the Review include government spending on disaster mitigation and preparation; and on the social "cluster" (health, education, social benefits and assistance), with particular attention to government-supported agency entities in the social cluster. For these areas, the PER takes an opportunistic approach to assessment, using the indicators outlined in the table below.** Expenditure is examined for all areas, and there is a brief discussion of PFM processes and digitization that applies across expenditures.
- » As this Review took place remotely, some contextual data is absent. In particular, it would be valuable to develop a deeper understanding of the following in order to better understand expenditure effectiveness, efficiency and equity:
 - Whether recent increases in public data availability have affected accountability, participation and oversight;
 - Planning of new policies, in particular tax exemptions and other tax expenditures;
 - A clearer idea of poverty identification processes at MoSS/DoSS;
 - Variations in service provision between islands for health and education services; and
 - Linkages between government institutions which are particularly important for the social safety net, disaster spend, and post-secondary education.

Unfortunately, it was not possible to calculate front-line vs non-frontline staff allocations with the data available, although this may be something the government wishes to explore in the future, including within NIB and PHA payrolls. Salaries for central government staff are indicated in a 2016 document, while NIB and UB provide sufficient public detail to assess compensation in these organizations relative to the central government.

Groups of comparison countries are listed at the beginning of the document.

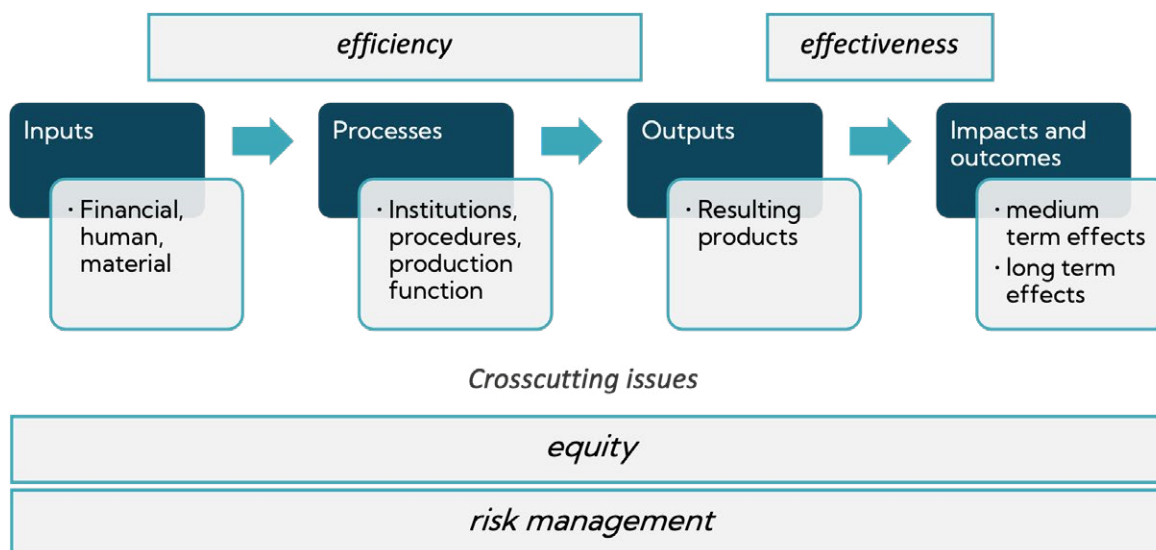
The results chain used for this review is depicted below. A simple version divides the results chain into four elements: inputs, processes and efficiency, outputs; and impacts and outcomes. Equity and risk management cuts across each element.

3 The full classification can be provided.

4 Bearing in mind that in a pay-as-you-go defined benefit pension system, future pension liabilities are likely to be higher.

Introduction cont'd

Figure 1: Stages of the 'results chain'

Source: Holzapfel 2016, adapted from OECD DAC⁵

The table below lists the indicators which help to make determinations of performance at each stage of the 'results chain'.

Table 1: Indicators by stage of the 'results chain'

SECTOR	SUB-SECTOR	INPUTS	PROCESSES & EFFICIENCY ⁶	OUTPUTS	IMPACTS AND OUTCOMES	EQUITY
All sectors						Horizontal and vertical equity in spending per potential recipient
Education	Pre-primary	Co-payment/subsidy	Cost per student, STRs, graduation rates.	Enrolment	-	Gross enrolment rate
	Primary and secondary	Number of teachers	Cost per student, STRs	Enrolment, graduation, pass rate, candidature	Transition and survival.	Gross and net enrolment rates
	Technical and vocational	Co-payment	Cost per student, STRs		Unemployment	Horizontal financing
	Tertiary	Staff counts Co-payment Donations	Cost per student, Proxy for survival rate, Course relevance, Unit costs, STRs.	Enrolment, graduation rates	Incomes Job match quality Fit to possible future requirements and scope for economic diversification. Course mix.	Gross enrolment rate

⁵ <https://onlinelibrary.wiley.com/doi/pdf/10.1002/pad.1749>

⁶ "Process" on the results chain.

Introduction cont'd

Table 1: Indicators by stage of the 'results chain' cont'd

SECTOR	SUB-SECTOR	INPUTS	PROCESSES & EFFICIENCY ⁶	OUTPUTS	IMPACTS AND OUTCOMES	EQUITY
Health	Primary and secondary	Staff counts,	Unit costs.	Provision count, users, quality measures	Life expectancy, infant mortality rate, healthy life expectancy, adult and child obesity, HIV incidence, causes of death.	Coverage, exclusions.
	Tertiary	Mix of professionals by count and cost	Cost share, Unit costs, average length of stay, beds per population, staff per population	Coverage ratios		Cost recovery and exemptions, exclusions.
Health	Environmental	Staff counts	Implicit subsidies	Quality and type of good.		Geographic coverage
Social	Contributory	Staff counts.	Contribution ratio. Administrative share.	Quality, coverage, adequacy, investigations, recipients.		Identification strategy, subsidy, replacement rate.
Social	Non-contributory		Review of application procedures, quality of service. Eligibility procedures and adherence. Unit costs. Subsidy.			Coverage, replacement rates, poverty rates.
Disaster	Prevention	Financial instruments	Relevance to potential risks, unit costs, interactions with private sector initiative	Coverage ratios	-	Whose risks are being mitigated?
	Reconstruction	Co-payment	Relevance to actual impacts. Timeliness. Sequencing.	Coverage ratios		Who is being compensated?

This PER takes advantage of information which is mostly already in the public domain. Almost all aspects of the analysis can be repeated without consultant involvement in the future, and the PER includes a series of recommendations in the annex of the sorts of exercises that could be repeated annually and every two to three years, to assess opportunities for expenditure control, efficiency, effectiveness and impacts. A number of pieces of related work have increased the scope for analysis, including the PwC SOE surveys, the NDP exercise, and the fruits of a much-improved PFM reporting system, as well as public PMDU reporting, Fiscal Responsibility Council assessments, and good transparency in some semi-autonomous government agencies, notably the University of The Bahamas. An anticipated

Establishment Register would be useful to ascertain the share of frontline versus administrative staff. The Census 2022 might also provide relevant information, as might a fuller range of regular household, health and learning assessment surveys, although clearly these have costs.

Regardless of the analysis undertaken, choices about increasing fiscal space remain extremely tough. There are few 'win-wins' in relatively efficient, modern state organisations like the Government of The Bahamas, and particularly given the small-state model followed by The Bahamas. However, there are some: for example, expanded part-time work options for civil servants can increase welfare by retaining the best staff, potentially reducing gender inequality; can reduce the total wage bill; and can increase

 Introduction cont'd

staff welfare⁷. However, most other policy choices require difficult trade-offs, which is why a reasonable framework to establish value is required.

The disaster preparation and response methodology is discussed separately in that subsection.

The PER in context

Where possible, the analysis tries to account for the effects of Hurricane Dorian and COVID-19. For instance, 2018/19 is examined for efficiency and effectiveness measures of tertiary education, which also aligns with the publication year for comparator (OECD) data. This is so that the review does not 'penalize' The Bahamas for the two very large crises following September 2019 which might affect student success, labour market outcomes, and enrolment.

However, where possible, the effects of these particularly large and potentially persistent shocks on the performance of sectors and government interventions is discussed, and trends through the 2021/22 budget are noted. The Bahamas is a small state with many inhabited islands and long travel distances between some of the islands, which means that some apparent 'inefficiency' is just minimum provision; and that fixed costs of service provision could be relatively high. While the best outcomes possible for public service and value for money are often circumscribed by these factors, the OECD and other HICs remain reasonable comparators – at least for the lower third or quarter of countries in those groups of comparators. This is because The Bahamas' pre-COVID GDP per person is comparable with the median HIC and OECD member, and because GDP per person is far higher than others in the CHISS comparator grouping.

Recent surveys such as the Labour Force Survey in May 2019 are available. However, available household surveys are relatively old – the latest was in 2013–, and reflect the income and wealth distribution prior to the introduction of VAT. The LFS sample covers three islands representatively, which limits its applicability for the Family Islands. Dorian and COVID-19 are likely to have disproportionately impacted the uninsured and the poor. Current data sources give a relatively incomplete idea of equity.

There are some important missing datasets in The Bahamas. Generating more information is expensive – national learning assessment exercises cost from \$200,000 to \$1.4 million in developing countries⁸, and at least two such assessments would be desirable to gauge the performance of primary and secondary education. National household surveys cost far more. However, more information would be useful to target resources more effectively. In several cases, there is substantial missing management information which should be regularly made public, for example regarding PHA since 2015, NIB since 2017, and an absence of a full EMIS dataset or consistent international reporting⁹ from MoE since at least 2016/17.

⁷ Part-time options seem established already in PHA, but their extent is unknown in the wider civil service.

⁸ World Bank, Eswatini Education Sector Analysis 2021. <https://openknowledge.worldbank.org/handle/10986/35787>

⁹ Enrolments appear to fall sharply with no explanation after 2016/17 in MoE and UNESCO/World Bank reporting; there is no reason to suspect large out-of-school primary-aged populations in 2018, for example, which is what the data suggests. Migration is a possible explanation, but many Haitian migrants (perhaps 20,000 to 50,000, IOM estimate for 2021) were not documented, and the review was unable to find a time series for the past few years which showed a decrease in migrants. <https://www.un.org/en/development/desa/population/migration/data/estimates2/countryprofiles.asp>.

2. Background

2.1 Regional trends, debt, and growth

High income Caribbean islands have suffered from a pronounced economic growth slowdown, as growth rates have trended downwards since the 1970s. These countries experienced relatively positive growth and a loose but relatively sustainable fiscal path in the 2000s until 2008. Following the Global Financial Crisis, these countries experienced lower economic growth and their governments did not enact sufficient fiscal adjustments to ensure fiscal sustainability. Fiscal deficits in many Caribbean countries widened. Alongside this, the incidence of disasters has accelerated due to climate change in many island countries, not least The Bahamas. As a result, there have been several fiscal crises in the region post-2009.

The beginning of the 2020s sees many Caribbean economies having achieved high income status, but remaining vulnerable to climate change and economic shocks to narrow economic bases. Their vulnerability to shocks is increased by persistently high fiscal deficits during the past decade. Several countries remain heavily reliant on high-carbon tourism and lack the fiscal space to diversify. Long-successful tourism-based economies such as The Bahamas face increasing competition in the region from new entrants. The region suffers from high vulnerability to the direct effects of climate change and extreme weather, as well as risks such as potential demand shifts away from high-carbon tourism. The COVID-19 pandemic, a crisis without a clear end date, has shifted the apparent economic risks of reliance on tourism exports upwards. The Bahamas has substantial natural resources and geographic advantages, such as a large transshipment operation, but the state accumulates little value from either of these.

There is little regional coordination on taxation and fees. For instance, countries compete to offer tax incentives to large multinational leisure providers; rates for air passenger duty are not coordinated. In some countries, cruise day visit revenue cannot possibly cover the costs of government capital investment related to day cruise visits, let alone contribute to general public services, nor mitigate the environmental damage caused by cruises. Collective action across the region could substantially benefit all countries, not least The Bahamas.

 Background cont'd2.2 The Bahamas:
economic and
fiscal summary

The Commonwealth of The Bahamas is a bicameral unitary democracy led by a Prime Minister, with a Governor General and a constitutional monarch. The population was estimated at 389,410 in 2020, living across thirty inhabited islands, and population growth has been estimated at around 1% annually during the past decade.

The general government consists of central government (22 ministries¹⁰ and 58 heads of expenditure¹¹), 19 government agencies, 16 government business enterprises¹² and 32 local government districts if the central government-run district, New Providence, is included. Fiscal decentralization is present but decentralized budgets and mandates are relatively minimal. The Bahamas has delegated significant state functions on Grand Bahama to a private corporation, while still providing public services on the island.

The past five years have witnessed a series of high-impact disasters, as The Bahamas is particularly affected by COVID-19 and successive hurricanes. A combination of automatic responses and tax measures to mitigate the largest two crises, Hurricane Dorian and COVID-19, have resulted in very large revenue and debt impacts. Active fiscal measures attributable to COVID totalled just 2.9% of GDP by July 2021¹³, of which around 90% were non-health measures; 1% of GDP was revenue deferrals or accelerated spending. The debt to GDP ratio in 2017 was low by HIC standards. While the gross debt ratio remains lower than many high-income countries (the World Economic Outlook predicts it will be the 17th highest among high income countries in 2021), The Bahamas' recent debt trajectory is striking. Much of this is a denominator effect as GDP collapsed by 15% in real terms (WEO, see graph below), with little recovery forecast for 2021. There was a relatively restrained expenditure response compared to that of many high income countries. The budget was increased by 10% then 17% then 13% above nominal 2018/19 expenditures in 2019/20, 2020/21 and 2021/22, while revenues fell 14% then 23% from nominal 2019 levels.

¹⁰ Including Cabinet office, the Attorney General's Office, and the Governor General's Office

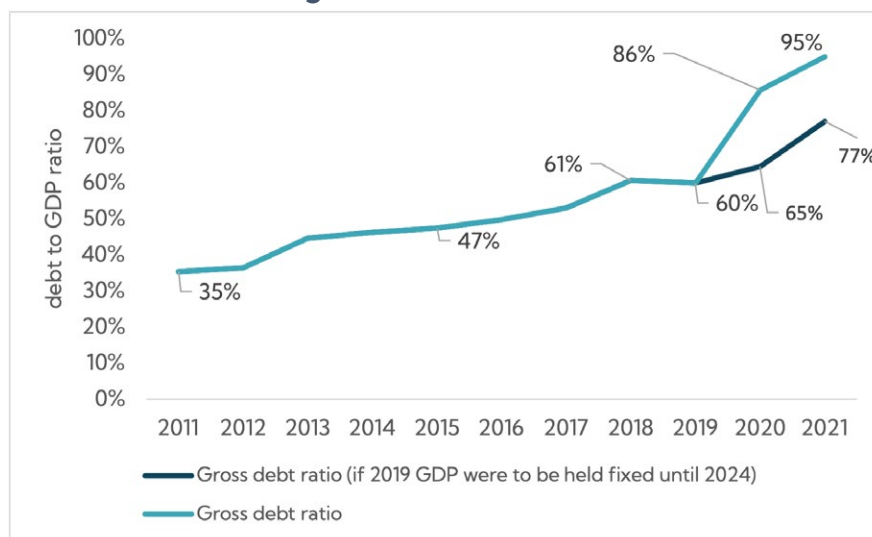
¹¹ Based on the draft 2021/22 budget.

¹² Derived from the PFM Act.

¹³ IMF database. The 2021 FSR estimates a total of almost \$400 million cumulative to September 2021, including the NIB outlay at \$204 million.

Background cont'd

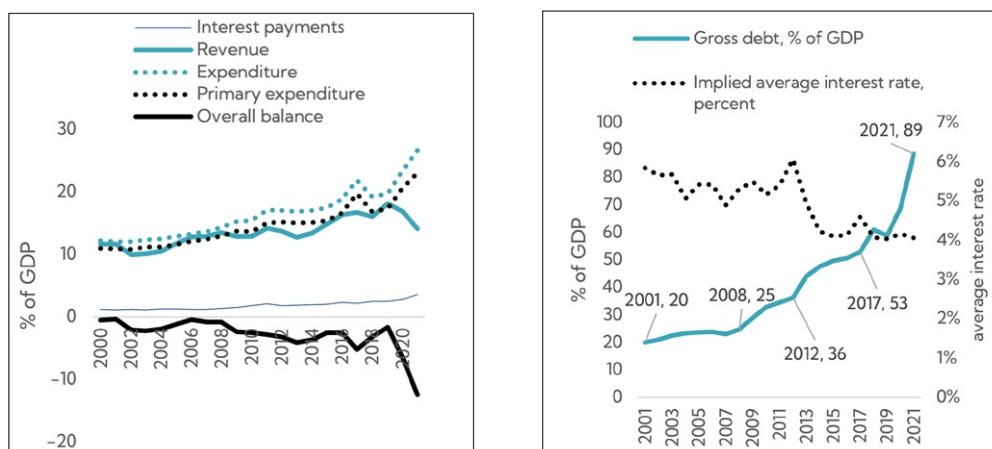
Figure 2: Debt evolution



Source: IMF WEO, 2021 October

As with Jamaica and Barbados, the 2010s heralded increasing debt levels in The Bahamas. There was, as in Barbados, a decoupling of revenue and expenditure following the global financial crisis (GFC). Despite a significant revenue response post-GFC owing to the introduction of VAT and other revenue reforms, raising an additional 7% of GDP in 2018 relative to 2008, deteriorating overall balances have led to increasing debt levels, driven by non-interest (primary) expenditure increases. In 2021, accentuated by a steep decline in GDP, central government expenditure is projected to have increased by 5 percentage points of GDP relative to its previous peak in 2017; approaching two-fifths of this is additional interest payments. Owing to the small size of the state relative to GDP in The Bahamas, gross government financing requirements relative to government revenues are particularly large, projected at 18 percent of GDP in 2021; and the trajectory of debt, driven by the fiscal balance post-GFC, poses significant risks.

Figure 3: Primary expenditure increased from 13% in 2008 to 17% in 2018 (left). Debt costs loosened after 2014, while debt levels increased (right).

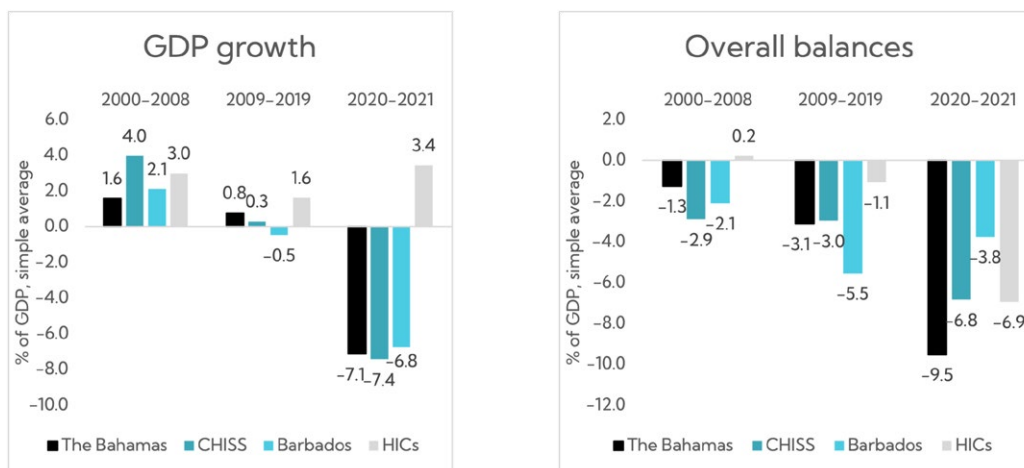


Source: IMF WEO April 2021. General government. The implied average interest rate is based on the previous year's debt stock.

Background cont'd

Between 1990 and 2019, expenditure as a share of GDP has increased by around eight percentage points on average in LAC. In emerging economies, this was accompanied by faltering but still reasonable rates of growth. **In The Bahamas, which was already a high income country in 1990, general government expenditure as a share of GDP increased by the same magnitude, but from a smaller base: from around 12% in 1990 to 20% in 2019¹⁴.** The public debt to GDP ratio saw a brief downward trend during 2019, in line with measures implemented to comply with the newly introduced Fiscal Responsibility Act and the related PFM Reform Plan. However, addressing Hurricane Dorian and COVID-19 resulted in a further expenditure expansion by The Bahamas government of eight percentage points of GDP from 2019 to 2021. The Bahamas relied on a mixture of new expenditure policies, accelerated spending plans, and increased unemployment benefit and assistance claims as unemployment increased by at least 4 percentage points in 2020¹⁵, as well as substantial revenue measures.

Figure 4: GDP growth and overall balances



Source: IMF WEO April 2021.

Other than VAT, several revenue lines have stagnated since 2010/11 (see the first graph in the panel below). Attempts in 2018/19 to raise the headline VAT rate while increasing exemptions raised about half of the budgeted increment; the new government has cut the rate in 2021/22 while removing some exemptions. In 2021/22, the initial government budget aimed to substantially increase fees and property taxes, while other lines recover to roughly 2019/20 actual levels. The Bahamas, in contrast to other international business centres such as the Cayman Islands, raises a negligible amount of government revenues from international company licencing¹⁶. NIB, UB and PHA own-generated revenue is relatively small compared with central government, although government business enterprises (such as WSC and the energy company, not pictured) are larger. Revenue deterioration was very significant in 2019/20 and 2020/21 (bottom).

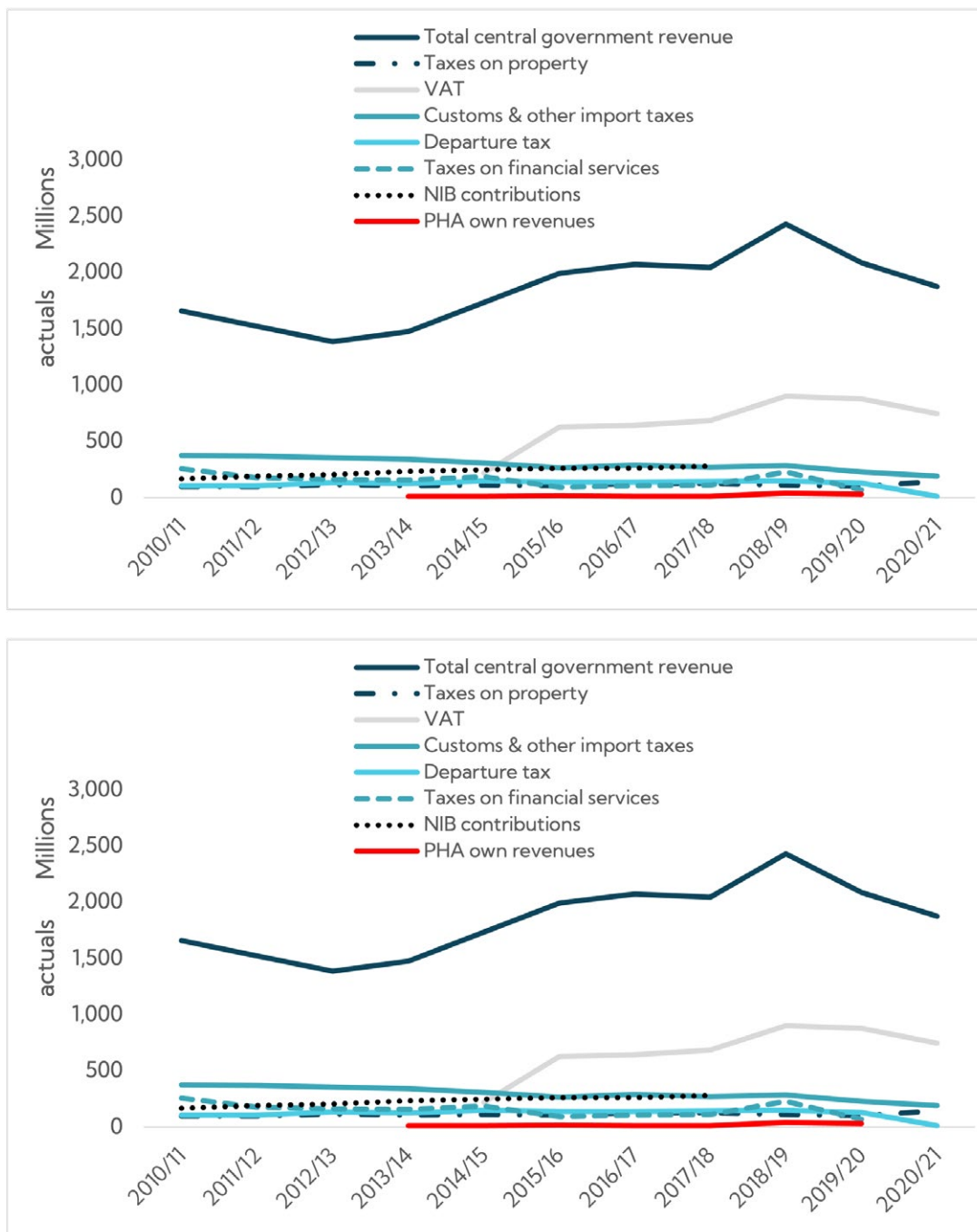
14 All WEO April 2021 figures.

15 World Bank/ILO

16 See IMF Staff Paper, 2017. US Cayman Islands raises 11% of GDP. There are a number of ongoing reforms in this area, some of which are related to OECD FATF.

Background cont'd

Figure 5: Revenue, lines of interest since 2010/11 (top) and since 2018/19 (below)

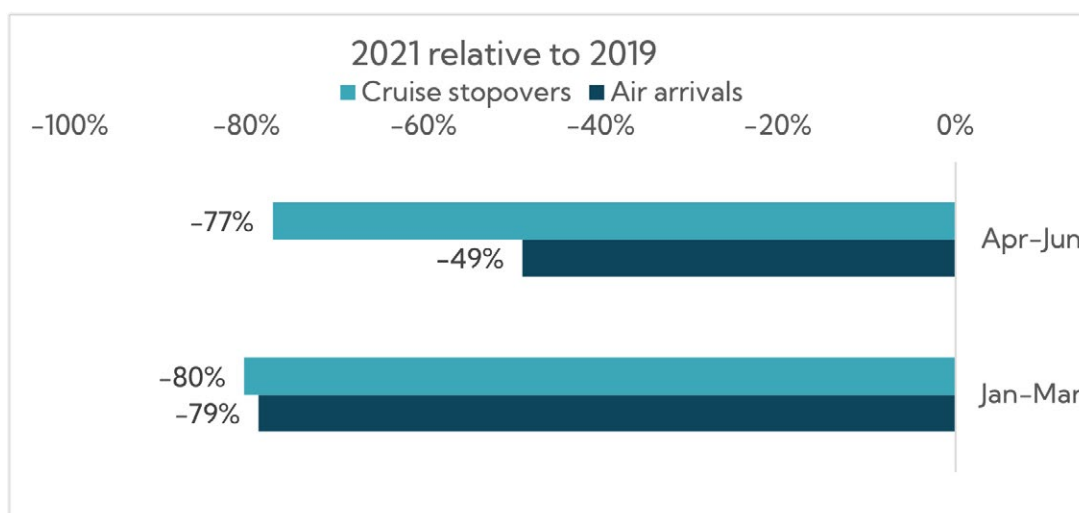


Source: NIS, MoF data, PwC, and pre-election fiscal update for 2020/21. Imp. t. stands for import tax.

Background cont'd

Recovery timelines are uncertain. Around half of the economy is tourism-derived, and demand is heavily reliant on the United States, a country which has yet to recover fully from COVID-19 and faces high rates of COVID-19 vaccine refusal, particularly in Florida. The graph below shows tourism counts to The Bahamas. Access to vaccines in The Bahamas remains a struggle; 38% of people had received at least one vaccine dose as of 7th December 2021¹⁷, which is below the global population average of 55%.

Figure 6: Key tourism indicators, percentage decline on same period in previous year



Source: Central Bank, Q2 2021 Update.

Insurance mechanisms for disasters exist at the regional level, but they do not operate at the scale required to insure against a series of crises of the magnitude experienced by The Bahamas. For instance, CCRIF paid out \$12 million in September 2019 following Hurricane Dorian, a crisis estimated to have destroyed wealth worth around one-quarter of The Bahamas' GDP¹⁸. Private mechanisms are also insufficient; reportedly, over half of Dorian-affected private properties were uninsured¹⁹. The IDB estimated that 62 percent of Dorian damages were not insured. Hurricane Dorian, followed by COVID-19 which resulted in a tourism shutdown just seven months later, are the largest and most recent crises, reducing GDP in The Bahamas by over one-fifth.

¹⁷ https://ourworldindata.org/covid-vaccinations?country=OWID_WRL . 41% as of February 16th, 2022.

¹⁸ https://publications.iadb.org/publications/english/document/Impact_of_Hurricane_Dorian_in_The_Bahamas_A_View_from_the_Sky.pdf

¹⁹ <https://www.ft.com/content/cee69344-d0b1-11e9-b018-ca4456540ea6>

Background cont'd

One conception of the challenge the government faces in The Bahamas is how to improve living standards, set a sustainable fiscal course, and protect vulnerable Bahamians, while acting to reduce medium-term economic risks. The additional and serious medium-term challenge for financing is **The Bahamas' narrow existing revenue base and a series of delays in implementing financing mechanisms for universal services which have already been rolled out.** There are several revenue bases 'on the waiting list' for implementation: health insurance implementation was delayed due to the COVID-19 crisis, while NIB has been underfunded and is likely to have reduced reserves somewhat²⁰ to fund unemployment assistance. WSC rates have not changed since the 1990s, and electricity rates do not adequately cover capital investments, disaster resilience, or the carbon transition. Also, there is no income tax. New bases take longer to develop than raising existing rates; but existing bases in The Bahamas are usually regressive consumption taxes and fees. However, despite the small size of the state, there are privileged groups -- for instance, civil servants get three overlapping health entitlements: government-purchased private health insurance, a PHA exemption and National Drugs Plan coverage, as well as the "fourth option" of PHA non-payment.

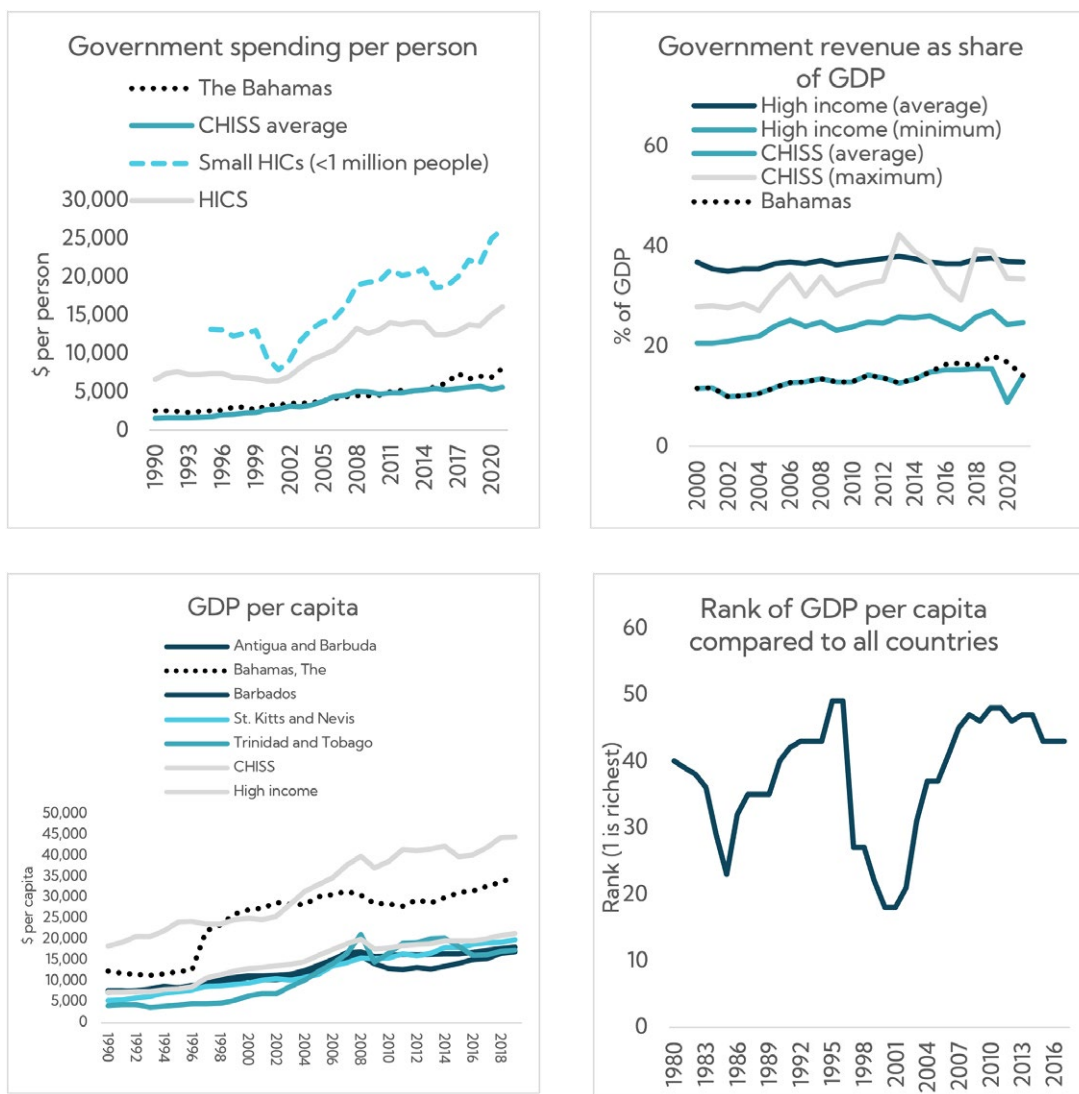
In The Bahamas, government revenue as a share of GDP from 2000 until 2015 had been the lowest of any high income country. As a result, government spending per person was and is far lower than most HICs. However, government spending per person is above the average among high income small Caribbean states, since The Bahamas' GDP per capita is considerably higher than this group. The Bahamas' GDP in 2019 was around the median for the OECD club of rich countries²¹. The Bahamas' ranking relative to other countries in GDP per capita terms has fallen since 2002, when it was the 18th highest in the world, to 43rd place in 2017; this was roughly its position in 1980.

²⁰ NIB reserves stood at \$1.7 billion in 2017. While the central government made some payments to NIB, unemployment assistance is likely to have exceeded this.

²¹ In comparison, Barbados is among the bottom third of OECD members in GDP per capita terms.

Background cont'd

Figure 7: Government spending per person (top left), government revenue as a share of GDP (top right), GDP per capita (bottom left) and The Bahamas' relative global ranking of GDP per capita (bottom right).



Source: IMF WEO, April 2021. Average (means) unless stated otherwise.

Despite the small size of expenditure relative to GDP, the government intervenes in electricity and water markets to a greater extent than in many high-income countries, including subsidies for capital investment and provision of debt repayment guarantees, which are often realized. In contrast to many countries in the region and many high income countries, The Bahamas is credited with increasing the share of capital expenditure in its budget between 1980 and 2016²².

Background cont'd

Government spend per person in 2019 was less than one-third of the average small HIC. The government attempts to provide good access to basic public services, but struggles to make social protection available to working-age people and the poor. The Bahamas has substantial service absences across 'newer' government priorities such as pre-primary education, active labour market policies, and pre-kindergarten child-care; and does not make tertiary education widely accessible relative to other high-income countries. Struggles with education quality and education access after the primary education level are also apparent. As this Review discusses, those levels of health and education that are adequately funded, often appear to be inequitably provided. However, recent expansions of primary healthcare funding and pre-primary education are examples of government attempts to expand access to services with high economic spill overs and promising impact on equity and social outcomes. These are both services which are likely to be under-consumed by poorer households in the absence of subsidy.

VAT, implemented in 2015, had been applied with greater coverage of the potential base than any other LAC country as measured in 2019²³. However, the introduction of a VAT with high coverage, while an excellent fiscal measure, **cements a distinctive feature of The Bahamas; its reliance on regressive policies (where the share of taxation in income is higher for low income groups) to raise revenues.** NIB contributions, proposed NHIA contributions, taxes on domestically consumed goods and services, and property taxes combine to weigh disproportionately on lower-income groups. Although indirect taxes and fees are well-targeted towards tourists, the relatively limited impact of COVID-19 on VAT revenues, reveals its incidence on domestic consumption. Income inequality is estimated at a Gini coefficient of 0.44²⁴ – higher than any OECD country other than Costa Rica²⁵. It was measured in 2013, prior to the introduction of the VAT, so post-tax income inequality may have increased. Proposed National Health Insurance charges are also regressive relative to labour income when employer contributions are accounted for, as they constitute a per-head fee or premium on non-exempt citizens. The May 2019 LFS suggests that income inequality has increased since 1999, which may be partly attributable to the 3 percentage point increase in unemployment between then and 2019, although income inequality has fallen since the 1970s. The COVID crisis saw a large number of households shifting from high to low incomes²⁶, in common with the experiences of many other countries.

The Bahamas has introduced a series of measures to address COVID-19. In times of crisis, The Bahamas has a smaller set of policy levers to pull on than a more interventionist state. Moreover, protecting the poorest and cost-effective targeting of measures is more difficult to achieve if revenue exemptions and tax holidays are the main instruments – rath-

²³ CIAT/ECLAC/IDB/OECD 2021 Revenue Statistics in Latin America and the Caribbean. Note that several COVID- and Dorian- related measures temporarily reduced VAT coverage, and the OECD/IDB/ECLAC measure may have been taken prior to the 2018/19 increase in zero-rated items.

²⁴ SWIID 2019 (Solt 2019), 2013 estimate. Redistributive state capacity (disposable minus the market Gini) and Gini income levels are very similar to Barbados and the other CHISS countries. However Gini consumption in Barbados is 0.32.

²⁵ <https://stats.oecd.org/Index.aspx?DataSetCode=IDD> using most recent measurement for each country. Costa Rica joined the OECD in May 2021.

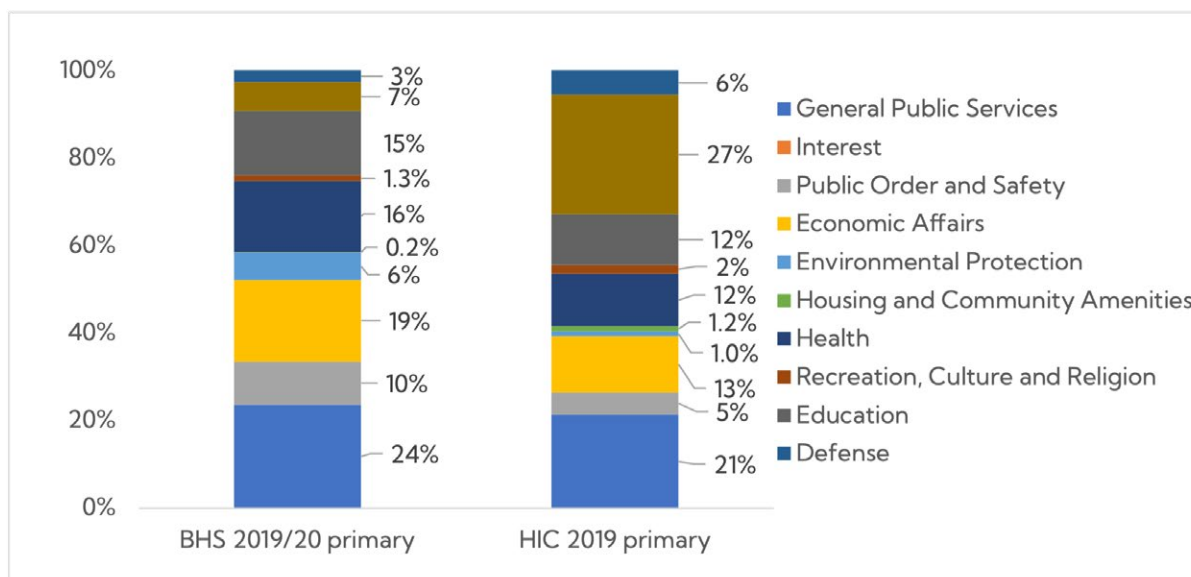
²⁶ IDB August 2020, <https://publications.iadb.org/en/covid-19-the-caribbean-crisis-results-from-an-online-socioeconomic-survey>. The 2021 FSR reports unemployment forecasts of over 20% for 2021.

Background cont'd

er than expenditure measures, which are difficult to implement from scratch. The lack of a recent household survey is also unfortunate. At first, COVID-19 additional unemployment benefits were limited by sector, but this was later expanded, and the programme continued into late 2021.

Distinct features of government expenditure in The Bahamas, which will be examined in more detail in the rest of this Review, include a relatively heavy spending emphasis on public order and safety, as well as economic affairs, as a share of total government expenditure (see the graph below).

Figure 8: High-level summary of expenditure shares by UN COFOG sector.
Excludes interest payments.

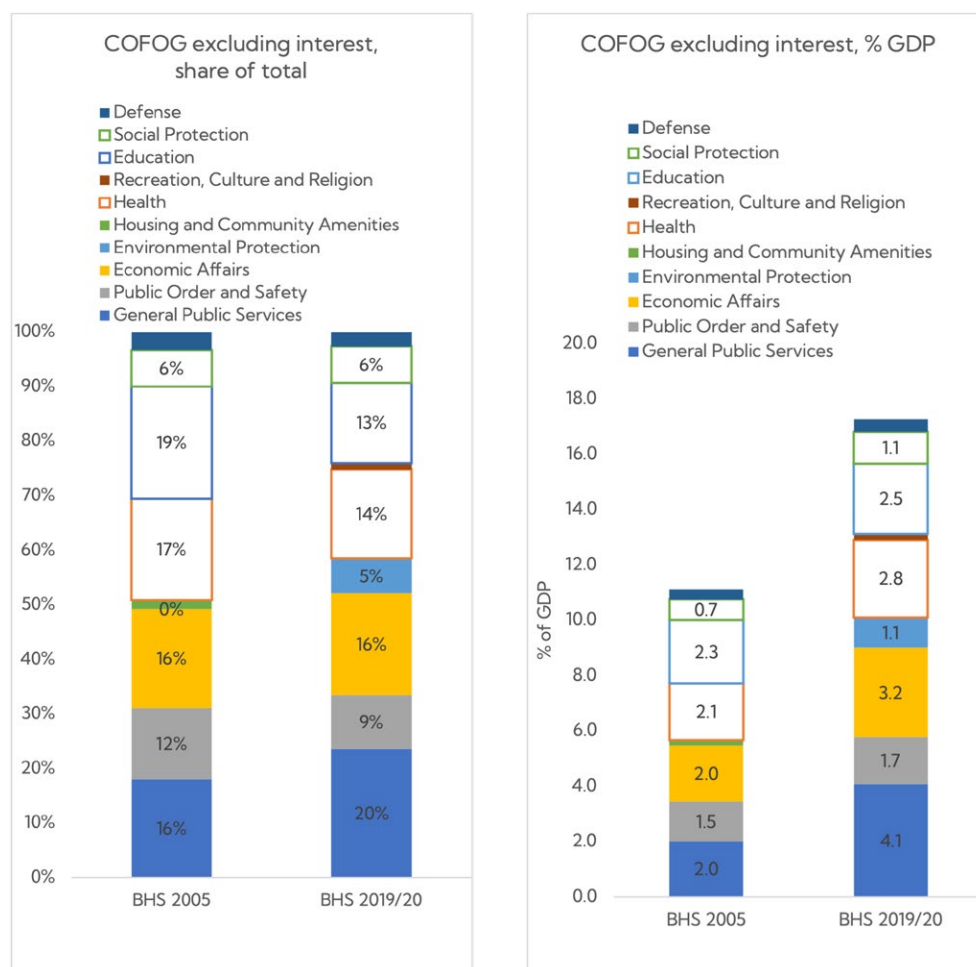


Source: Budget Book 2021/22 (using provisional actual expenditure for 2019/20) and GFS COFOG, MAB.

Over the past fifteen years, the share of spend has been squeezed for health and education, by central government functions (including non-wage civil service compensation) and by new priorities such as environmental protection. However, the increase in total government spending means that even as its sectoral share of expenditure decreased, education spending has increased as a share of GDP.

Background cont'd

Figure 9: High-level summary of changes in expenditure shares since 2005 by UN COFOG sector. Share of primary (non-interest) expenditure (left), share of GDP (right).



Source: Budget Book 2021/22 (using provisional actual expenditure for 2019/20) and GFS COFOG, MAB. BHS=The Bahamas.

Debt has shifted to central government from SOEs during COVID-19, and the vast majority of new debt obligations after March 2020 were contracted by central government. The majority of recognised contingent liabilities are in the economic support sector²⁷, and contingent liabilities fell sharply, mostly due to risk realization in BEC. At the end of 2020 contingencies fell to \$440 million from \$724 million at the end of 2019. PHA and WSC debt is reasonably low, at just over 1% of GDP combined²⁸.

As total expenditure rose, the central government wage bill in The Bahamas as a share of central government spending, fell throughout the 21st century. It remains relatively high as a share of spending compared to other LAC countries²⁹, but is in line with other high income countries. Public sector employment as a share of total employment in The Bahamas was 21% in May 2019, compared to 47% in Barbados and 52% in Antigua and Barbuda in 2018³⁰.

27 Pre-Election Update.

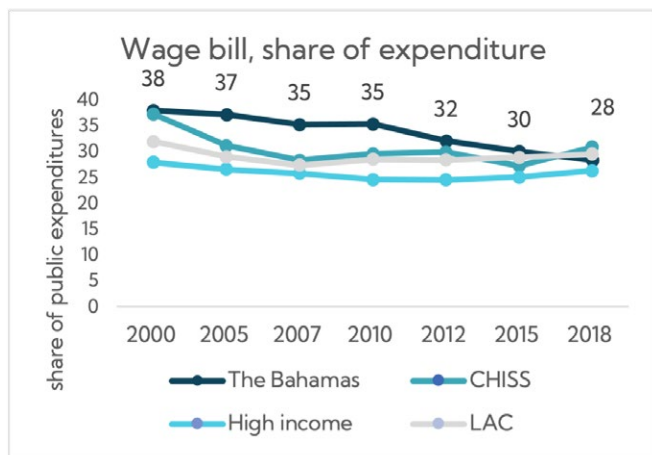
28 Recent estimates may differ. End-2020, CBOB QSD August 2021.

29 See page 56, Figure 3.5, IDB 2018 "Better Spending for Better Lives"

30 LFS report May 2019 and <https://www.worldbank.org/en/data/interactive/2019/05/21/worldwide-bureaucracy-indicators-dashboard>. Classifications regarding GBEs employees may differ.

Background cont'd

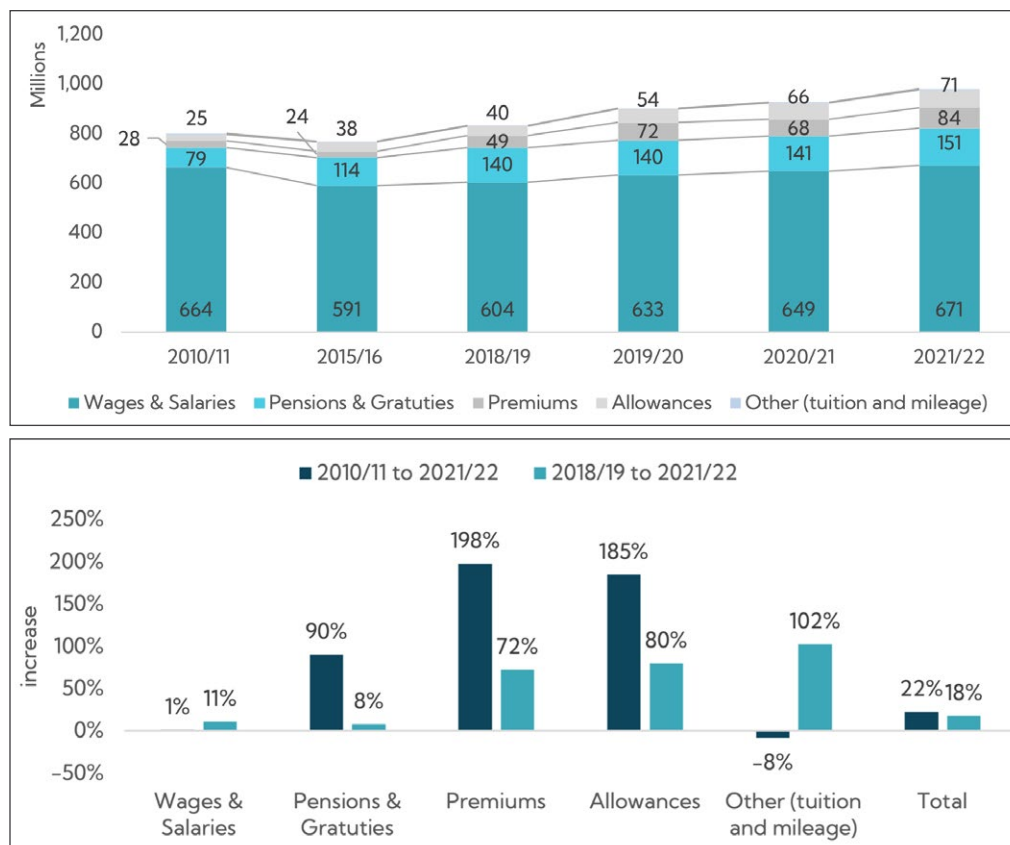
Figure 10: Wage bill as a share of the budget



However, if we widen the scope of the 'wage bill' and examine wider employee compensation costs, there are areas of substantial increases. In recent years, and particularly since 2018/19, total central government civil servant compensation bills for central government have increased in dollar terms, particularly for health premiums and allowances³¹. Overall, the ten-year increase has been 22%, and the control apparent in the middle of the previous decade has been reversed. These 'hidden' awards to civil servants could be a key area for expenditure rationalization.

Source: World Bank, World Bureaucracy Indicators version 1.
Accessed 27th August 2021.

Figure 11: Wage bill trends by subcategory, central government

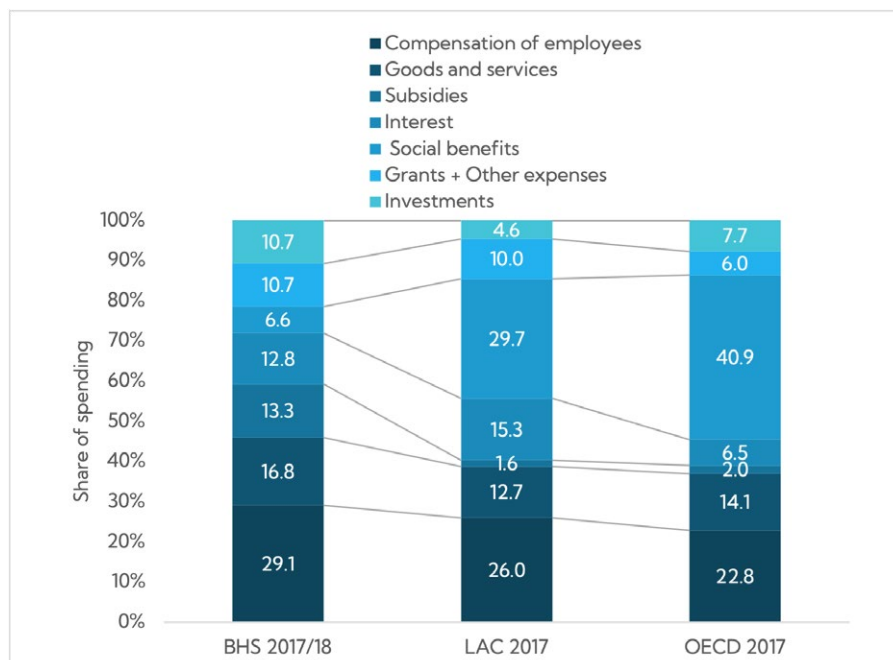


The sectoral distinctiveness of The Bahamas is reflected in a higher share of subsidies and investment as a percentage of total spend; and far lower social benefits as a share of expenditure and as a share of GDP; than LAC and OECD comparators.

Source: MoF.

Background cont'd

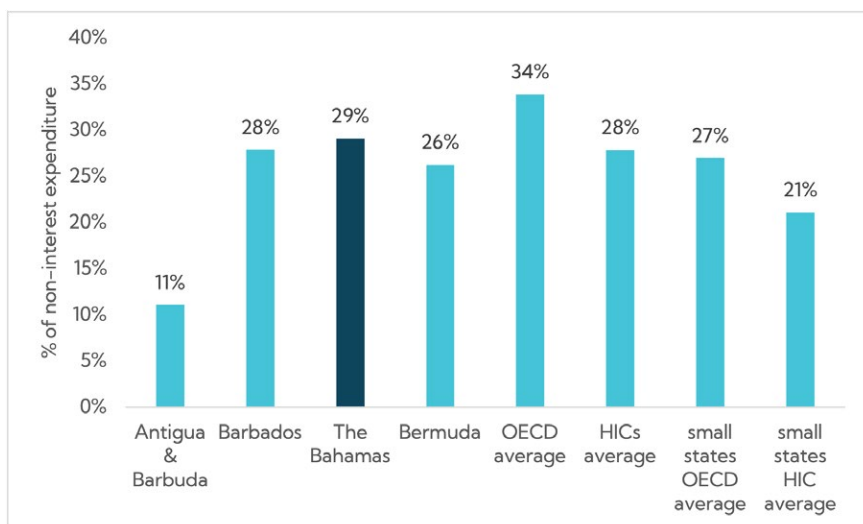
Figure 12: Spending composition compared by economic type



Sources: IDB and OECD LAC Government at a Glance 2020, and the IMF Staff Report 2021 for The Bahamas. Note that net capital expenditure is used from the IMF staff report, whereas gross investment is used in IDB/OECD 2020, which uses the 'property income' nomenclature for interest payments in the English version.

Total transfers excluding social benefits as a share of central government spending, is similarly high in high-income regional comparators, as the graph below shows. However, The Bahamas is distinct from comparator countries, in that it transfers substantial state resources (20% of non-interest expenditure versus 3% average in HICs and the OECD in 2018) to ostensibly private corporations, rather than public parastatals. This may be a classification issue rather than a real difference. Also, The Bahamas is an outlier in terms of the size of transfers in total, relative to small states worldwide.

Figure 13: Transfers to non-persons as a share of non-interest expenditure

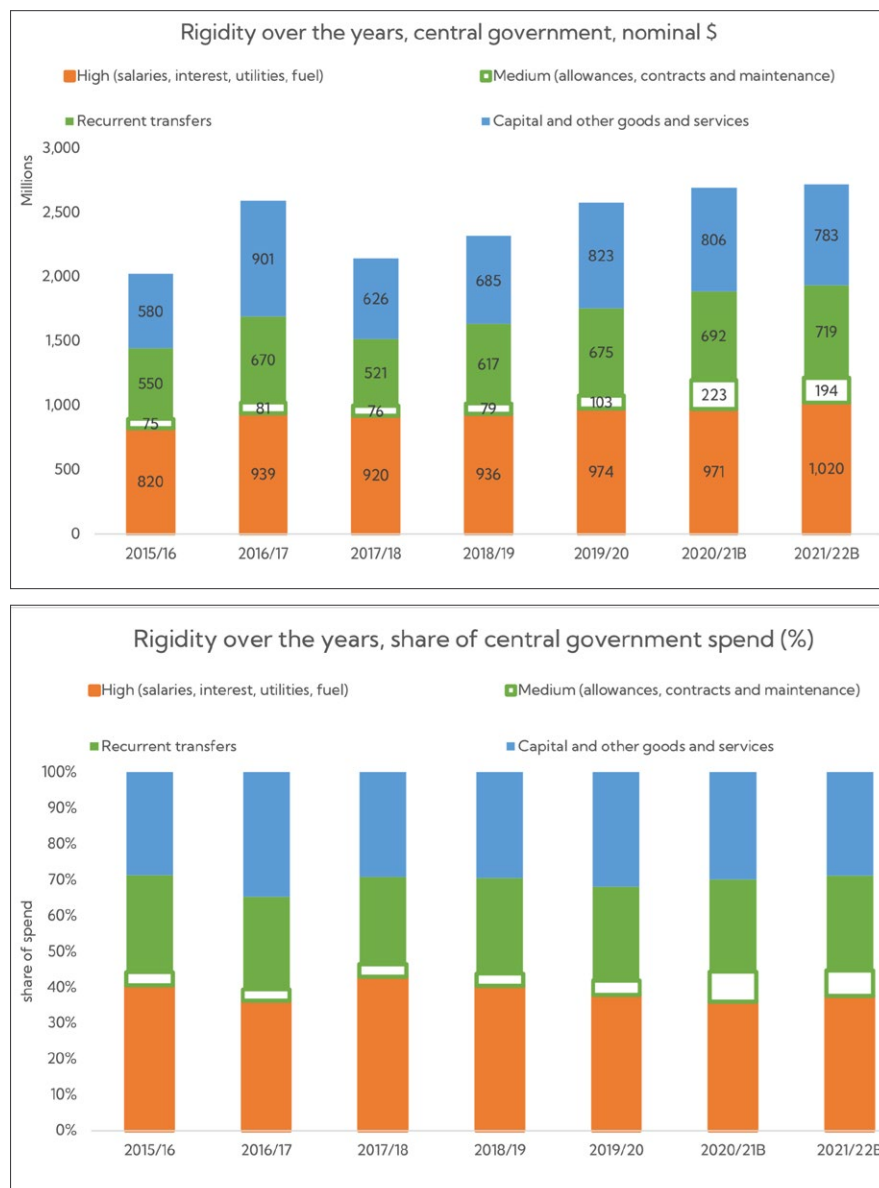


Sources: Bermuda, Antigua, Barbuda, Barbados, T&T 2020/21 budget books (2018/19 actuals), The Bahamas pre-election update 2020, and IMF GFS data. St Kitts and Nevis do not provide data. Barbados has reduced its share significantly since 2018/19 (see PER). OECD includes 35 reporting countries in 2018, while the HICs group includes 40.

Rigidity of the budget and expenditures is reasonable, as the share of expenditure in wages and recurrent transfers (which are both assumed to be harder to alter than capital budgets and other goods and services) remains constant. However, the share in possibly flexible items such as allowances, contracts and maintenance expenses is increasing fast, buoyed by COVID and Dorian responses; ensuring these reduce to pre-crisis levels could save up to 1% of GDP, a significant step towards bringing The Bahamas back to a sustainable path.

Background cont'd

Figure 14: Rigidity of the central government budget



Sources: MoF data and budget books. B indicates the budget has been used, rather than actual spending.

but time will tell as to whether the necessary administrative responsiveness accompanies new ICTs. **On the "getting electricity" measure, price and reliability challenges** (see Annex chart) are understandable given geographical dispersion, the financial pressure the electricity company is placed under by low charges, and Dorian. Consumer prices are lower than regional fuel oil-reliant comparator countries (see Annex chart), yet the connection delay is very high. The government has recently devised a regulation regime including feed-in and connection rules for new small-scale energy suppliers, though the review did not find information available on uptake.

Business environment³²

While the annual World Bank Doing Business exercise has been suspended until 2023, some facets of the indicators are useful to track, relatively low-cost to improve, and could be much better than they are, stemming from an historical external FDI focus on business promotion. The Bahamas has made recent progress in addressing some of the costs faced by domestic businesses, and implementing digitization is likely to accelerate this. However, The Bahamas suffers from a revenue configuration that does not lend itself to certain aspects of the current framework of the Doing Business indicators.

As it stood in 2020, the cost of and steps to starting a business are lower than in some regional comparators, but remain high. Government business registration fees are set with an eye to the external market and the lack of alternative revenues, and are also high.

As for building permits – similarly to other measures – the cost can be justified by the lack of an IT system and the national revenue configuration, but the time delays cannot, and seem to stem from the central government. PMDU has announced an electronic buildings permit system,

3. Planning, PFM environment, and overall trends

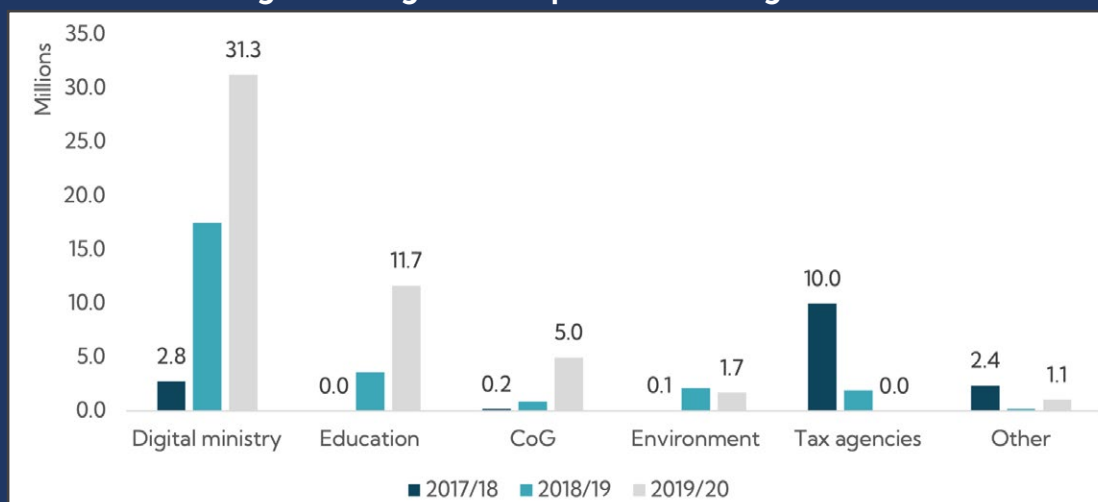
3.1 Reforms and implementation progress

Overall, the government is regarded relative to international comparators as effective. **However, there is a downward trend in these external perceptions on five World Governance indicator measures since 2000, and particularly since the GFC** (see graphs in the Annex).

DIGITIZATION

Large investments have been made in digitalisation of public services, with the department receiving at least \$54 million (central government budget) in 2021/22. Actual expenses on this area have increased sharply in recent years, partly as a result of COVID; all the same, it is worth ensuring value-for-money is being obtained as digitization proceeds, given that present digitization spending outstrips social assistance spending levels seen in previous non-COVID years.

Figure 15: Digitization spend in central government

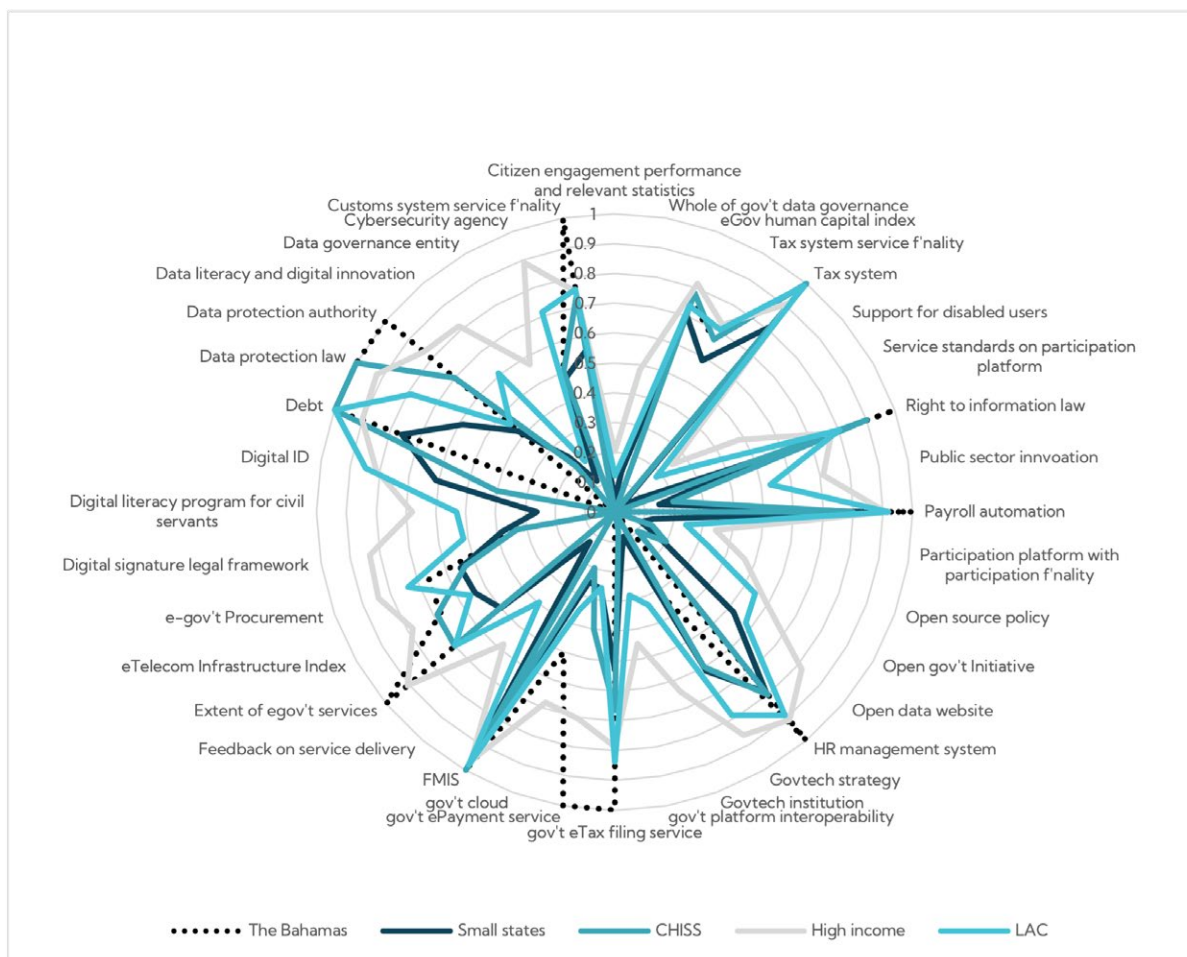


Source: MoF data. Includes externally financed project spend.

As of 2020, The Bahamas has the government IT systems in place largely, but does less well relative to the HIC country average on the depth of digitization (the actual functionality of the laws, services and institutions) **and on participation, as well as on inclusion.** Impacts of incomplete digitization on social services are visible, particularly in NIB. The government shifted extensively to at-distance access to NIB and previously launched online education services during COVID-19, although much of the time, the social services procedure remains the filling-in of an Excel, Word- or PDF- based form, which is more cumbersome and expensive for NIB to process than a fully digital workflow. Meetings to collect pensions and verify status appear to take place in person³³ and requirements to report as a NIB beneficiary on a regular basis seem surprisingly cumbersome for a modern state which produces vital statistics reporting annually.

Planning cont'd

Figure 16: Selected Government Technology indicators for The Bahamas and comparators



Notes: maximum scores are normalized to 1 above. 1 is best. F'nality is an abbreviation of functionality.

Source: Demer et al/World Bank, Govtech 2020 dataset.

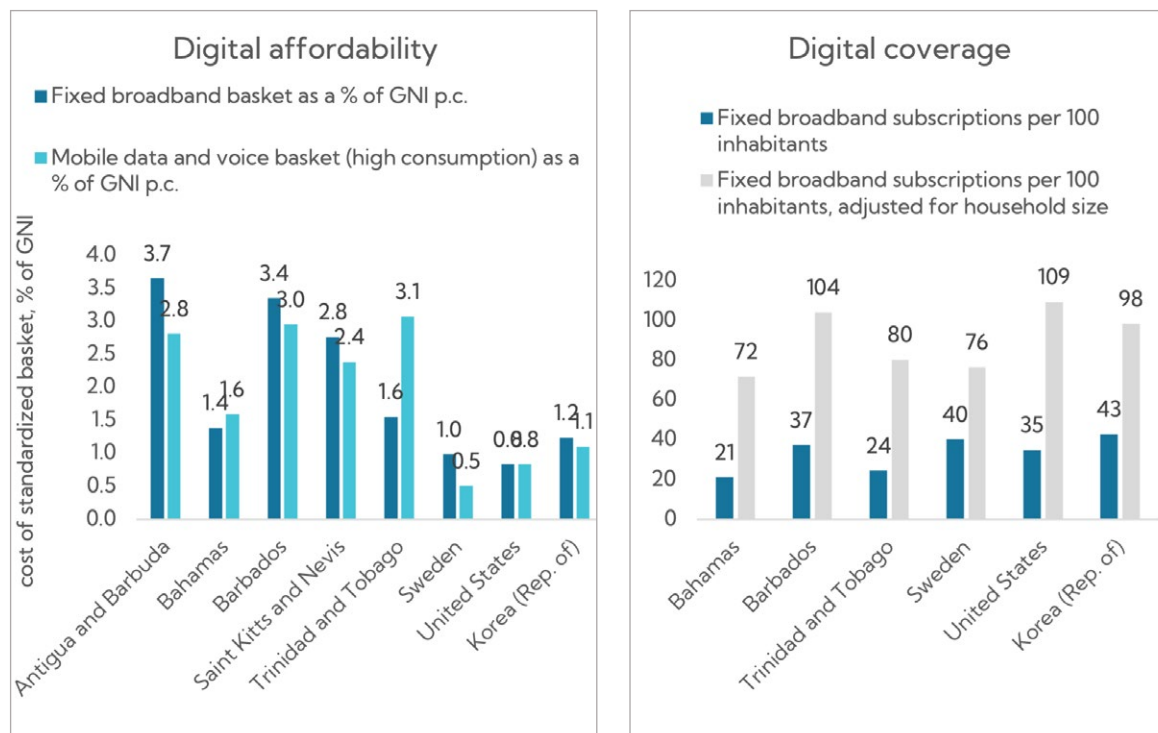
Access to digital services is limited by reliance on mobile broadband for some of the population³⁴, and a higher share of slow³⁵ fixed broadband connections than comparator countries Trinidad and Barbados (the US is nearby, and South Korea and Sweden tend to be digital leaders, so they are included in the graphs below). Packages appear to be relatively cheap for consumers compared to income per person, but this excludes the cost of substantial recent support for BTC from the central government.

34 ITU 2020 data.

35 2–10 Mbits/second

Planning cont'd

Figure 17: Digital affordability and digital coverage



Sources: ITU. Household size is from the World Bank. Notes: Some comparator countries in the region do not report fixed broadband subscriptions. Mobile broadband subscription appears universal. ITU may or may not distinguish between commercial and household connections.

PFM

Fiscal transparency has increased in recent years. The estimated International Budget Partnership Open Budget Survey score, based on the 2019 methodology and the most recent budget cycle, is 50 out of 100³⁶, which is significantly higher than recent recent measures for Barbados³⁷ and the latest official IBP assessment of Trinidad and Tobago (30) and Jamaica (42). It is still well below that achieved by regional leaders including Mexico and Brazil, and below the “Substantial Information Available” benchmark of 61. The estimated score would improve if audit reports can be published online on time, if participation in the budget process and fiscal reporting processes could be improved, if the final appropriated budget estimates book were to be published online each July³⁸, and if the government can publish a full year-end statement on time. However, the government already publishes some details that would be included in a year-end statement under the Central Bank³⁹.

36 The calculation is at <http://survey.internationalbudget.org/#calculator/TT71=100&7=100&8=100&11=100&12=100&14=67&15=100&16=33&32=100&33=0&35=67&36=33&37=33&38=18&39=0&41=33&44=67&45=0&46=33&47=100&48=33&49=0&50=0&51=0&54=100&55=100&56=100&57=100&58=100&59=0&61=0&64=33&65=100&67=67&68=33&70=100&71=100&72=100&73=100&74=100&75=100&77=67&78=67&82=100&83=100&98=0&99=0&102=0&PBS-2=100&EB-2=0&MYR-2=67&MYR-2=67&AR-2=0> It assumes that documents available online were published on time.

37 The IDB PER 2019 estimated 33 out of 100 for Barbados based on the same methodology.

38 An indication that Parliament did not alter the draft document may suffice.

39 See Table 5.1 onwards of the quarterly economic update. The main missing table is ministry-level actuals.

 Planning cont'd

RECENT PFM LEGISLATION

Substantial recent progress has been capped by a suite of new legislation, including a Fiscal Responsibility Act, and related regulations. Further implementation scheduled for 2022 should see increases in GBE and GA transparency. Unlike in many countries, previous financial legislation has been regularly updated in line with evolving demands, and the incoming government has undertaken to continue this pattern. The Pre-Election Statement is evidence of effective implementation. However, issues such as the limited use of programmatic budgeting, for example to distinguish primary and secondary education across a range of expenditures, limit the value of some aspects of transparency efforts. Program budgeting is improving, with increasingly clear delineation of many policy areas in recent years. Another classification issue is that there is a risk of confusion around usage of the chart of accounts to use the social assistance classification, a sparsely supported area in The Bahamas, for financial flows which are not social assistance, including pension payments to retired civil servants⁴⁰.

Ideally, the identification (rejection) strategy and likelihood thresholds for listing a contingent liability would also be more clearly spelt out in the regular publications that list these liabilities⁴¹.

There is also, given the magnitude and scope of recent crises, some potential role for the fiscal council to provide regular updates on the 10- or 15- year implications of current budget decisions, including for example underfunding of NIB, new PHA services including the recurrent costs of new health facility construction, as well as issues of the fiscus' effect on income and wealth equity.

CABINET MEMOS

One requirement common in recent PFM legislation, to provide a **MoF recommendation and analysis with each policy with financial implications discussed at Cabinet**, which might act as a brake on unsustainable spending in many countries, is missing from the legislation. This can be used to ensure MoF involvement

in decisions with significant new cost or taxation implications arising from anywhere in general government. However, this depends on the capability and staff complement of the Ministry of Finance, and MoF is required to review new legislation, which provides some coverage against emerging fiscal risks. Line ministry Ministers are required to cost their proposals, but only for the first three years of any new policy, by the Fiscal Responsibility Act.

Tax expenditures might also be an extremely pressing concern for analysis.

It is not clear that capital projects can be examined in terms of their multiyear costs (the project life cycle including total projected and cumulative spend) using the existing public documentation. Other countries provide a clearer idea of cumulative spend and revisions in project boundaries and anticipated costs. Furthermore, the current budget documents lack information linking the expenditure lines to their uses, but improvements are planned following the passage of the PFM Act.

Compared to Barbados, there is more SOE transparency and more transparent budgets, but there are similar lags on much SOE reporting (see table below) and no online-available public establishments register, although this is legislated under the new PFM Act. By 2022/23, unaudited financial statements should be published within a few months of year-end for all SOEs (GBEs and Government Agencies). The University of The Bahamas appears to manage this well already, while health SOEs and NIB do not, although NIB produces substantial information after a delay of about three years, and an actuarial review about every five years. The Bahamas has enough capability and sufficiently few government agencies and business enterprises to attain whole-of-government account coverage at a high level and ensure some commonality in expenditure, debt and revenue classifications used.

Additional analysis to identify risks, equity issues, and potential efficiencies would require open and regular information exchange between central government and the largest agencies and enterprises.

⁴⁰ See section 6.105 of GFS Manual 2014.

⁴¹ Most recent FSR not reviewed at time of writing.

Table 2: Reporting behaviour of GAs and GBEs

Sector	Agency or Business Enterprise	Name of organisation	2019/20 subsidy	Most recent management information	Most recent online-available audited financial statements	Most recent online-available unaudited financial statements
<i>Organisations listed in PFMA schedules 4 and 5</i>						
Transport	Agency	Airport Authority	7.50	nothing found	nothing found	nothing found
Tourism & culture	Agency	Antiquities, Monuments & Museum Corporation	2.35	June 2019 (via PwC)	Not found	June 2019 (via PwC)
Industry	Agency	Bahamas Agricultural and Industrial Corporation	6.23	nothing found	nothing found	nothing found
Regulation	Agency	Bahamas Agricultural Health and Food Safety Authority	nothing found	nothing found	nothing found	nothing found
Regulation	Agency	Bahamas Bureau of Standards & Quality	nothing found	nothing found	nothing found	nothing found
Regulation	Agency	Bahamas Maritime Authority	-8.28	nothing found	nothing found	nothing found
Tourism & culture	Agency	Bahamas Public Parks & Public Beaches Authority	25.90	nothing found	nothing found	nothing found
Education	Agency	Bahamas Technical & Vocational Institute	8.79	online on website, not dated	nothing found	nothing found
Disaster	Agency	Disaster Reconstruction Authority	not found	nothing found	nothing found	nothing found
Education	Agency	The Education Loan Authority	0.05	2020 PwC	nothing found	June 2018 (via PwC)
Tourism & culture	Agency	Hotel Corporation of The Bahamas	0.49	nothing found	nothing found	nothing found
Tourism & culture	Agency	National Art Gallery of The Bahamas	1.60	2021	2021	-
Social protection	Agency	The National Insurance Board	0.00	2017	2017	not produced
Tourism & culture	Agency	National Sports Authority	4.03	nothing found	nothing found	nothing found
Education	Agency	National Training Agency	1.09	nothing found	nothing found	nothing found
Health	Agency	Public Hospital Authority	252.73	online - 2014/15 PwC 2018/19	2014/15	2014/15 plus PwC to 2018/19

Table 2: Reporting behaviour of GAs and GBEs cont'd

[illegible]

Planning cont'd

Table 2: Reporting behaviour of GAs and GBEs cont'd

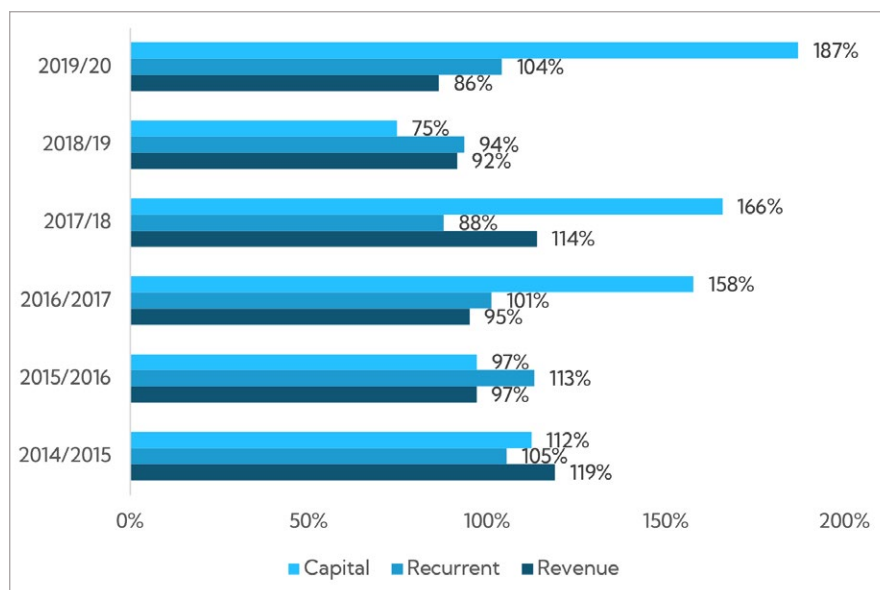
Sector	Agency or Business Enterprise	Name of organisation	2019/20 subsidy	Most recent management information	Most recent online-available audited financial statements	Most recent online-available unaudited financial statements
Tourism and culture	-	National Trust	1.50	nothing found	2017	-
<i>Other supported businesses</i>						
Tourism and culture	-	Bahamar	5.92	nothing found	nothing found	nothing found
Industry	-	Clico	8.01	nothing found	nothing found	nothing found
Industry	-	SMEs (temporary support)	46.56	nothing found	nothing found	nothing found
<i>Out of PFMA scope</i>						
Regulation	-	URCA	0	2021	2020	-
Other	-	CBOB	0	2020	2020	-
Telecoms	-	BTC contingent liability	3.00	2014/15	2014/15	-
<i>Contracts managed by SOEs</i>						
Transport		Mailboat subsidy	7.58	-	-	-

Planning cont'd

3.2 Expenditure
execution trends,
supplementary trends

Aggregate execution of the budget is good, particularly considering recent events. Capital expenditure typically over-executes. However, revenue underperformance is deepening, and this is a challenge that emerged prior to COVID.

Figure 18: Execution summary, % of draft budget



Source: draft budget books

The following table shows that alterations to the budget have become larger. Revenue has underperformed in 2018/19 and 2019/20. A large 2019/20 supplementary added almost 4 points of GDP. This was exceptional relative to other budgets examined below.

Table 3: Revisions and execution

	Relative to draft budget											
	2014/2015		2015/2016		2016/2017		2017/18		2018/19		2019/20	
	Revised bud.	Actual	Revised bud.	Actual	Revised bud.	Actual	Revised bud.	Actual	Revised bud.	Actual	Revised bud.	Actual
Revenue, millions	318	277	0	-61	0	-108	-3	298	-608	-225	-17	-326
Recurrent exp., millions	0	100	0	277	0	28	-433	-327	-400	-167	253	98
Capital exp., millions	0	41	0	-7	0	140	0	151	-30	-76	179	180
Revenue	22%	19%	0%	-3%	0%	-5%	0%	14%	-23%	-8%	-1%	-14%
Recurrent expenditure	0%	5%	0%	13%	0%	1%	-16%	-12%	-15%	-6%	10%	4%
Capital expenditure	0%	12%	0%	-3%	0%	58%	0%	66%	-10%	-25%	86%	87%

Source: draft budget books. + means increase relative to the draft budget, while - means a decrease.

4. Focus Areas

4.1 Disaster mitigation spending and post-disaster spending

There are several ways to identify disaster-related spend. Recent changes to the budget classification and the introduction of a Ministry for Disaster Preparedness Management and Reconstruction with a \$17 million budget in 2020/21 followed by \$13 million in 2021/22 have made tracking post-disaster spend more possible than in the past. However, prior classification makes it difficult to compare spending related to Dorian and COVID-19 with past events, and there are indications that disaster-related spending may be mainstreamed in other heads' budgets under the new Government.

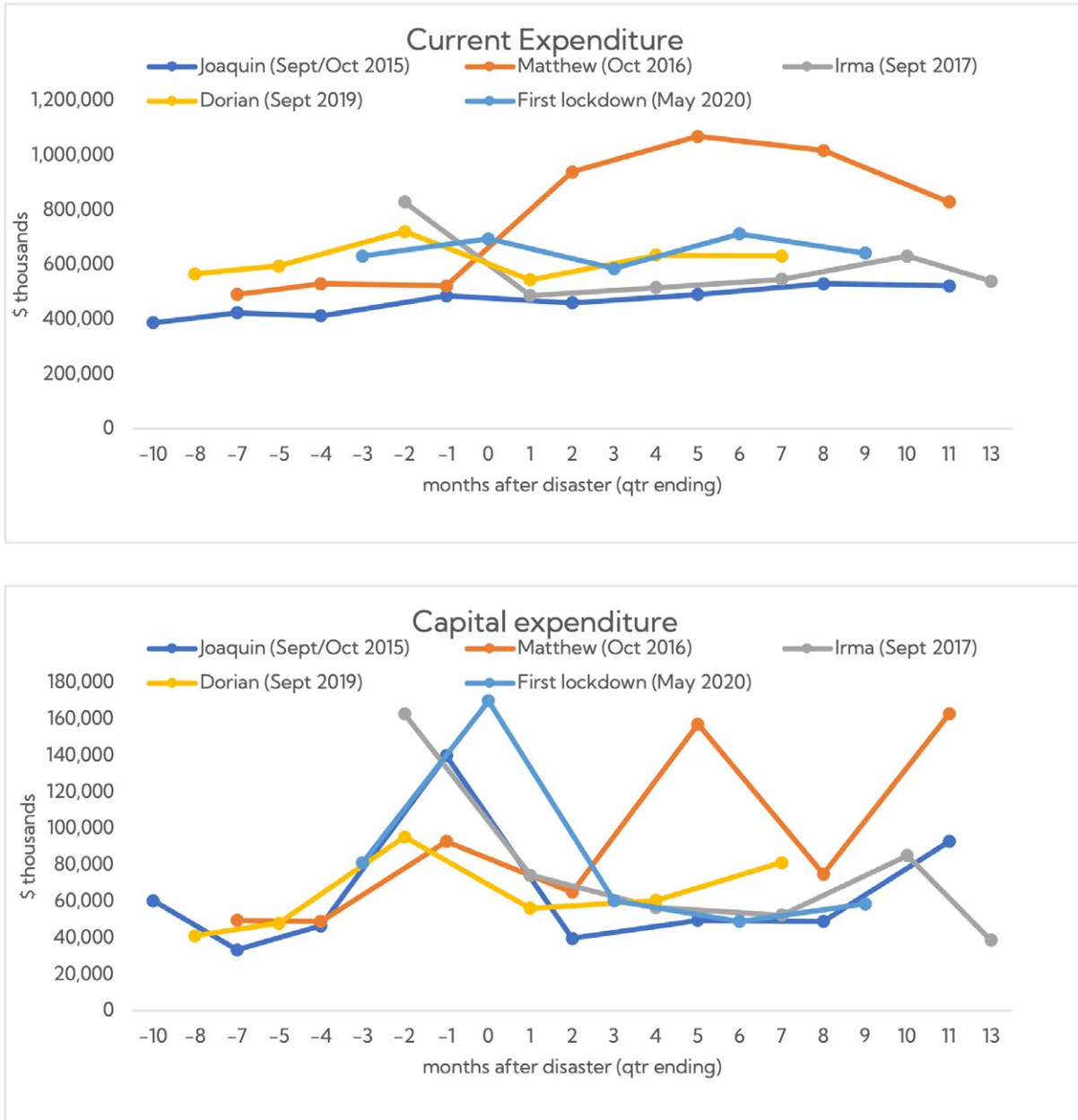
The Bahamas over the past five years has been affected by five major events. These have in turn increased other risks, including fire risks. Natural disaster incidence and per incident damage is increasing as climate change accelerates. A recent IDB damage assessment⁴² estimated the costs of Dorian-related repairs of government property at \$100 million. However, the government is likely to assume further liability from the private sector, given the subsequent inability of some of the private sector to finance rebuilding work thanks to COVID-19, and the pressing necessity of functional airports given geographical dispersion.

The first method considered in this Review was to monitor the impulse in totals for spending categories in the quarters following disasters. Charts are below. It is difficult to determine a clear impact – Hurricane Matthew is primarily influenced by a subsequent election – but Dorian and COVID have clear implications for recurrent spending. The final chart in this series reveals a possible goods and services impulse that seems to occur regularly.

42 <https://publications.iadb.org/publications/english/document/Assessment-of-the-Effects-and-Impacts-of-Hurricane-Dorian-in-the-Bahamas.pdf>

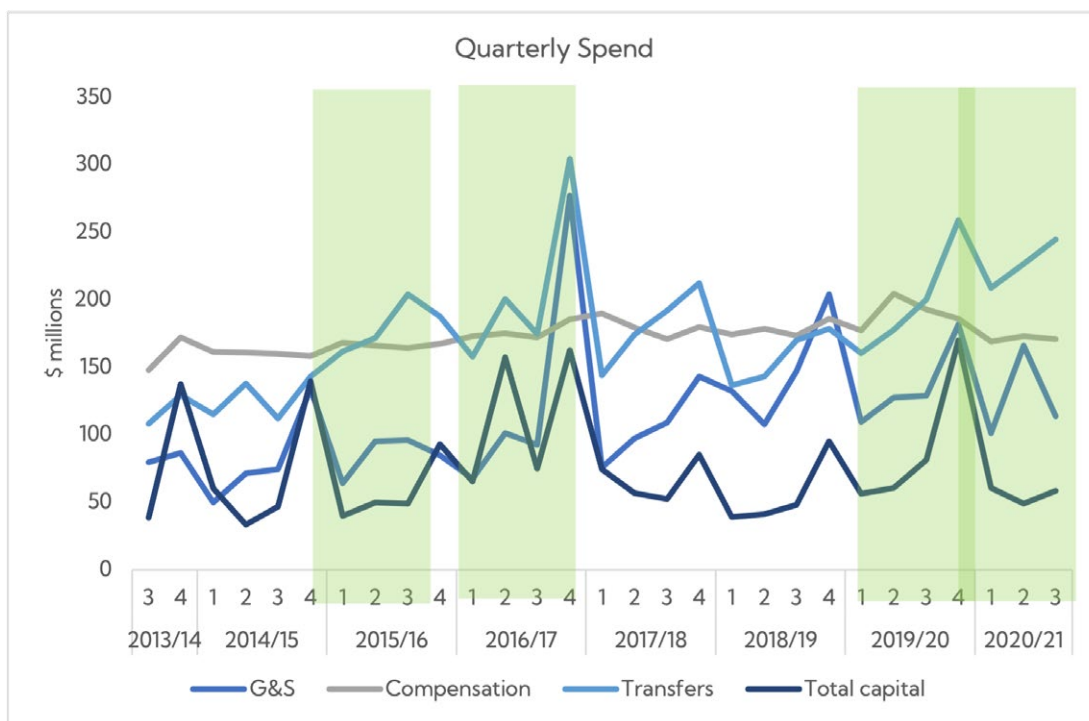
Focus Areas cont'd

Figure 19: Quarterly impulse of disasters on current and capital spending



Focus Areas cont'd

Figure 19: Quarterly impulse of disasters on current and capital spending cont'd



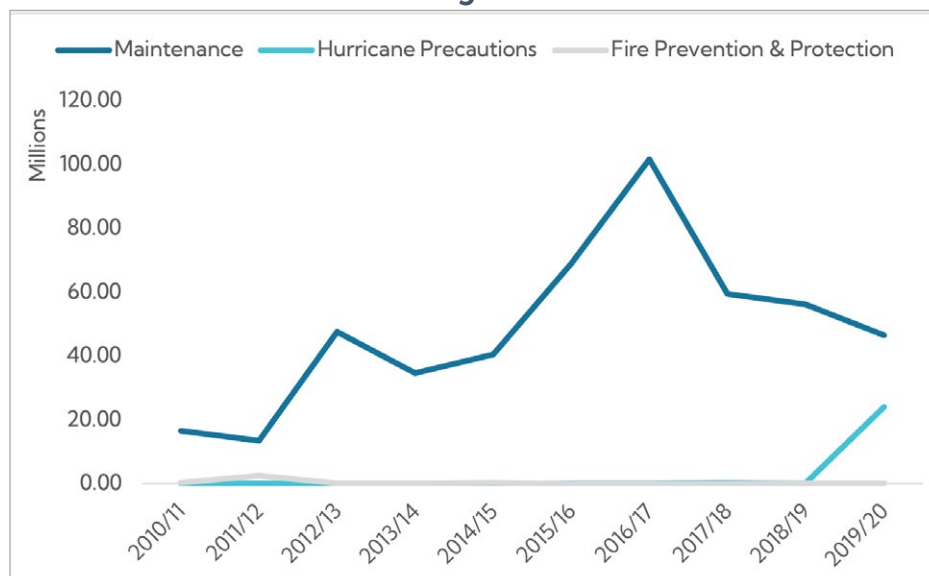
Source: CBoB

It is difficult to examine the impacts of disasters given the relatively modest size of disaster spending compared to normal policy changes in the budget, including heavy end-of-fiscal-year spending and pre-election spending. Another unfortunate exclusion from the analysis is the cost of reviving the airport following Hurricane Dorian, as this is ongoing and not fully reflected in on-budget figures. The nationalisation of the airport in Grand Bahama and the investment to strengthen air links elsewhere are major cost items which are, for now, set aside.

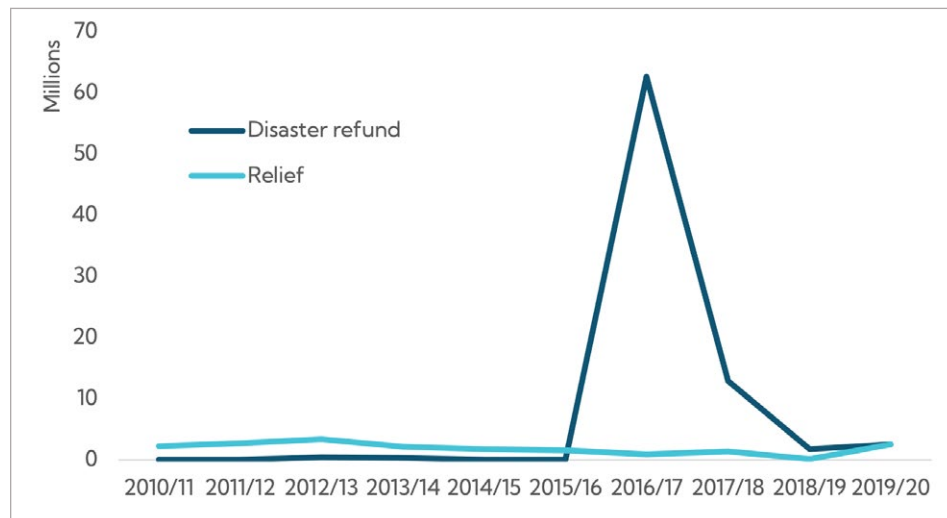
The second method was to take a look at lines in the budget that should reflect disaster preparedness and response.

Maintenance spending (defined as all spending on large equipment, buildings, and generation) funded by the central government was clearly on the increase over the decade before Dorian, as shown below. It fell to \$33 million budgeted in 2020/21, which for obvious reasons was a difficult year for maintenance, before rising to \$88 million in 2021/22. Hurricane precaution spending, implemented by the Ministry of Public Works, was also dramatically stepped up after Dorian.

Focus Areas cont'd

Figure 20: Maintenance and disaster prevention spending, central government.

Source: MoF data

Figure 21: Prior disaster response lines by spending unit

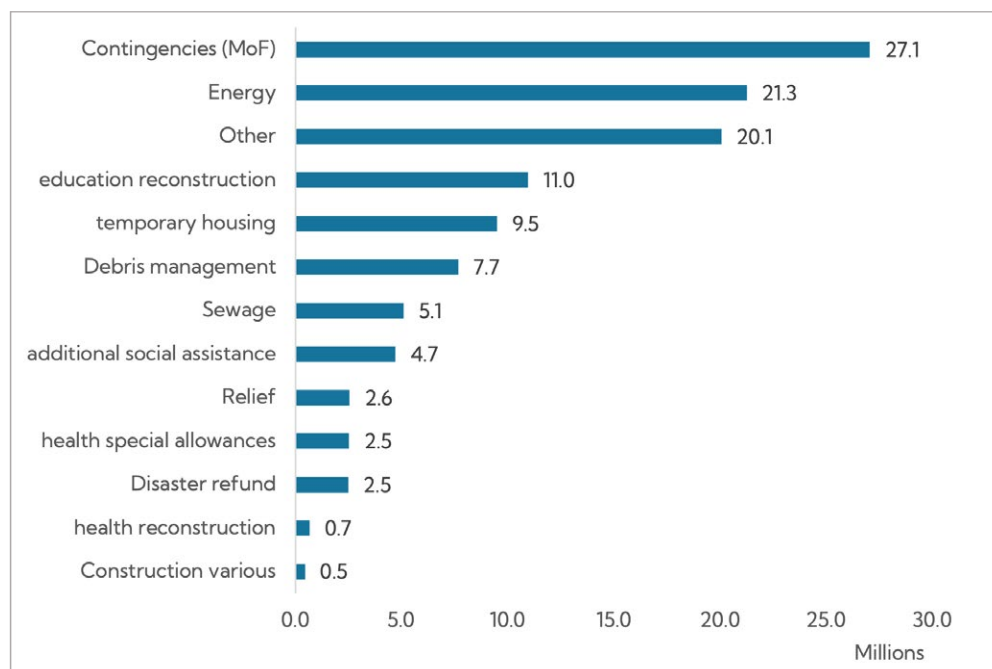
The next graphs show identifiable disaster response according to spending units within the budget⁴³. However, not all of this may be attributed to Dorian nor previous hurricanes, particularly the use of MoF contingency. Health reconstruction is noticeably modest. \$11 million for education, which covers 45 schools including 7 complete destructions, is dwarfed by higher spending in 2020/21 and 2021/22. Previous hurricane responses are less traceable. However, two lines stand out; relief consists mainly of circumstantial desk assistance from DoSS/MoSS and is likely to consist of non-disaster as well as disaster costs.

43

Previous large disasters were prior to the series we have.

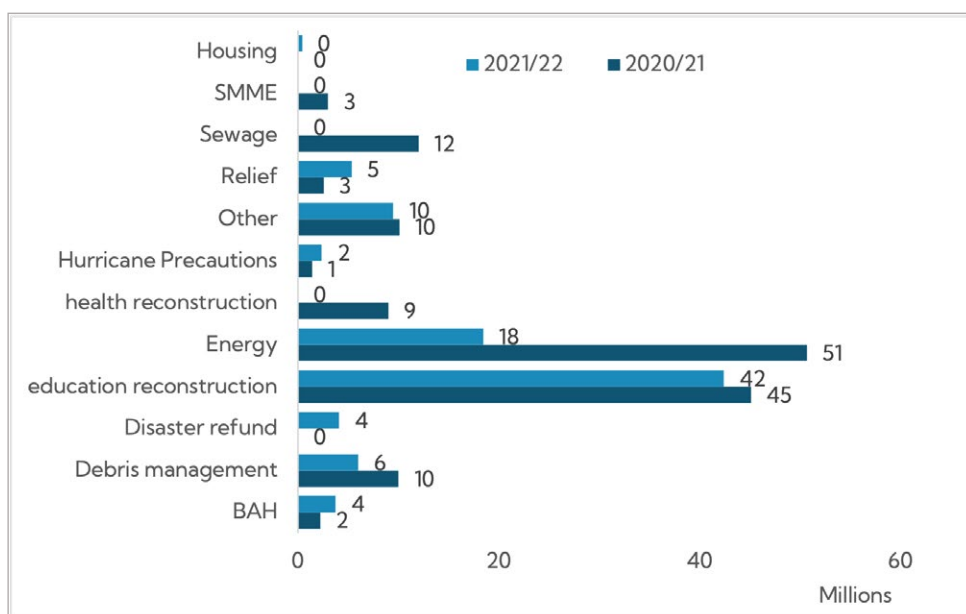
Focus Areas cont'd

Figure 22: Central government identifiable Hurricane Dorian response, actual spend 2019/20



In 2020/21 and 2021/22, post-Dorian hurricane-related reconstruction continued as depicted, rising from \$115 million of identifiable spend in 2019/20 to \$146 million then \$92 million in the budget allocations for 2020/21 and 2021/22. Social assistance associated with COVID-19 and business support is not deliberately included in the graph below. Housing support appears to have been stepped down by 2021/22, while energy and education⁴⁴ continue to dominate total response costs.

Figure 23: Dorian reconstruction, budgets 2020/21 and 2021/22



The government records disaster preparedness and response spend across some budget classifications, but there are likely to be a large number of exclusions from the above analysis. More widely, spending on, for example, new schools, may also be resilience-related, assuming that new schools conform to sufficiently rigorous building standards. As already discussed, the capital share of the budget in The Bahamas has been fairly buoyant relative to the region. Another issue highlighted in the IDB

costing report is the standardisation of electrical infrastructure for easy repair, which might imply an additional cost in the short run that is resilience-related but not classified as such.

Focus Areas cont'd

4.2 Transfers

4.2.1 Transfers and largest spending lines

As previously discussed in section 3, transfers comprise a high share of the budget.

The first left graph below shows transfers according to the Government's economic categories. There is a volatile and growing 'other sectors' transfers line accounting for the private sector. This included one-off small business support, national drugs plan arrears, post-Dorian energy restoration, and parks and beaches expenses (possibly Dorian-related) in 2019/20. The other spike in 2016/17 is partly accounted for by "cellular liberalisation".

The social assistance economic classification in the budget contains a mixture of justice, health, immigration and education lines. Of the \$47.7 million recorded, around \$22.2 million is social assistance as per the international GFS understanding of the term, while the rest belongs to other sectors. A large portion is the drugs plan subsidy, which is included under the health sector for the purposes of this review. This is discussed in detail in the focus section.

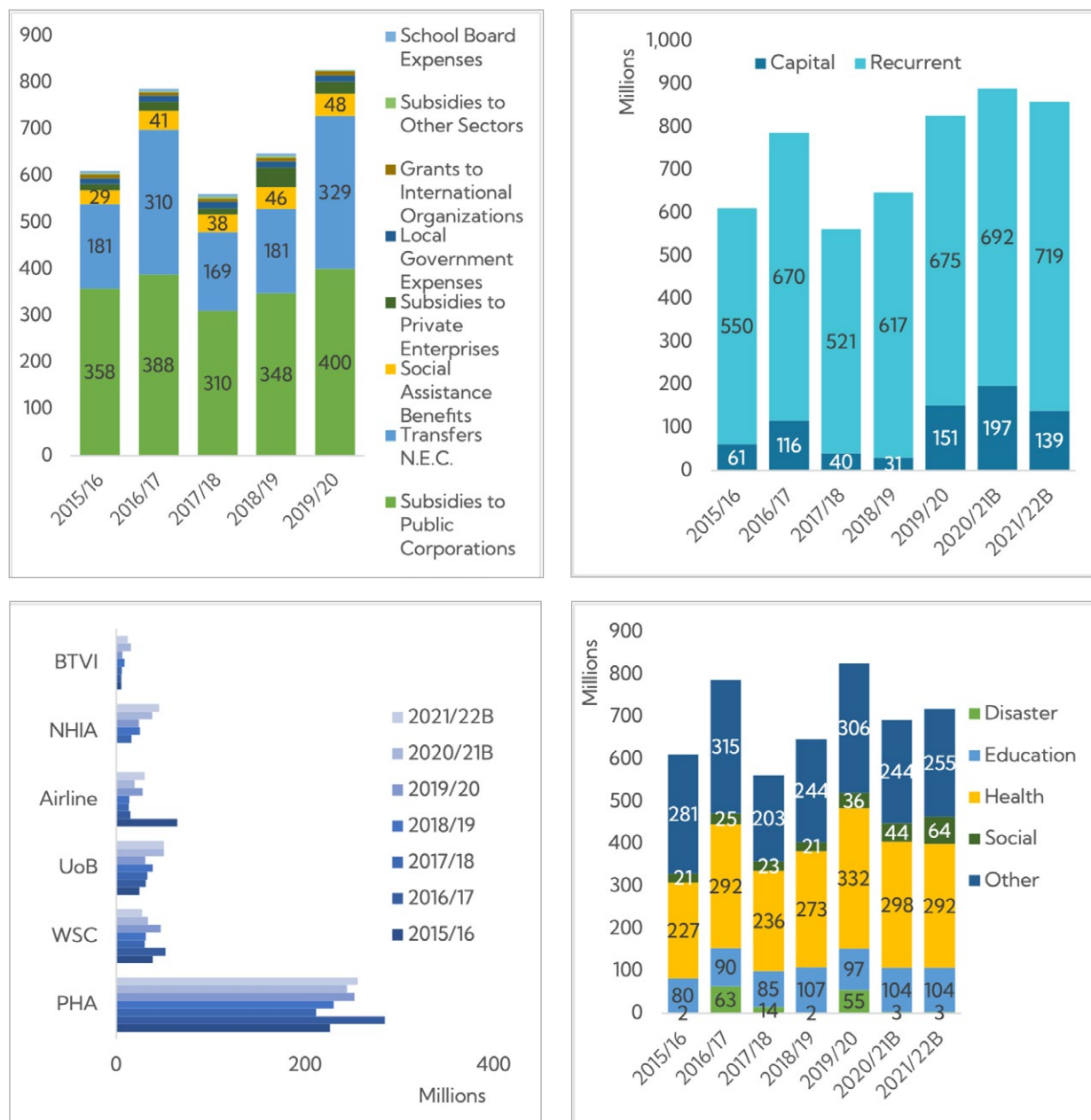
Capital transfers are, understandably, more volatile than recurrent transfers, and public corporation subsidies are dominated by PHA, which accounted for 63% of the 2019/20 subsidy (a total of just eight entities comprise the public corporations line). Subsidies to private enterprises, too small to be visible on the top left graph, are dominated by independent schools and tourism businesses.

Spending according to the categories of particular interest for this review is shown in the bottom right box below. It shows, unsurprisingly, the dominance of health transfers, accounting for 37% of all transfers in 2019/20. Social transfer budgets have risen significantly since 2021/22.

Support for BTVI has significantly increased during the crisis. Except for WSC, there have been increases in support for every major public corporation since 2018/19, at least on a budget basis. UB support has increased significantly; some costs may be associated with the destruction of the Grand Bahama campus in 2019 and a subsequent increase in total salaries, discussed further down in this section. Capital transfers also increased significantly in 2019/20, largely due to stepped-up electricity grid repair following Dorian, and small and medium sized business support following COVID-19, budgeted at \$55 million in 2020/21. PHA capital transfers associated with the Rand Tower were also significant.

Focus Areas cont'd

Figure 24: Summary of transfers: by transfer subtype (top left); by recurrent/capital (top right); focusing on public corporations (bottom left) and by focus spending area (bottom right)



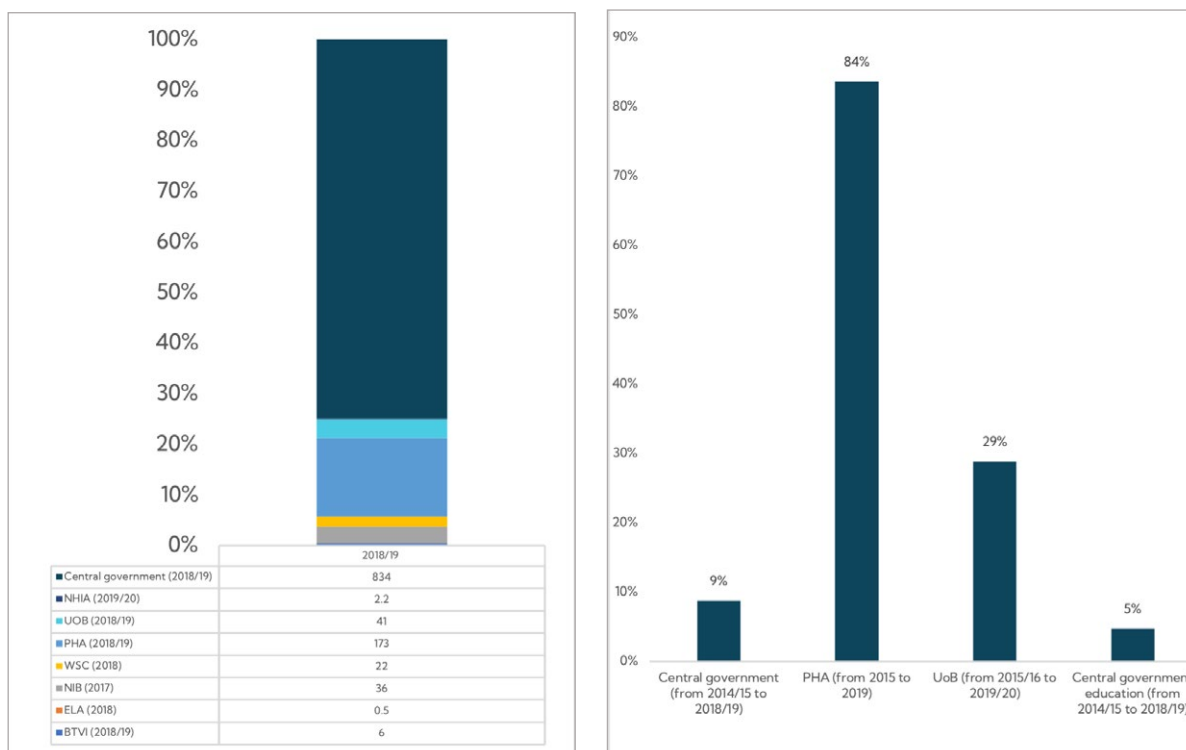
Source: MoF actuals except where marked B, budgets. Maritime Agency and the Art Gallery not shown; subventions for these are small (<\$2 million) and were flat since 2018/19.

Focus Areas cont'd

The largest public corporations have significant fixed costs, including salaries. Compensation in PHA as a share of the total general government wage bill has increased substantially over the past five years due to the critical care centre opening and large pay increases. PHA personal emoluments are around one-fifth as large as central government wage bill in its entirety – including insurance and pensions, and as of 2019 outstripped the education sector wage bill (\$171 million).

Allowances growth was also significant in public corporations, as in government. Other large fixed costs include the water contracts under WSC, associated with an increasing share of desalinisation in the water supply mix, and debt costs. Debt levels, at least prior to COVID-19, appear to be falling for the major socially-related public corporations.

Figure 25: Share of identified wage bill in major public corporations and central government, amounts in \$ millions (left) and wage bill growth since 2014/15 to 2018/19 (right)

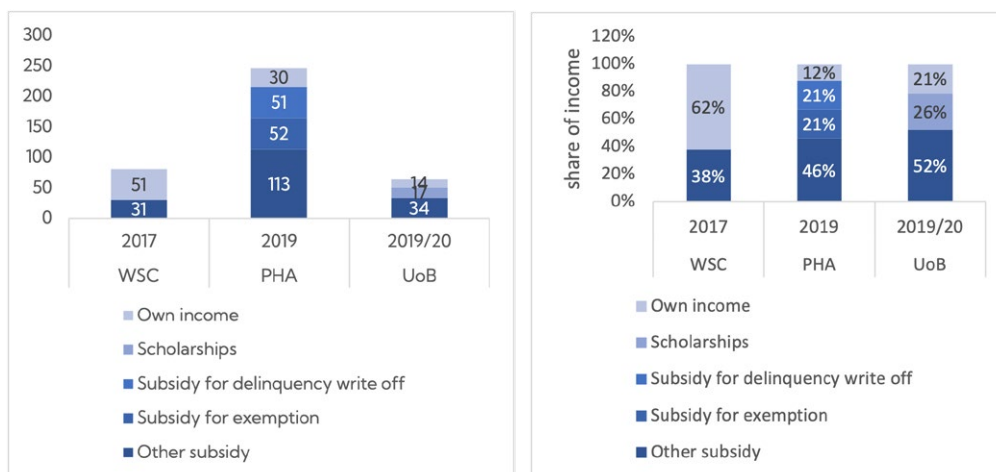


Sources: PwC, MoF. Note: WSC and NIB salaries are not available for more recent years. NIB administrative costs are discussed below: the issue for NIB is not the growth, instead it is the level. The education wage bill has decreased in \$ terms since 2010/11.

Other than NIB, which raises over four-fifths of its own revenues through national insurance and investment returns, the largest public corporations are extremely reliant on the central government for subsidy. PHA losses to delinquency and exemption dwarf the other two major social public corporations; however, the failure to raise PHA prices nor to price most services at all, accounts for the largest share of subsidy, \$113 million in 2019.

Focus Areas cont'd

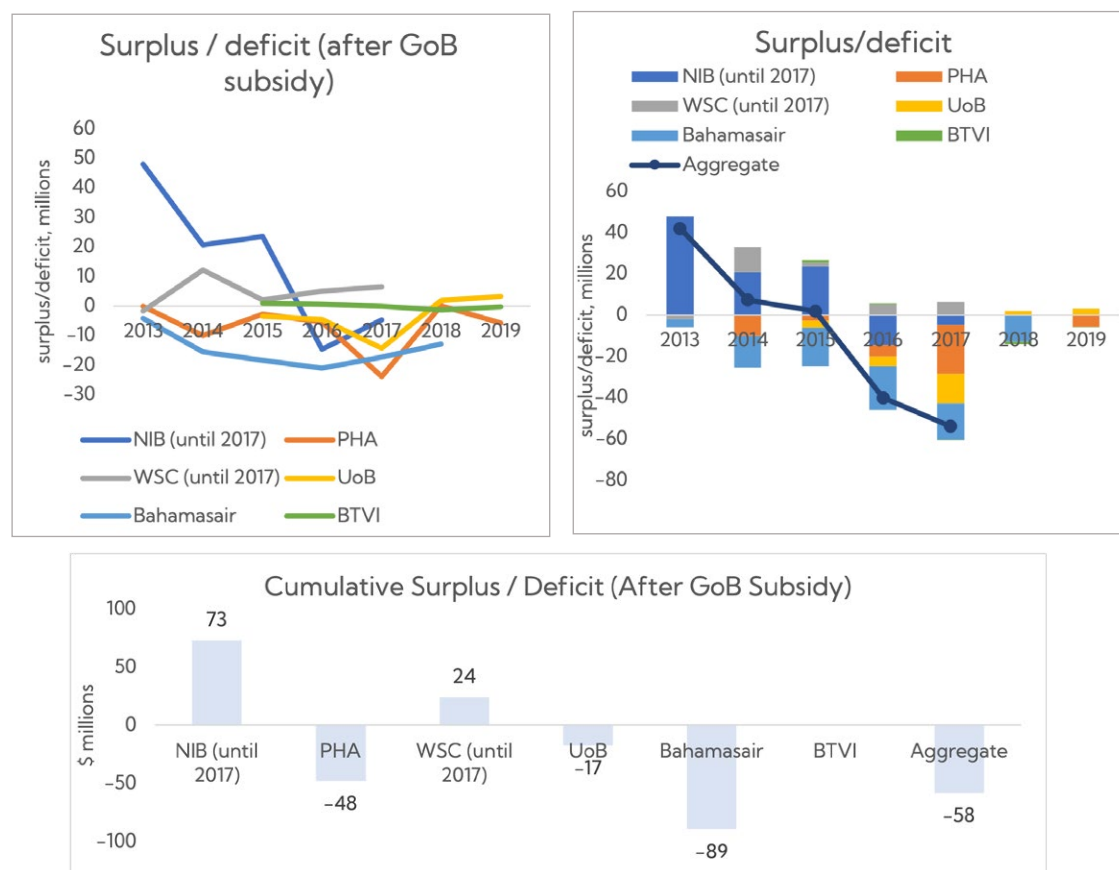
Figure 26: Subsidy as a share of income in absolute (left) and percentage (right) terms, selected major public corporations



Deficit trends are reasonably stable, at least pre-COVID. The NIB trend is concerning, although NIB's reserves: benefits ratio is far higher than in Barbados and Trinidad and Tobago. Due partly to notable post-2017 generosity on the part of central government, debt (for these organisations at least) was downward at least until the new PHA 2020 loan.

Sources: PwC, UB scholarships from MoF data, UB President's Report.

Figure 27: Surpluses and deficits for reporting GAs and GBEs (left); cumulative (right and below)



Sources: PwC, NIB, MoF data on BVTI. Last graph since 2013.



Public and PwC reported information on debt is limited to a few agencies and business enterprises, and is fully provided below.

Table 4: Debt, available information, \$ millions

Sector	Agency or Business Enterprise	GA or GBE name	2019/20 subsidy	Revenues	Expenditures	Debt, rev., exp, figure	Public sector debt
Education	Agency	The Education Loan Authority	0.05	5.8	4.5	June 2018	63
Social protection	Agency	The National Insurance Board	0.00	346	339	2017	-1,822
Health	Agency	Public Hospital Authority	253	228	252	2018/19	66
Education	Agency	University of The Bahamas	53	56	54	2020 Q2	25
Industry	Business enterprise	Bahamas Development Bank	2.3	3.2	11	2018	44
Social protection	Business enterprise	Bahamas Mortgage Corporation	0	nothing found	nothing found	2020 Q2	160
Industry	Business enterprise	Bahamas Power and Light Company Ltd	not found	430	nothing found	2019	66 – Fallen in 2020 since couldn't refinance \$250m so the government took it over.
Industry	Business enterprise	Bahamas Resolve Limited	2.9	nothing found	nothing found	2020 Q2	168
Tourism and culture	Business enterprise	Bahamasair Holdings Limited	27.4	100	113	2020 Q2	97
Tourism and culture	Business enterprise	Broadcasting Corporation of The Bahamas	7.6	12.9	14	2020 Q2	3.6

Focus Areas cont'd

Table 4: Debt, available information, \$ millions cont'd

Sector	Agency or Business Enterprise	GA or GBE name	2019/20 subsidy	Revenues	Expenditures	Debt, rev., exp, figure	Public sector debt
Tourism and culture	Business enterprise	Nassau Airport Development Company	2.25	29.6	67	2020 Q2	490
Health	Business enterprise	National Health Insurance Authority	24	24.6	24	2019/20	-3.2
Transport	Business enterprise	The Bridge Authority	not found	nothing found	nothing found	2020 Q2	22
Water and sanitation	Business enterprise	Water & Sewerage Corporation	52	81.2	89	2017	75
Tourism and culture	-	National Trust	1.5	5.1	4.4	2017	6
Regulation	-	URCA	0	5.8	5.8	2020	0

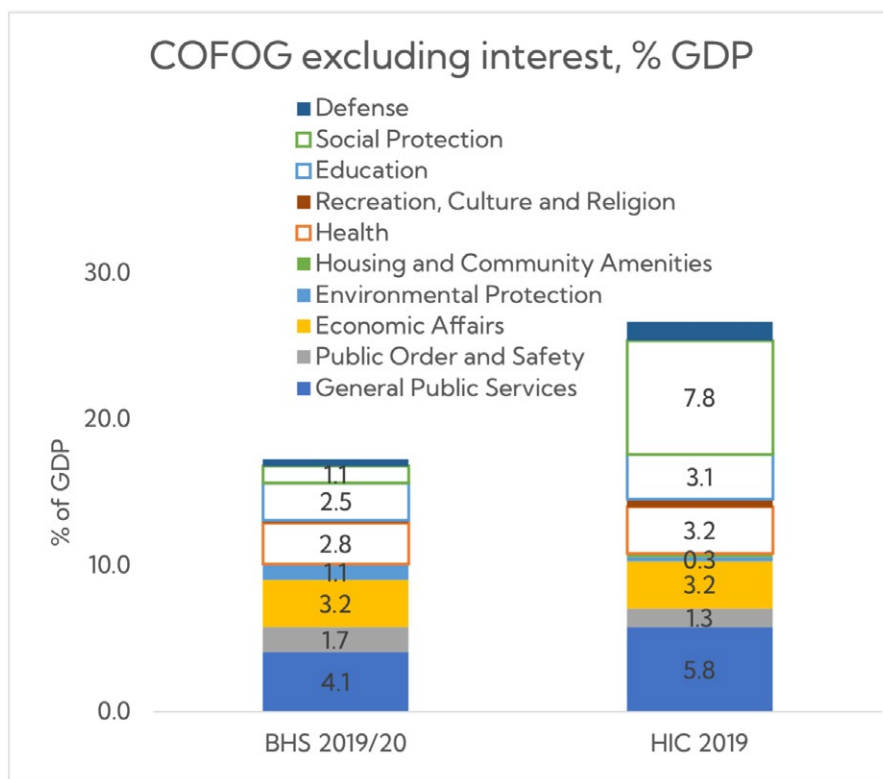
Sources: CBoB reporting, PwC, annual reports.

Focus Areas cont'd

4.3 The social cluster INTRODUCTION

The Bahamas is an outlier in terms of low total government expenditure as a share of GDP. However, partly due to the expansion in the final six months of 2019/20, health and education spending as a share of GDP is quite similar (though lower). However, social protection spending is far lower than the average high income country – regardless of the exclusion or inclusion of the NIB balance sheet. NIB's spending accounts for around 3% of GDP and is not included below for The Bahamas.

Figure 28: Government expenditure as a share of GDP by COFOG sector

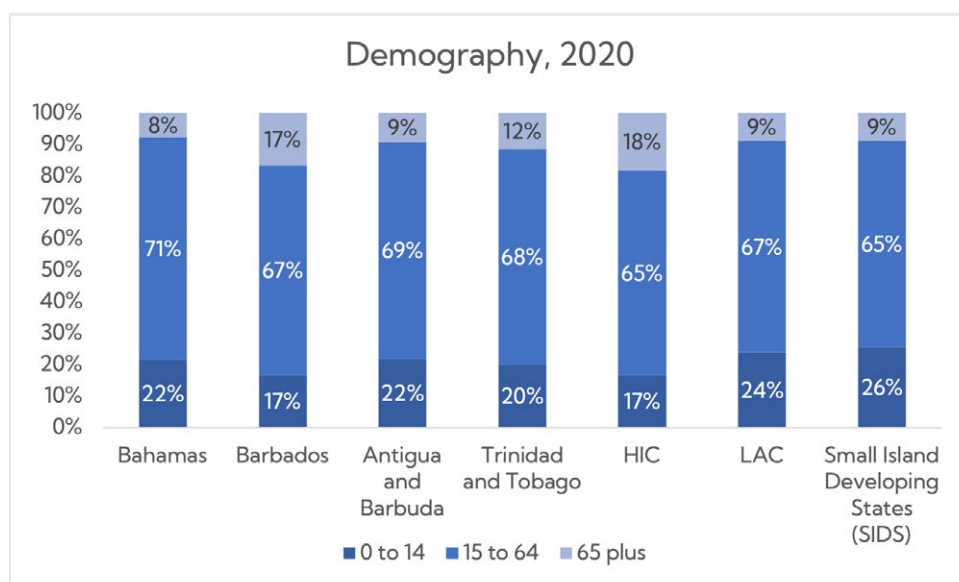


Sources: Budget book 2021/22 actual, GFS. Note that The Bahamas figures above cover central government, however some comparator countries include social services funds.

Focus Areas cont'd

The Bahamas' demography partly explains its low spending on social protection. The country's age profile is more similar to the LAC average than it is to the HIC group average. The Bahamas has a young population on average, and labour participation is very high. But low life expectancy may also be caused by some of The Bahamas' historical spending decisions, as we discuss below.

Figure 29: Demography



Source: UN World Population Prospects 2019

Since 2015/16, spending among the three identified social cluster areas (health education and social protection spending) has increased by 42% to 2019/20 and by 20% to 2018/19. Together, these sectors account for one-third of primary expenditure in 2018/19. The social category includes the activities of the Ministry and Department of Social Services, as well as related investments including under the Ministry of Finance and Office of the Prime Minister, but excludes identifiable disaster response spending, which totaled \$99 million in 2019/20. By 2021/22, relative to 2015/16, the share of social spending allocated to capital had more than doubled (from 5% to 11%, below graph). Education and social transfers had also increased their share significantly.

Social cluster spending has grown faster than the rest of government spending since 2015/16. The biggest increase from 2015/16 to 2018/19 was in the health sector (29%), followed by social support (15%) and education (13%). Outside of the social cluster, the rest of non-inter-

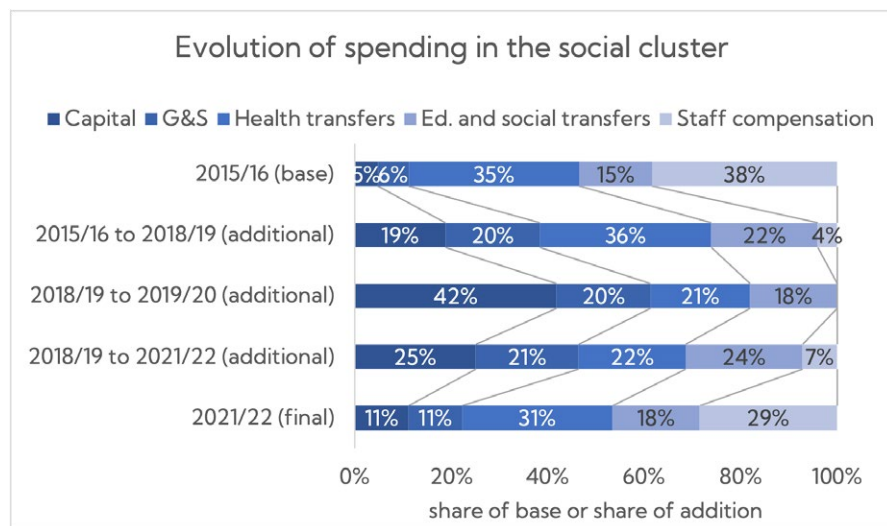
Focus Areas cont'd

est expenditure, which accounted for 67% of government spending in 2018/19, increased by 12% over the same period. All three sectors saw pronounced expansion between 2018/19 and 2019/20, with a year-on-year increase of 24% for health, 32% for social spending (with further increases in NIB spending beyond the additional central government support), and 9% for education.

Within sectors:

- » Goods and services in health increased as a share of the health budget between 2015/16 and 2018/19, primarily owing to greater outsourcing costs in the Department of Public Health and higher primary clinic operational expenses. However, PHA costs dominate the sector, and account for a large share of the changes in the social cluster since 2015/16 and the second-largest share of the changes to expenditure for the multi-crisis year of 2019/20. Overall, capital expenditure gained the most year-on-year and compensation shrank slightly.

Figure 30: Evolution of spending in the social cluster



Source: budget books and MoF data.

»Three transfers lines accounted for almost all health transfers costs in 2018/19; the NIS-administered drugs plan (\$17.5 million, with a build-up in arrears met by an additional one-off \$19 million grant in 2019/20), NHIA (\$25 million) and PHA (\$230 million, with an additional \$8 million for capital investments).

»Community clinics received \$3.6 million of the capital budget in 2018/19, with little other identifiable clinic capital spend for the previous four years; support in 2019/20 was also substantial after the destruction of several clinics during Dorian.

»In education, between 2015/16 and 2018/19, total central government compensation costs actually fell slightly, as did

goods and services, as tertiary education was prioritised for additional spending and as the number of teachers fell, in line with shrinking child counts in The Bahamas. Despite the reduction in resources, new policies were introduced, led by PMDU. Pre-primary vouchers cover

Focus Areas cont'd

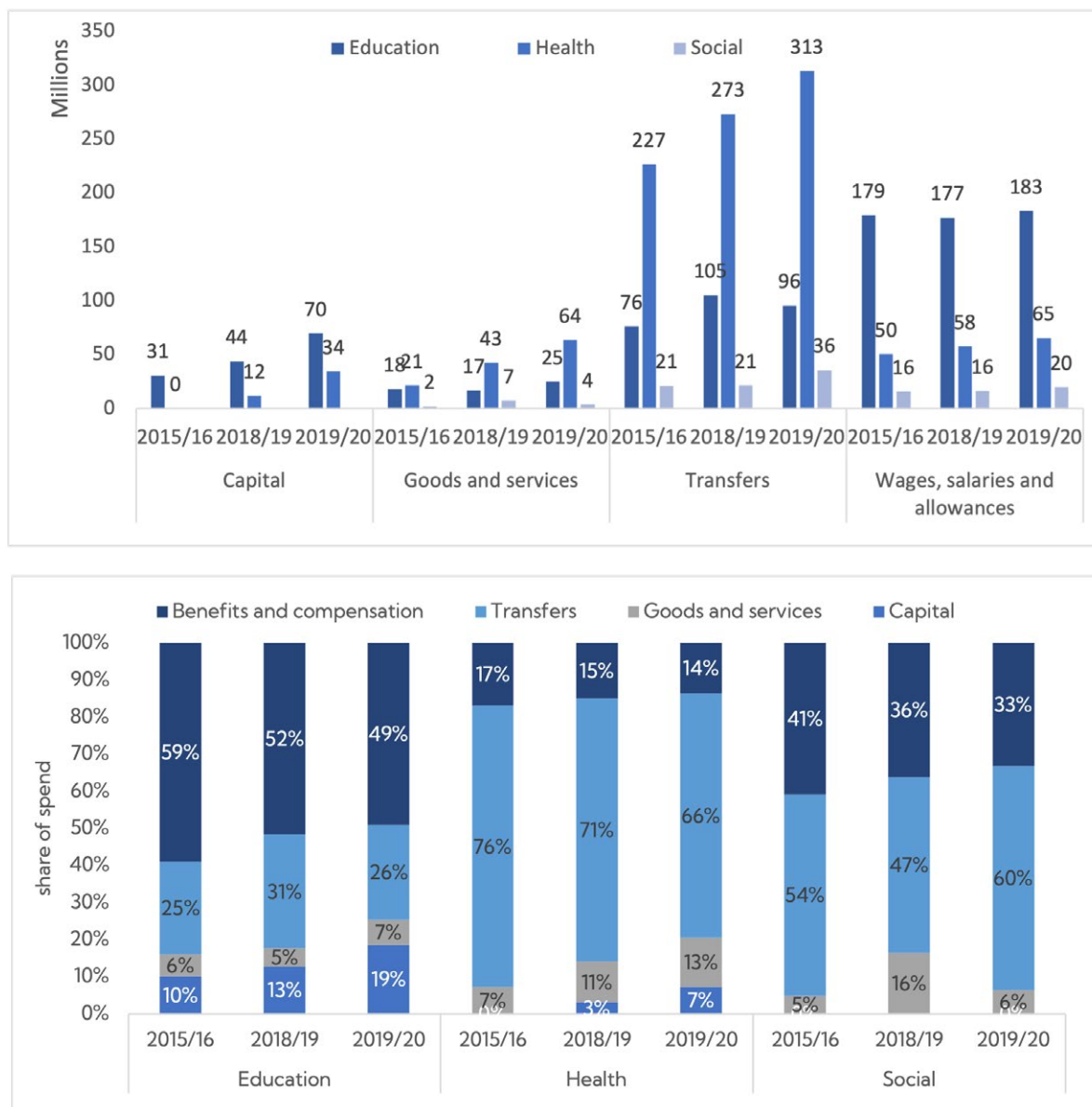
1,400 children in 2020, from zero three years before, 57% of schools were connected to fibre optic lines, and there is a renewed focus on early-grade reading led by PMDU; international research suggests that all of these are high-VfM interventions.

- » **Transfers increased as a share of education spend between 2015/16 and 2018/19, from 25% to 31%**, driven by tertiary increases (see table below). The share of education spend which is transfers was reduced by disaster-related costs in the following years.

Table 5: Pre-Dorian/COVID-19 evolution of the major education transfers

	2018/19 level	Increase since 2015/16 to 2018/19	
	\$ million		
Tertiary			
UB	38.6	0.2	0%
International tertiary school	17.6	3.5	20%
UWI	7.6	3.4	45%
Education Guarantee Fund	6.0	5.0	83%
Total	69.8	12.1	17%
Technical and vocational			
BVTI	8.6	0.1	1%
Primary and secondary			
National lunch benefit	3.8	0.0	0%
Rental assistance benefit	3.8	0.0	0%
Private schools	13.5	0.0	0%
Total	21.1	0.0	0%
Grand total	99.4	12.2	18%

Focus Areas cont'd

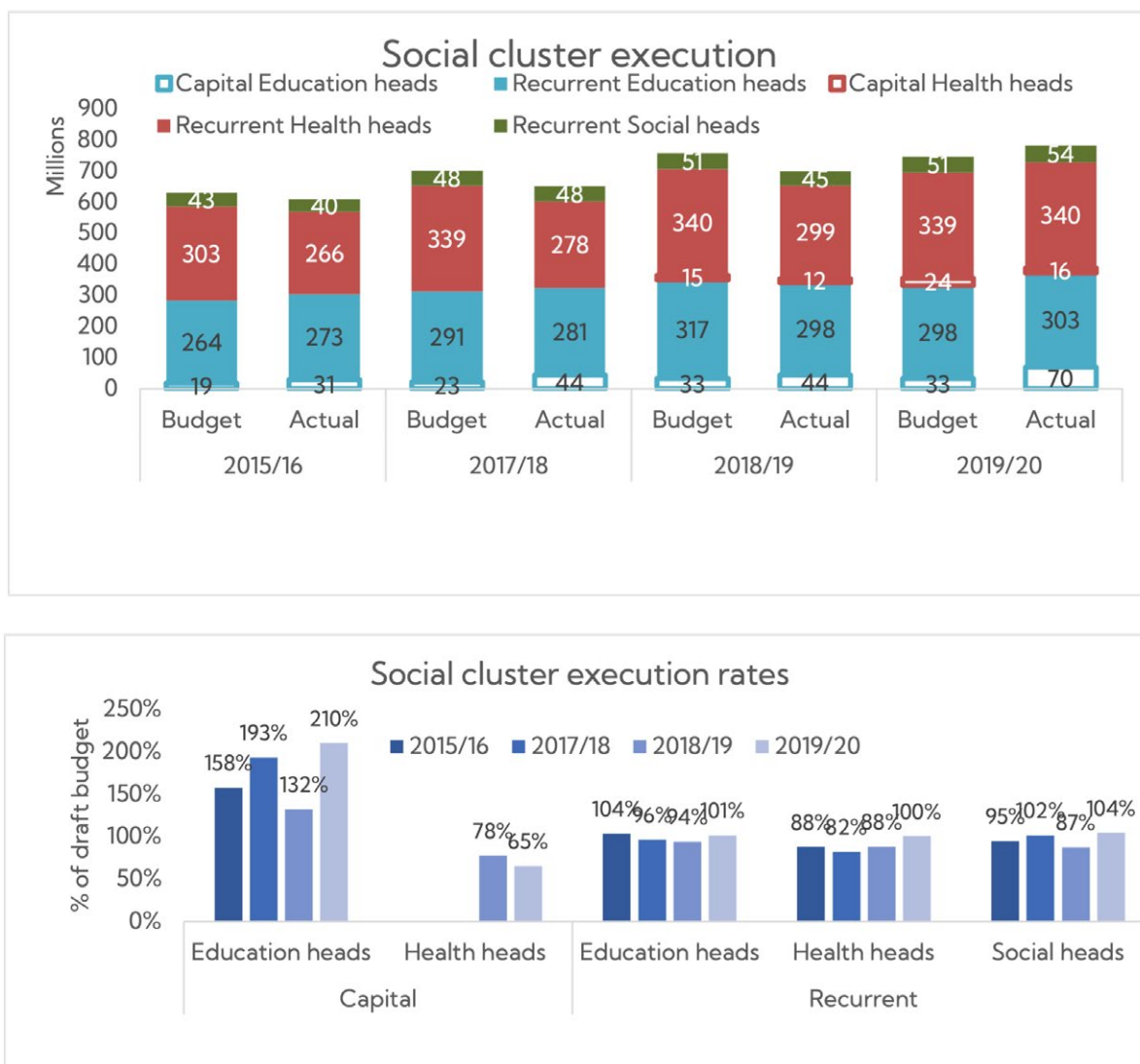
Figure 31: Central government spending by sector and major economic category, actual expenditure (top) and share (bottom).

Source: MoF data.

Aggregate budget execution for the social cluster is very good (within 5% of the draft budget⁴⁵), with the exception of the health sector. Also, education capital over-executes, but this could be due to changes between the draft and approved budgets. The current analysis of execution takes place at the level of heads of expenditure, so differs a little from the spending unit and item level analysis which is possible for actual-to-actual comparisons. Unsurprisingly, 2019/20 was a particularly high-execution year.

Focus Areas cont'd

Figure 32: Execution by head, draft budget and actuals (totals, top and percentage execution, bottom).



The subsections explore each of the three sectors within the cluster in depth.

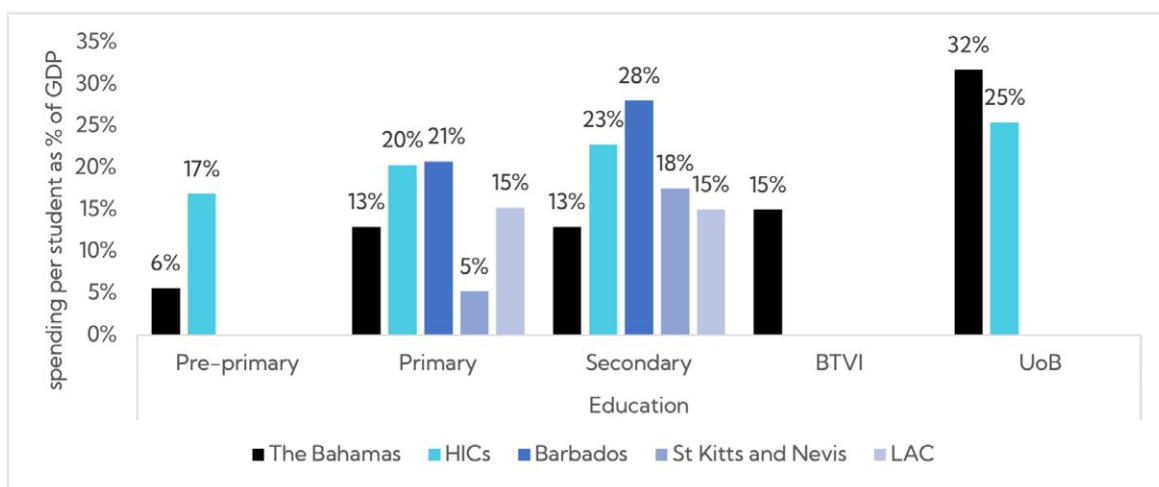
Focus Areas cont'd

4.3.1 Education

The **main findings** for education are that:

- » **Access to education is low by international and regional standards for all levels except primary education.** Secondary enrolment ratios are among the lowest of any high-income country, and pre-primary and tertiary enrolment ratios also lag comparator groups. Even achieving the 85% high school graduation target set by the Government would leave The Bahamas well below its regional peers.
- » **Funding per student is high for tertiary compared to The Bahamas' peers in income terms, but in GDP share terms tertiary education spend remains low due to demographics, access restrictions, and the low high school graduation rate. Pre-primary spending per student as a share of GDP and as a share of GDP per person is very low.** Even if the voucher program were to be fully rolled out to every 3- and 4- year old, pre-primary and early childhood development spending remains very low relative to OECD countries. **Spending per student in the public school primary and secondary system is also relatively low** compared to The Bahamas' relatively high income levels per person.
- »

Figure 33: Fiscal effort at each stage of education with international comparators



Note: no comparators available for technical and vocational education. The same spend figure is used for primary and secondary education for The Bahamas. Sources: UIS 2018 and own calculations for The Bahamas.

- » **Quality education is a challenge throughout the system, and one that appears to affect labour market outcomes.** Increasing spending levels on wages and infrastructure is not likely to tackle education quality issues – careful investment selection is more important than just throwing money at the sector – although additional re-

Focus Areas cont'd

sources will help with increasing access for pre-primary. Quality is not solved by just reducing the Student: Teacher ratios⁴⁶, which on average is low (i.e. teachers are plentiful relative to students as a national average). Data on teaching practices and working conditions is scant. Around 89% of primary teachers are 'trained' – in line with the region but less than ideal – but this tells us little about the quality of training.

- » **Despite recent improvements, 37% of children scoring below a D in the GLAT in May 2019 is extremely concerning, and stores up problems later in the system.** The government secondary system does not seem to offer a post-GCSE qualification, which reduces The Bahamas' ability to continue to compete globally, or to get the most out of its generous tertiary spending. Even before Dorian and COVID-19 impacts are taken into account, and even after recent improvements, high school graduation rates are below every OECD country except Costa Rica⁴⁷. Tertiary education efficiency and effectiveness has much potential for improvement.
- » **Learning assessments in addition to formal testing could help to identify where the deficiencies are in the system which result in a low graduation rate.** Several 'best-practice' interventions are clearly taking place⁴⁸, but ensuring that there are still non-wage resources made available, for instance to ensure modern pedagogy and the associated training, is essential.

Equity between levels is problematic at best, and recent years have seen greater investment in the already- well-supported tertiary sector (the tertiary spend share was increasing until 2019/20 when Hurricane Dorian severely damaged 45 schools⁴⁹). Equity between schools is also indeterminate given the lack of a school funding formula or capitation formula, and the lack of recent data on enrolment at the school level. Horizontal inequities are possible, given a combination of small school sizes and (according to one of the two available estimates) relatively high primary student-teacher ratios.

- » **Labour market transition is clearly an area for attention.** Poverty

46 <https://www.oecd.org/pisa/pisaproducts/pisainfocus/49685503.pdf> OECD 2012. "Does money buy strong performance in PISA?"

47 <https://data.oecd.org/students/secondary-graduation-rate.htm> OECD Accessed September 2021.

48 See PMDU report 2020 and the Education Vision 2030 https://76e8ca5c-b0d6-41c1-a80e-fa1785909945.filesusr.com/ugd/29b6ce_3065a2357e31432f839d0eeceaf6dee3e.pdf. It is difficult to establish how much is being spent under PMDU focal areas.

49 IDB 2020

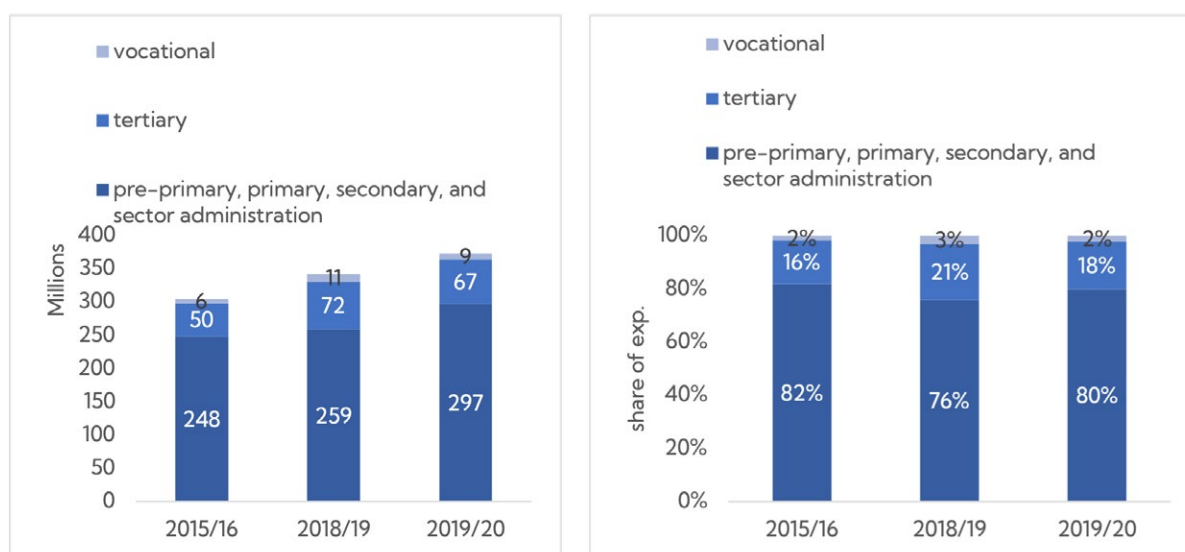
Focus Areas cont'd

rates in The Bahamas were in 2013 highest in households headed by 18–24 year olds, although most poor people in The Bahamas were found in the more populous 25–64 year old group. Access to tertiary and vocational education is low relative to high-income comparators and other high-income Caribbean islands.

Detailed analysis for the sector

The below graphs show actual expenditure patterns over recent years.

Figure 34: Share and evolution of level-identifiable expenditure within the sector



Source: MoF data. Pre-primary education accounts for an estimated 2% of total spend.

The capital share of total expenditure for the education sector averaged 12% between 2015/16 and 2018/19, rising to 19% in 2019/20, a total of \$219 million over the period. This is relatively high for a high-income country with a mature age profile, and is accounted for by disasters and, possibly, low ongoing maintenance expenditure. The majority of capital central government expenditures appears to be for pre-primary, primary, secondary and administrative purposes, although UB completed a recent campus extension.

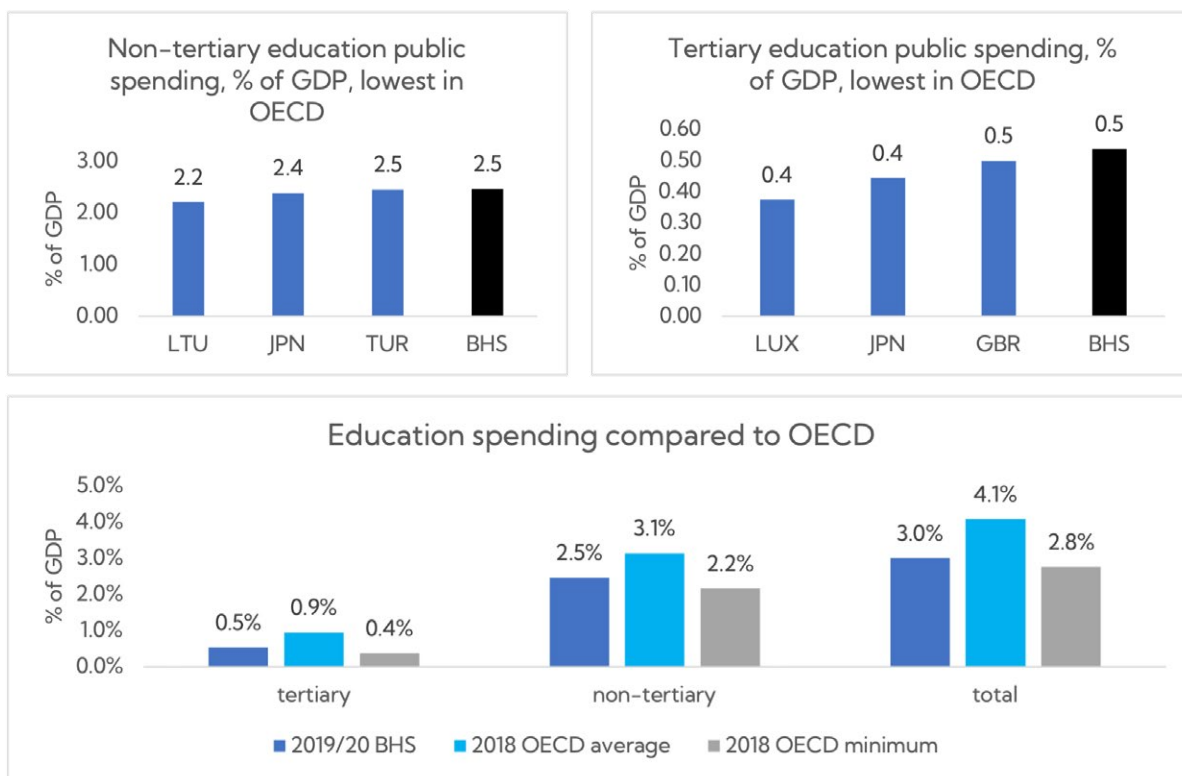
Education spending compared with OECD countries is low, particularly bearing in mind the low net household contribution of tuition fees to the tertiary sector and The Bahamas' young population. If The Bahamas was an OECD member, it would have the fourth-lowest public spend as a share of GDP for both tertiary and non-tertiary education (graphs below). Income-wise, The Bahamas is close to the median OECD country: it ranks higher than 16 countries in GNI per capita terms among the 38 OECD members in 2018, and it ranks higher than 17 countries in GDP per capita terms⁵⁰. However, The Bahamas' government's share of total tertiary spending is also relatively high compared to the UK, which has (in England and Wales) shifted much tertiary government spending to loans borne by students. The Bahamas has a younger population than Japan and Lithuania, where 12% and 15% of their respective populations are under the age of 15 compared to The Bahamas' 22%. These factors combined mean that total tertiary education spend relative to the size of the economy is low in The Bahamas.

50

Despite The Bahamas' financial sector and economic configuration, reported GNI and GDP are very similar.

Focus Areas cont'd

Figure 35: Tertiary (top right) and non-tertiary (top left) government education compared to the lowest-spending OECD countries, share of GDP. Compared to the average and minimum, bottom graph.



Sources: OECD Government at a glance 2020 and own calculations for The Bahamas (BHS). GBR is the UK. JPN is Japan. Lux is Luxembourg. LTU is Lithuania. TUR is Turkey.

Focus Areas cont'd

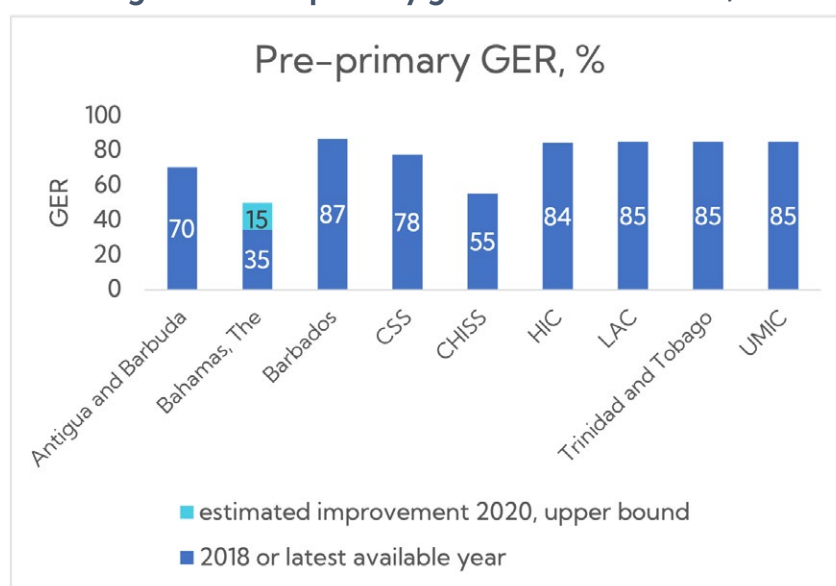
The following subsections provide detail for each level of education.

4.3.1.1 Pre-primary education

A pre-primary private sector government-supported voucher has been introduced recently, which covered 1,466 children in 2019/20. Combined private and public provision currently covers around 3,500 children aged 3 and 4 as of 2019/20⁵¹, which was a 32% coverage ratio (GER) of 3- and 4- year olds⁵². The total cost of pre-primary provision cannot be determined using information available, however assuming the vouchers at \$2,000 per child are representative of government direct provision costs, the 2019/20 total would be \$7 million per year, about 1.8% of 2019/20 actual education spending. The system recorded \$2.8 million of spending under the universal pre-primary initiative in 2019/20, which matches the number of vouchers issued.

Using World Bank data which includes private sector **pre-primary enrolment**, **The Bahamas appears to have fallen well behind the subregion and the HIC grouping, and even the less prosperous UMIC group of countries.** However if the rollout of vouchers continues, and the enrolment as a result of the vouchers is genuinely additional to existing private enrolment⁵³, The Bahamas is catching up; an 'upper bound' for 2019/20, combining student count growth and the World Bank 2018 base figure, is depicted below on the graph.

Figure 36: Pre-primary gross enrolment rates, %



Sources: World Bank and own calculations for The Bahamas in 2020 based on PMDU 2021

⁵¹ PMDU 2021

⁵² Using the census 2020 medium scenario as elsewhere. Enrolment fell slightly in 2020/21.

⁵³ More vouchers were issued 2018/19 to 2019/20 without government school counts declining; on this basis the vouchers appear to be genuinely additional.

Focus Areas cont'd

Early schooling and child development is regarded by many researchers as among the best possible investments in the education system, with the potential to boost economic outcomes, social outcomes, and cost effectiveness later in the education system, and resilience⁵⁴. Including a very small amount of ECDE-labelled spending in other ministries, identifiable pre-primary and ECDE spending is less than 0.1% of 2020/21 GDP, and is far lower than the OECD 2017 average of 0.7%⁵⁵.

4.3.1.2 Primary and secondary education

Primary, secondary and administration of the sector accounts for 78% of 2019/20 actual education sector expenditure. The Bahamas government guarantees 12 years of free primary and secondary education, plus two years of pre-primary. There were a combined 538 schools listed by MoE in the 2019/20 list; several schools serve both levels, and schools are typically 'graded' according to size. In 2018/19, 39% of the teachers were primary education teachers, 28% were junior high, and 33% were secondary level.

Primary education appears to be universal, with a GER of 100% in 2016/17, the most recent year for most of the data in this subsection. Education access ratios are concerningly low for secondary. Gross enrolment for secondary education (80% in 2016/17, which is the highest estimate across the four datasets examined⁵⁶) is well below the average rate for the upper-middle income group of countries, a group of countries which all have annual GDP per capita lower than US\$12,695. The secondary GER was 80% in 2016/17, down from 90% in the census year 2010⁵⁷.

The Bahamas struggles with high school graduation rates, which fall below 37 of 38 OECD countries according to PMDU figures.

Spending in the public sector in 2016/17 is estimated at \$3,340 per child in primary and secondary government school, including whole-of-sector administration costs. The government estimates a further 10% of primary and secondary students are in private schools in 2016/17; these schools appear to be far smaller in terms of pupil counts⁵⁸. Among OECD members in 2018, only the governments of Colombia, Mexico and Tur-

key spent less than The Bahamas per child in primary and secondary education⁵⁹. The average OECD spend was US\$10,100 per child. Among regional comparators, Barbados spent slightly more, at US\$3,675 per capita in FY2018/19, but was 38% less prosperous than The Bahamas in GDP per person terms. The Bahamas also has the challenges of delivering education across 30 islands and addressing more significant infrastructure challenges stemming from a high incidence of disaster, which would push unit costs upwards for a given level of output compared to most OECD countries.

⁵⁴ See for example Heckman 2006, the Marmot review in 2010, and an excellent summary in the PMDU 2021 report.

⁵⁵ OECD n.d. "PF31: Public spending on childcare and early education" https://www.oecd.org/els/soc/PF3_1_Public_spending_on_childcare_and_early_education.pdf

⁵⁶ UIS, UNESCO, the Annual Report 2016/17, and other years in the MoF/MoE communication. It is possible that private school secondary pupils are undersurveyed; the private sector accounted for 24% of teachers in 2016/17

⁵⁷ This 2016/17 figure is based on the census medium projection and the 2016/17 enrolment, which is far higher than recorded in other years.

⁵⁸ Based on MoF communication and 2016/17 MoE Annual Report. Other sources have a higher private school share. The share of teachers in the private sector in the MoE Annual Report is around one-third at each level of education (junior, secondary and primary).

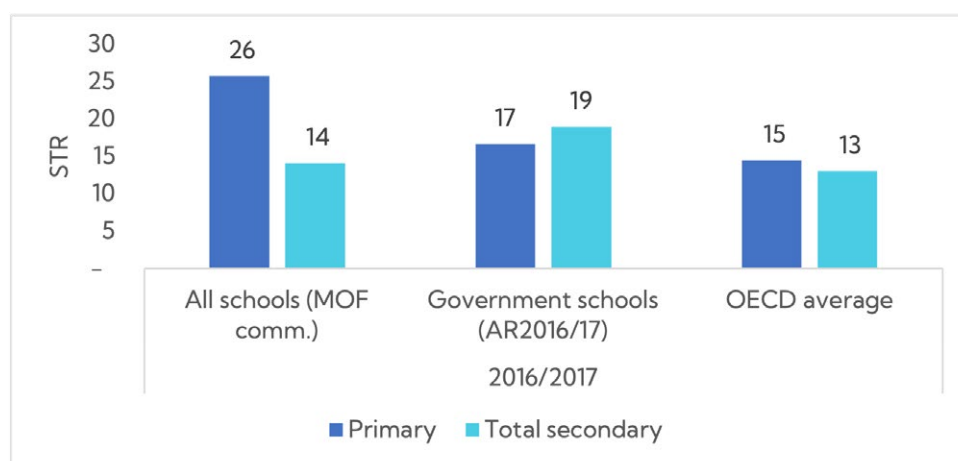
⁵⁹ this comparison flatters The Bahamas by including pre-primary costs for the OECD comparators, which are typically lower than primary and secondary education.

Focus Areas cont'd

Much of the costs of education provision (49% in 2019/20) are central government salaries. Teacher counts have fallen at each level between 2015/16 and 2018/19, in line with a shrinking young population. Primary teacher counts have fallen faster than primary student counts.

Student-teacher ratios appear high (according to the national estimate which includes private schooling) but are fairly in line with the OECD according to the government school estimate in the 2016/17 MoE annual report. Since several schools are all-age schools, classifications may differ between the two government reports.

Figure 37: Student-teacher ratios, schools, 2016/17

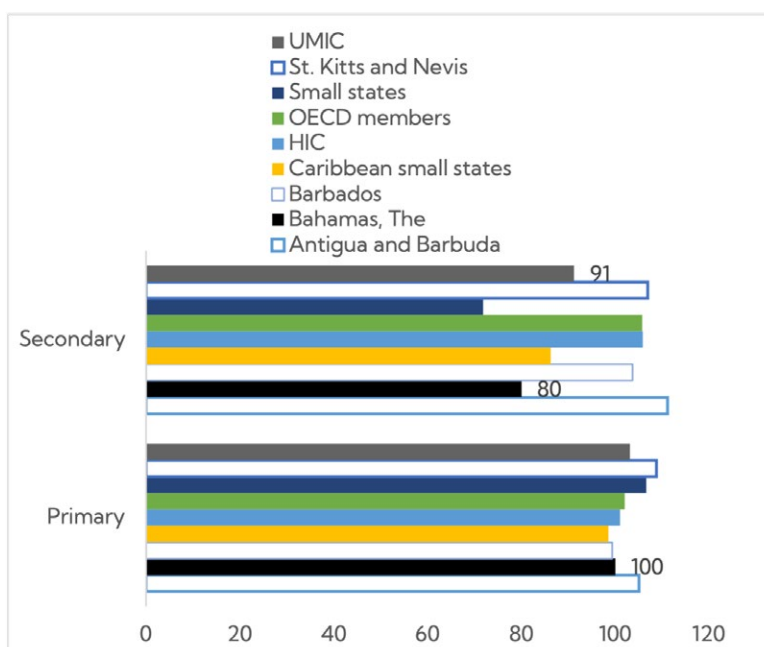


Source: MoE Annual Report 2016/17, MoE/MoF communication, OECD⁶⁰

Focus Areas cont'd

The Gross Enrolment Ratio, the number of children enrolled at any age divided by the number of children age appropriate to the level, is shown below.

Figure 38: GER, primary and secondary, 2018



Source: MoF/MoE communication for The Bahamas. World Bank 2019 for other countries. St Kitts and Nevis is 2016.

Sources: UNESCO UIS enrolment and Statistics Department population medium projection, census

4.3.1.3 Vocational and technical education

The subsector consists of BTVI and several private institutions; this section focuses on BTVI due to information availability constraints. The government outspent on tertiary education relative to technical and vocational education at a ratio of around 6:1 in 2019/20 and there are around three times fewer students in BTVI than in UB. However, recent changes to international scholarship spending, which has been diverted to BTVI students, have rebalanced some of the calculations made below. At the same time, UB funding has increased markedly, so the domestic comparison remains valid.

According to MoF records gathered for the PER, **the budgeted BTVI subvention has been credible every year since 2015/16, with over 100% remitted.**

Focus Areas cont'd

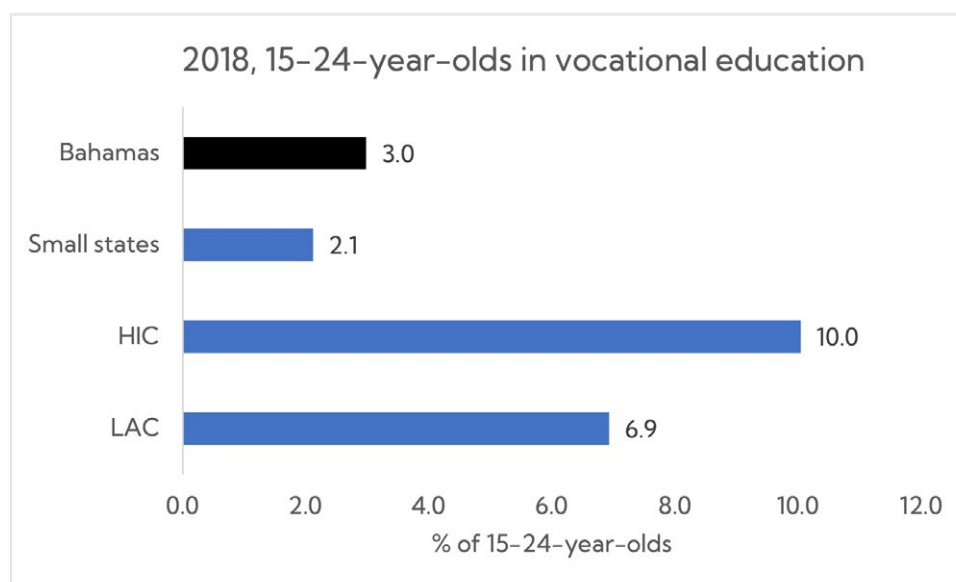
The latest information on the BTVI website (not dated) estimates the number of students at 1,900. Total expenditure per student including tuition is therefore an estimated \$5,340 in 2019/20. The student-teacher ratio is 1:18⁶¹, which is higher than the OECD average for vocational upper secondary – not equivalent, but similar, programming – of around 1:13⁶².

Government spending on BTVI has barely increased in absolute terms according to MoF records since 2015/16, but subvention has increased by 27% since 2015/16 (to 2019/20) according to their own records – it is possible that a portion of subvention is misclassified in the government accounts, which is why they record a lower increase in the subvention.

The subvention accounts for the majority of income (74%), which is a similar ratio to UB. Goods and services are a healthy 25% of BTVI expenditures, but this is the main source of cumulative recurrent over-expenditure levels of \$2.7 million in the five years to 2019/20. However, under expenditure on the capital side totalled \$6.5 million over the same period.

As seen below, compared to the region and to high-income countries, gross enrolment is rather low, albeit higher than the small states average.

Figure 39: TVET GER comparison



Sources: OECD, BTVI website, census projects (medium). Private institutions may increase this ratio for The Bahamas.

61 <https://www.btv.edu.bs/index.php/contacts/about-us.html>

62 <https://www.oecd-ilibrary.org/sites/315d95e6-en/index.html?itemId=/content/component/315d95e6-en>

Focus Areas cont'd

4.3.1.4 Tertiary education and labour market transition

Gross tertiary enrolment of 18–21 year-olds in 2019/20 (using 2019 census projections) is 18%, which is far below the average for the LAC region, 54%, and the average of 79% in the HIC country grouping in 2019⁶³. A remarkably low share of UB students are male (27% in fall 2019), possibly due to poor secondary education survival rates⁶⁴. 75% of students are full time and 98% are Bahamian⁶⁵ and about four-fifths of graduates sit full Baccalaureate degrees. Annual costs per student at UB (using actual expenditures and including tuition fees) averaged \$14,509 in 2019/20. Of this, the government subsidy was \$11,320.

The government introduced a new grants system in July 2019, following difficulties with getting repayments from students under the previous loan system. In addition to financing examined in this section, the loan authority received government support to ensure solvency amounting to around \$0.3 million in 2019⁶⁶. Private giving and commitments are on the rise, from \$1.6 million in 2015/16 to \$4.9 million in 2019/20. The UB is a transparent institution, with detailed annual reports on finances and performance.

Costs to the government per UWI student for the UWI contribution were around \$6,730 in 2017/18. In addition, government scholarships for international students averaged \$4,113 per Bahamian student abroad in 2017/18, but this counts many students who did not receive government support⁶⁷. UB enrolment has remained roughly constant around 4,500 students since fall 2015. In 2017/18, 53% of Bahamian tertiary students recorded studied at UB.

⁶³ Regardless of how the tertiary GER is calculated, it is very low. Even if only three years are used for the GER calculation (ages 19 to 21), The Bahamas is still placing a lower share of young adults in tertiary education than the 2019 average in lower middle income countries (26%).

⁶⁴ This helps explain why 58% of government employees are women (May 2019 LFS update; government employees are disproportionately tertiary graduates in almost every country).

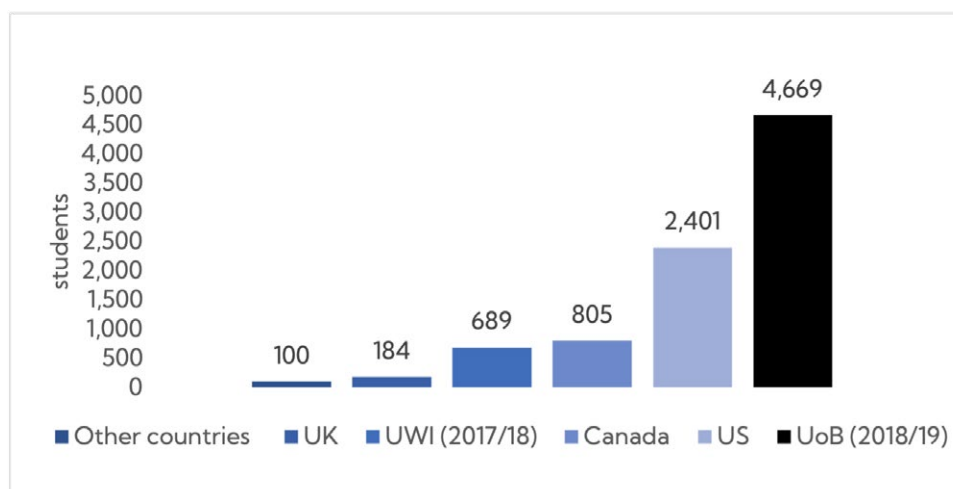
⁶⁵ President's Report 2019/20.

⁶⁶ PwC report

⁶⁷ The UWI contribution fluctuated significantly between 2010/11 and 2018/19, between \$3.9 million and \$7.6 million.

Focus Areas cont'd

Figure 40: Enrolment in tertiary education by destination



Sources: UNESCO destination reporting 2018, UWI annual statistical digest 2017/18, and MoF 2017/18. UWI open campus provides around 330 additional students with short (usually 3 month) courses, not included above⁶⁸.

Total spending on tertiary education per student (combining tuition fees, government subsidy and other income) is relatively high. Adjusting for PPP⁶⁹, there were 18 OECD countries where total spending per student was lower than in The Bahamas⁷⁰. This is despite UB's relatively large enrolment count and the economies of scale that might be expected. Although UB produces some research (33 journal articles and 22 book chapters in 2019⁷¹), adjusting spending levels for research intensity is likely to make UB appear even more expensive compared to OECD comparators.

The ratio of teachers to students in UB was 1:10 in 2017/18 which compares to an average ratio in the OECD of 1:15.⁷² Only two OECD public university systems in 2017 had a lower student: teacher ratio (Sweden and Norway)⁷³. High staffing is a major cost driver, and cannot be explained by the diversity of courses offered, which appears low compared to many OECD universities. A fairly low student: teacher ratio may be partly explained by additional support to school graduates to prepare them for university, but the more cost-effective measure could be to ensure that the pre-tertiary school system is imparting the knowledge required earlier in a child's life, and to provide the necessary support at secondary education level otherwise.

Staff costs as a share of total costs (including allowances) at UB are toward the higher end of OECD countries⁷⁴, and practices such as running UB's own bookstore might add to costs in areas where the private sector in other countries does a reasonably effective job. Salaries and other compensation has risen by over 20% in the years 2017/18 to 2019/20. A campus expansion in Grand Bahama might also be a questionable priority given potential economies of scale from maintaining fewer institutional sites.

68 <https://www.open.uwi.edu/bahamas>

69 Economy-wide prices in The Bahamas are apparently 12% lower than those in the US in 2019.

70 OECD, Education at a Glance 2021, Table C11. PPP adjustment is taken from the World Bank, <https://data.worldbank.org/indicator/PAN.U3.PPPC.RF?locations=BS>. This excludes international scholarships which are likely to be higher on average.

71 Relative to over 400 faculty, this is on the low side compared to some of the more "aggressive" Anglo-Saxon comparators, where expected research outputs are more than one per faculty member per year: <https://www.ref.ac.uk/faqs/>

72 teacher counts in the President's report for 2018/19 are slightly lower than in the MoF document but the ratio remains the same.

73 All private systems in the OECD have higher STRs than their public national equivalents.

74 OECD Ibid.

Focus Areas cont'd

While UB provides several courses appropriate for the job market in The Bahamas, just 7% of students studied Math, Physics and Technology⁷⁵, although Chemistry, Environmental and Life Sciences is the third largest subject after Business and Nursing and Allied Health⁷⁶. There is a course on computer information systems, but not computer science⁷⁷. This might follow on from concerning results for math at high school level. Limited graduate counts and perhaps quality of some courses may limit The Bahamas' ability to engage in high-value industries and diversify national income sources, taking advantage of The Bahamas' close proximity to the world's pre-eminent economy.

UB graduation rates as a share of enrolment are worryingly low, and fell in 2018/19 to just 12% of enrolment⁷⁸. In 2019/20, graduates counts totalled 67% of new starts. **These two statistics suggest a combination of significant efficiency losses from both dropout and repetition.**

It is difficult to make a full judgement about labour market 'fit' without determining whether scholarships and the 47% of students abroad are aligned with priorities in domestic tertiary provision; some attempt is made but it is not clear how targeted scholarships are. Of course, education is about more than just getting a job. At least until 2020, labour force participation was high in The Bahamas, due partly to its social protection configuration, and low life expectancy.

⁷⁵ UB President's Report 2019/20.

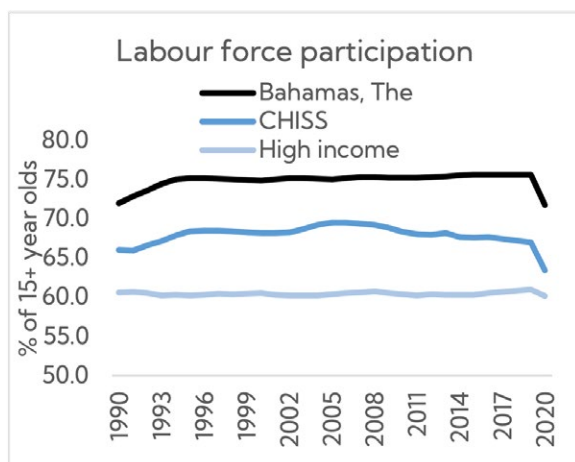
⁷⁶ All figures for Spring 2019, President's Report.

⁷⁷ Website, accessed September 2021. <https://www.ub.edu.bs/admissions/undergraduate-admission/programmes-2/>

⁷⁸ Courses usually last either 2 or 4 years.

Focus Areas cont'd

Figure 41: Labour force participation

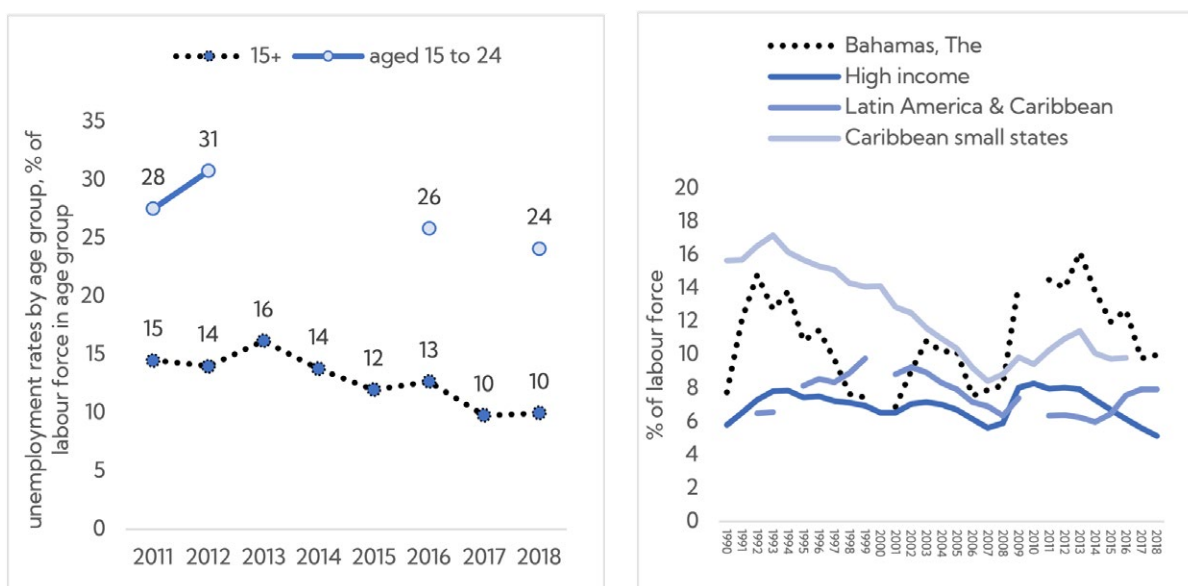


Source: World Bank

Entry to the labour market is inefficient post-secondary, with unemployment rates of 20% in May 2019 among 15 to 19-year-olds, and a persistent youth unemployment gap since at least 2011 for 15–24 year olds of more than 13 percentage points (below graph, right). Youth⁷⁹-headed households are far more likely to be poor than elderly or over-25-headed households. The government spent only \$1 million on identifiable ALMP programming (excluding the special employment program) outside of educational institutions in 2019/20. Working-age unemployment is among the highest in the region⁸⁰ and is higher than comparator country groupings, despite the lack of a generous unemployment safety net.

However, recent years since 2012 (pre-COVID-19 and Dorian) have seen a significant reduction in unemployment rates in The Bahamas, mostly stemming from formal private sector job increases rather than self-employment⁸¹. Undetected self-employment is likely to be high, based on the government's struggles with administrative capabilities on even registered large national insurance corporate payers, a relatively generous VAT threshold, and a lack of income tax.

Figure 42: Unemployment rates, % of working age population (left) and youth unemployment, % of working age group, The Bahamas (right)



Sources: World Bank (left) and ILO (right).

79 16–24, 2013 HIES

80 Barbados and Trinidad and Tobago both recorded significantly lower rates in recent years.

81 LFS May 2019 update.

Focus Areas cont'd

In the past, countries that have transformed international business centre activity into high levels of domestic prosperity – the Republic of Ireland and Singapore are outstanding examples – sometimes captured the gains through high quality, high access tertiary education. The Bahamas has made substantial investments in tertiary education, but access is low and efficiency could improve.

The exposure of The Bahamas to automation of workforces and other future vulnerabilities is high. On the one hand, tourism and finance appear relatively underexposed to potential automation using today's technologies. On the other hand, food and accommodation services, the constituent parts of many tourism jobs, are susceptible⁸² – with elementary occupations the most susceptible to automation; health, education, and personal care occupations are also highly vulnerable⁸³. Much depends on the tastes of the consumers of the relatively high-end Bahamian tourism offer. Nevertheless, future-proofing the current educational offer (and reviving the labour market after relatively poor post-2010 performance followed by large shocks after September 2019) might involve widening access to post-secondary education, and adjusting the mix of skills to take advantage of high-skilled at-distance services and The Bahamas' linkages with the world's largest economy.

4.3.2 Health

The main findings are:

- » **NHIA is an important step towards universal health coverage, which meets challenges in terms of reducing reliance on hospital care and potentially increasing resources to primary care.** However, at present, system resources overall remain heavily directed towards tertiary healthcare, and plans for sustainably financing NHIA have been delayed by the pandemic. Plans for NHI contributions are regressive, and the proposed charge may not raise sufficient resources to fund the NHIA package given the extent of exemptions – moreover there is a lack of sufficient information on how much the package might cost once fully rolled out.
- » **Even with recent NIB and NHIA expansion, current funding levels remain heavily tilted towards hospital care, where costs are poorly controlled and there is no regime in place to ensure the hospital enforces meaningful billing adherence.** PHA wrote-off half of potential revenue due to non-payment during 2015–2019 and has charges for less than half of its services⁸⁴. The government is paying for a hospital billing mechanism that isn't being used extensively, and it is also paying those charges not collected in practice by PHA. Up to \$10 million of exempt payment could be claimed from the private health insurance pack-

82 <https://www.mckinsey.com/featured-insights/artificial-intelligence/five-fifty-fear-fear-not>

83 An excellent tool showing vulnerability to automation by job type is available here (ONS 2019): <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/whichoccupationsareathighestriskofbeingautomated/2019-03-25>

84 PwC 2020

Focus Areas cont'd

age the government also subscribes to for civil servants. The system of exemptions and non-payment for hospital services is inequitable, with the richest fifth of the population having far higher footfall in hospitals (over 13 times higher in 2013 per person) than the poorest, and age-based exemptions exempt many who could pay. Inpatient unit costs were higher than in other high-income countries in the region, and recent hospital expansion and pay deals are likely to have worsened this. Recent expansion, with a new critical care unit, has not been accompanied by efficiency-seeking elsewhere in PHA.

- » **The Bahamas is an outlier in terms of the low GDP share spent on health – both privately and publicly – although spending as a share of GDP is on the rise from all sources.** Other CHISS countries also spend little government money as a share of GDP on health. Furthermore, health out-of-pocket expenditure as a share of GDP would be in the bottom third of GDP share if The Bahamas is ranked against the OECD in 2018, which, taken together with government spending patterns and overall outcomes, suggests that **primary health care is being under-consumed and underprovided**. Spending is increasing in all modalities (graph below).
- » **The Bahamas has a heavy non-communicable disease burden.** Healthy life expectancy is considerably lower than comparators, despite similar nurse and physician density to other high-income Caribbean islands prior to the mass rollout of NHIA. Obesity, a major cost driver, is well above other comparators, although far from the ten worst countries in the world (a group comprised of small islands states and the USA). New HIV infections are low, below 200 people a year when last measured⁸⁵, but HIV rates are relatively high in The Bahamas, which can increase comorbidity. Prior underinvestment in primary healthcare is likely to have substantial future costs.
- » Outcomes are relatively poor: a 2018 analysis ranked The Bahamas in the bottom quarter among OECD and LAC countries for health spending efficiency prior to 2013, driven by **poor performance for life expectancy and quality-adjusted life expectancy**⁸⁶. Public and private health spending has risen as a share of GDP over recent years, but mainly for tertiary health care rather than primary and preventative care, which is usually more efficient.

85 WHO in 2015

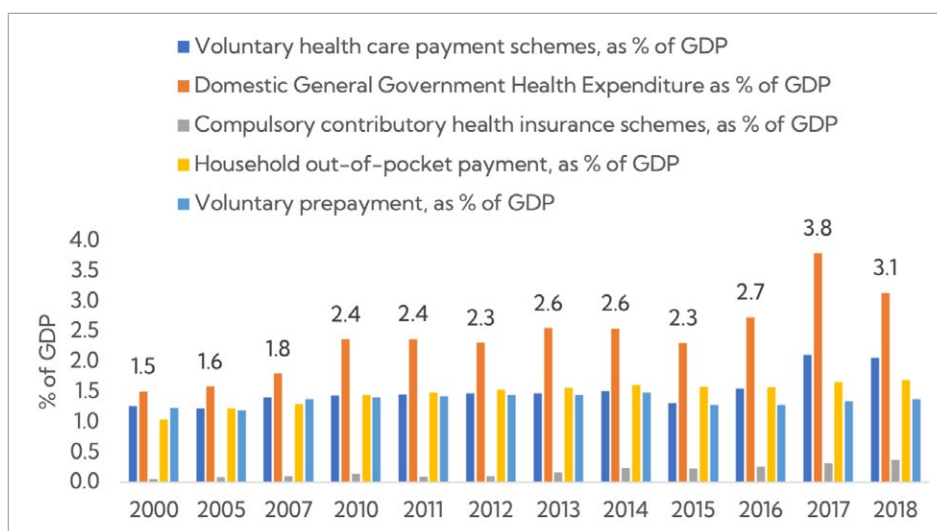
86 IDB "Better Spending for Better Lives", Table 8.1.

Focus Areas cont'd

Detailed analysis

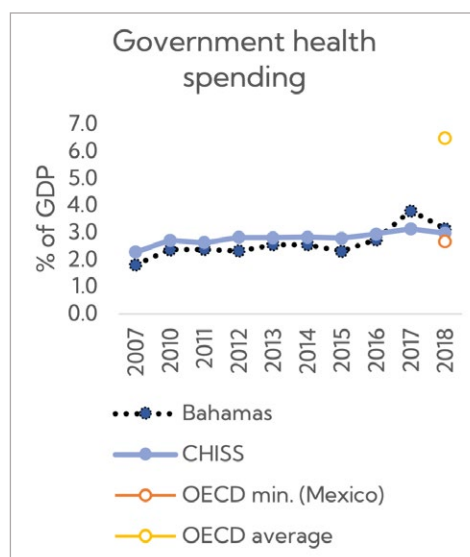
Increasing spending trends are highlighted below. Government spending as a share of GDP is high relative to the region but low relative to OECD countries. The rest of this subsection covers PHA, NHIA and the rest of the system in turn.

Figure 43: All sources and modalities of health spending have increased as a share of GDP since 2000



Source: WHO.

Figure 44: Public health spending as a share of GDP in 2018 was above the five high-income regional comparators due to recent increases, but below every OECD country bar Mexico



Source: WHO

Focus Areas cont'd

PHA

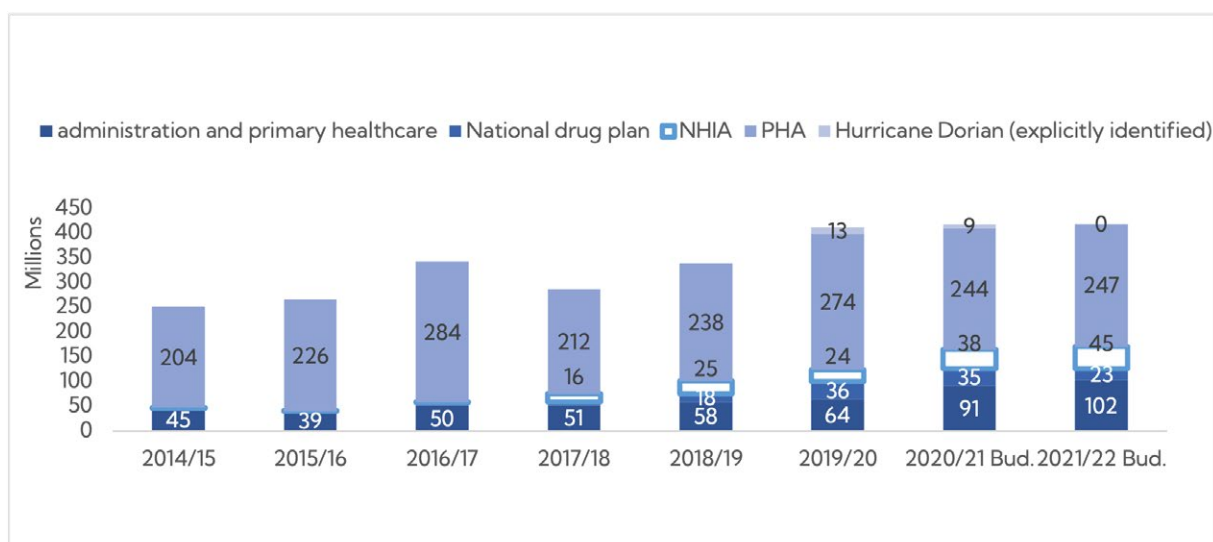
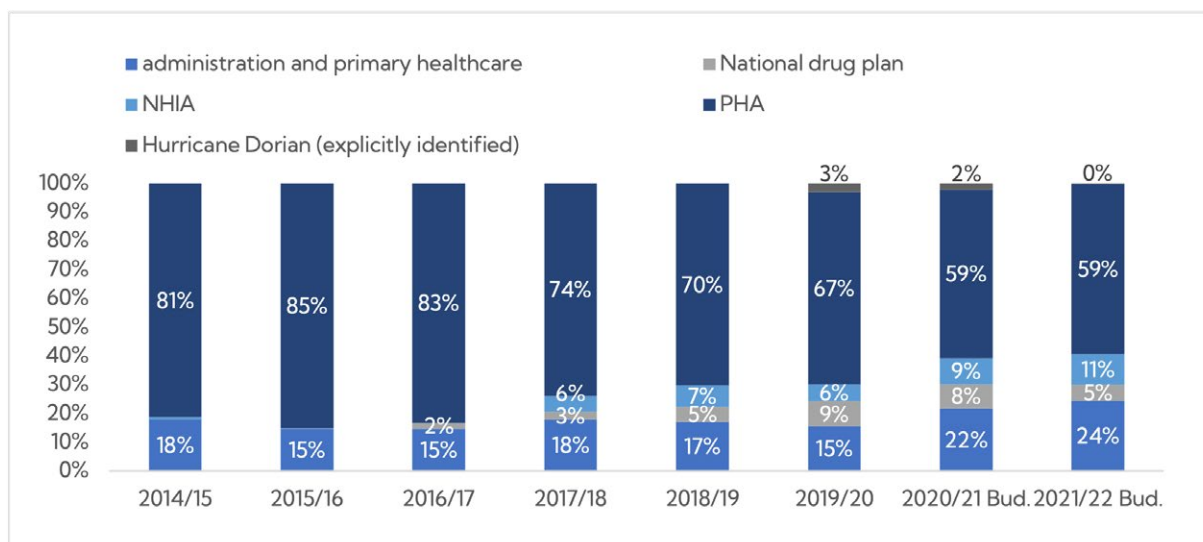
Hospital share of total health spend is towards the high end relative to comparators. Despite the introduction and expansion of various policies at the primary care level, including a drugs subsidy and national health insurance, 70% of 2018/19 actual expenditure in the sector (excluding environmental health, which includes a variety of community amenities including refuse collection, and health and safety services not usually classified as healthcare) went to PHA, and 67% the following year. In 2016/17, the same ratio was 93%. In Barbados in 2018/19, which is similarly dependent on a large hospital, the equivalent ratio was 65%⁸⁷; moreover, the hospital provides and finances island-wide diagnostics there. This isn't the case in The Bahamas, where the private sector is more involved in diagnostics, although PHA provides some school and community health services. WHO data shows that primary healthcare spending share in 2016 was still higher than Barbados in Trinidad and Tobago, and in St Kitts and Nevis. So even among small Caribbean states, and even after recent increases in the primary healthcare share, the hospital bias in The Bahamas is particularly high. Hospital inpatient unit costs, measured in 2016, were higher than the regional high income comparators (the CHISS grouping) but roughly in the middle of the OECD grouping⁸⁸. As the graph shows below, Hurricane Dorian, COVID-19 and other primary care expenses have resulted in a (possibly temporary) reduction in the PHA share of health spend. Withstanding this tertiary spend remains more than half of total health spend.

87 IDB PER 2019.

88 Moses, MHS & Pedroza, Paola & Baral, Ranju & Bloom, Sabina & Brown, Jonathan & Chapin, Abby & Compton, Kelly & Eldrenkamp, Erika & Fullman, Nancy & Mumford, John & Nandakumar, Vishnu & Rosettie, Katherine & Sadat, Nafis & Shonka, Tom & Flaxman, Abraham & Vos, Theo & Murray, Chris & Weaver, Marcia. (2018). Funding and services needed to achieve universal health coverage: applications of global, regional, and national estimates of utilisation of outpatient visits and inpatient admissions from 1990 to 2016, and unit costs from 1995 to 2016. The Lancet Public Health. 4. 101016/S2468-2667(18)30213-5.

Focus Areas cont'd

Figure 45: Share of expenditure in the health sector

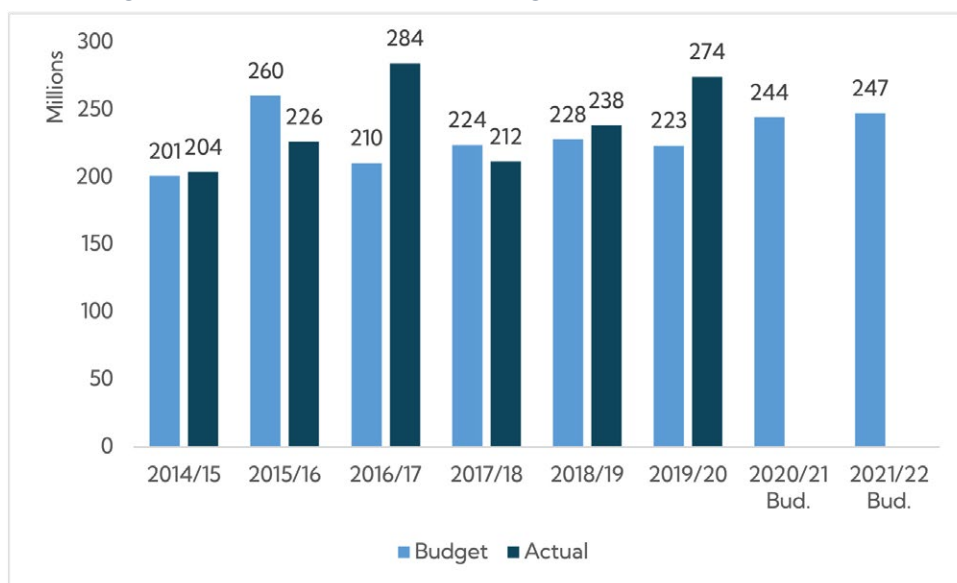


Source: MoF. Actual expenditures prior to 2020/21. The National Drugs Plan transfer in 2019/20 includes an arrears payment.

Focus Areas cont'd

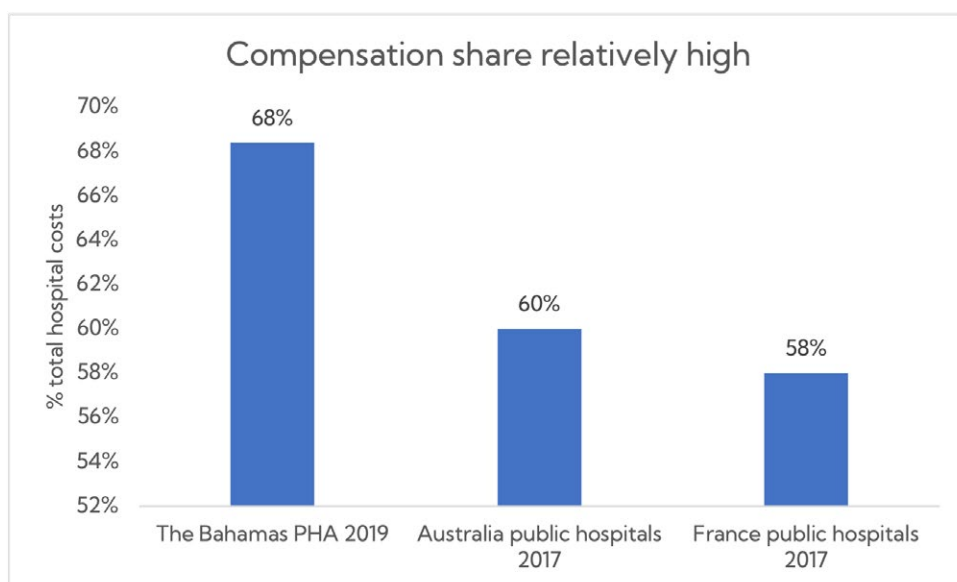
PHA often receives extra settlements relative to the draft budget. The average over-execution was 6% in the period measured below. PHA have received over a billion dollars since the last set of financial statements was made public.

Figure 46: PHA actuals and budgeted transfers, \$ millions



Source: MoF data and budget books. Note: PwC record two different figures for subventions in 2016.

Figure 47: Compensation as a share of total hospital costs



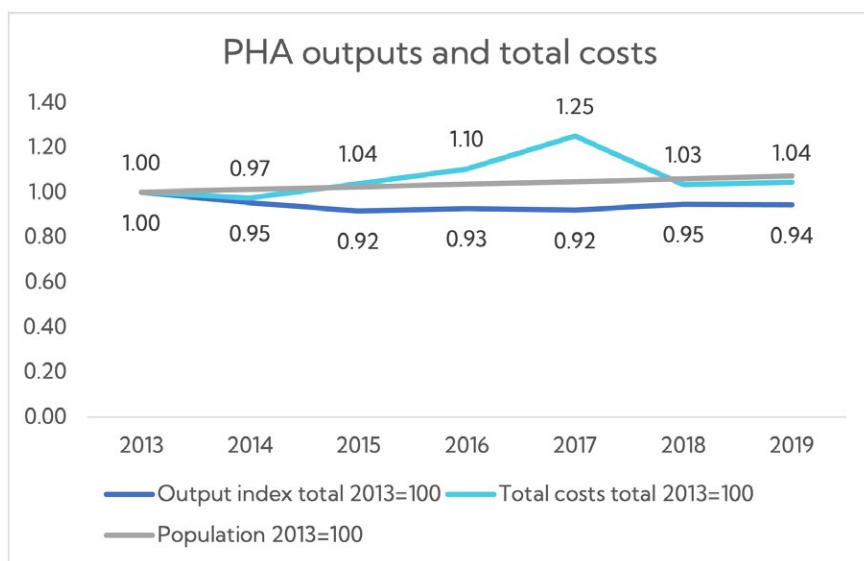
Sources: Robinson 2020, PwC 2020.

Tertiary healthcare efficiency is questionable. The number of tertiary health staff across the two main sites, 3,986 in 2019⁸⁹, is almost double that of Barbados (2,100 at Queen Elizabeth's Hospital). Barbados has around one-third fewer people, but fewer private sector options and more distant international alternatives. Allowances and hours (reported in the PwC report as of 2019) seem exceedingly generous – as with NIB, PHA employees are paid in excess of government equivalents, as both allowances and salaries have risen dramatically in recent years. The share of compensation in hospital costs is higher than in other high-income-country systems which provide a comparison (graph below).

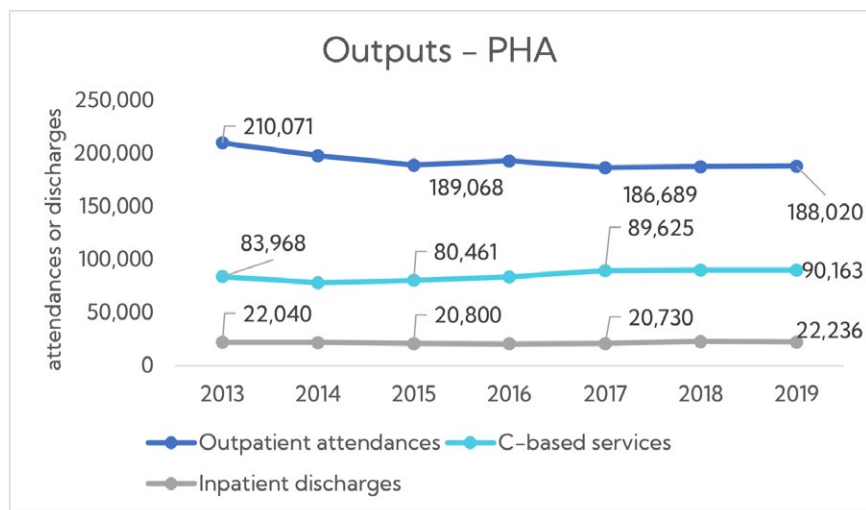
Focus Areas cont'd

Average length of stay in hospital (6.6 nights in 2019) is similar to regional comparators but is still higher than in 13 OECD countries. However other OECD countries have a more extensive range of out-of-hospital options and less geographic dispersion to contend with. The blue line on the following graph (the upper graph) is a little speculative as the output index assumes that cost ratios from UK hospitals apply to the relative cost of community outpatient and inpatient work in The Bahamas. The

output index is based on UK ratios used by the UK government to estimate their costs in 2020, where an inpatient discharge is roughly 11 times as expensive as community-based care and roughly four times as expensive as outpatient care. **However, the cost and population lines are less speculative and are data-based, from PwC and the census projections. Overall, the amount of work done (lower graph) is roughly stagnant in absolute terms – the amount of output is falling per capita-, so 2013 patterns of inequitable access are likely to have persisted.**



Sources: calculations based on PwC 2020 and Unit costs of social and health care 2020 UK, <https://www.pssru.ac.uk/pub/uc/uc2020/1-services.pdf>.



Source: PwC. C is for community.

 Focus Areas cont'd

The exact nature and cost incidence of the private-public partnership in the main hospital is unclear as cost-sharing and cross-subsidy is opaque in a system where many invoices are not paid. The unit is relatively small; the largest cost is likely to be lost revenue from the agreement combined with unpriced PHA services (less than half of services are priced), so that the PPP is heavily subsidised by cost-shifting to the public provision in the hospitals⁹⁰.

NHIA

More than 100,000 subscribers have registered for NHIA, but it is unknown how many are in exempt categories (which include children and the old). As of 29th September 2021, several islands have no additional places for general practitioner registration⁹¹, suggesting that the government subsidy of around \$45 million annually is insufficient – the head of the NHIA suggested last year suggested costs of \$130 million annually for the exempt alone, but the current 2021/22 budget is just \$45 million, having almost doubled over the past two years. It is also unclear whether a credible harmonized fee and capitation schedule has been introduced, or whether the effects of possible NHIA extension on subventions in the future have been articulated fully. The introduction date for NHIA subscription payments is also unknown.

Options for financing NHIA currently under consideration appear to be regressive. Admittedly, countries such as the United Kingdom introduced (in 1912) a national insurance system with a head tax (a fixed per-person payment), which similar to what is being proposed in The Bahamas⁹². The system in most high-income countries has since transitioned to a payment schedule where the amount payable is charged proportionate to income, with no upper limit to health and social insurance contributions in many countries, and a lower earnings limit set above the national poverty line. The current proposals resemble a 'head tax' which is the same amount of \$1,000 annually (if the employer contribution is included⁹³) whether earnings are \$5,000 (well below the "indigent" line used by the Department of Social Services, albeit above the 2013 poverty line) or \$100,000 annually.

Regardless of the method of financing, NHI financing with broad exemptions (which require an estimated \$130 million subsidy⁹⁴) may not provide sufficient financing for all additional primary care demand⁹⁵. Similarly many other Bahamian policies (housing support, for example) the income threshold in the proposal and the total payment are not indexed, unlike NIB, instead being a political decision⁹⁶. Moreover, the proposal made in the latest public document (January 2019) introduces

90 This paragraph is drawn from the PwC report.

91 <https://t.co/Nq9Qzts27q?amp=1>

92 Jan 2019 https://www.nhibahamas.gov.bs/wp-content/uploads/NHI_Public_Consultation_Paper.pdf

93 The split between employer and employee contributions in terms of their effective incidence has been shown to be illusory over the long run in other national insurance programs.

94 <https://ewnews.com/dr-roberts-clarifies-cost-of-new-policy-proposal-to-fund-nhi>

95 No costing was available.

96 WSC have not had a rate adjustment during this millennium, with predictable results for solvency and reliance on government subsidy.

Focus Areas cont'd

a series of cut-offs for contributions to apply, which heavily incentivise short-term contracting and incentivise business configurations that reduce wage income security. In general, binary exemption cut-offs are risky. There is currently little information available to the review around the running of the fund; how many might realistically be exempt; billing rejection rates; unit costs; whether the remaining contributions are sufficient for the package of services offered; or why rationing is effectively taking place on some islands.

NHI does not yet cover catastrophic care nor even pregnancy in a hospital; that said, supervised deliveries are already almost universal in The Bahamas⁹⁷. The tertiary system is essentially subsidised by government which makes up the shortfall for widespread non-payment of PHA fees, and exemptions for civil servants, the young, and the old. Bed counts for mental health and ordinary purposes are in line with comparators – recent announcements to build more tertiary capacity will bring The Bahamas up to the regional average for regular bed density per capita – although as for Barbados, mental health beds per 100,000 tend to be on the high side perhaps reflecting the lack of outpatient and community care.

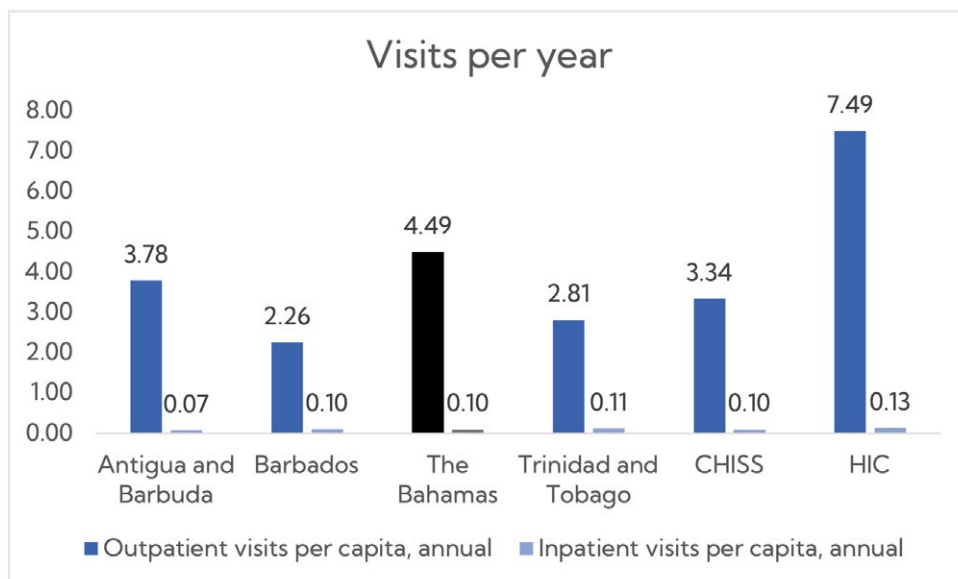
Hospital access was, when last measured, highly regressive. Adjusted for household size, top-quintile residents in 2013 were more than 13 times more likely to attend an outpatient facility in the previous month than bottom quintile residents⁹⁸. Some of this might be because affluent households tend to be older, but this is unlikely to fully explain such a large discrepancy. Total PHA visits were 0.95 per capita in 2019. Potentially contrasting evidence suggests that health-system-wide access appears high; a 2019 study in the Lancet shows relatively high levels of hospital visits per person in 2016 compared to the rest of the region (graph below), although average HIC residents still visit more often. It might be possible that inequality and high utilisation co-exist.

⁹⁷ WHO

⁹⁸ Household income and expenditure survey

Focus Areas cont'd

Figure 48: Annual healthcare visits in 2016



Source: GHDx/the Lancet 2019⁹⁹. CHISS and HIC illustrates the average (mean).

Equity of the drugs plan, PHA and NHIA exemptions is doubtful. Drugs plans coverage are universal for the old as well as children, it is likely that many older people and families who could pay for drugs or subscribe to the NIB are in the system for free (the over-65 poverty rate at 5% was the lowest of any age group in 2013), while those who cannot afford to pay may not be in the system. Previous programmes such as Medcard were also not effectively targeted at the poor. The same applies for children. The binding constraint to reform in health and in social protection is the lack of a system to efficiently identify the poorest for support; it is possible that development of NHIA could create a single test of income as a basis for other government support which is more appropriate than DoSS/MoSS, which offers only a binary test of indigence.

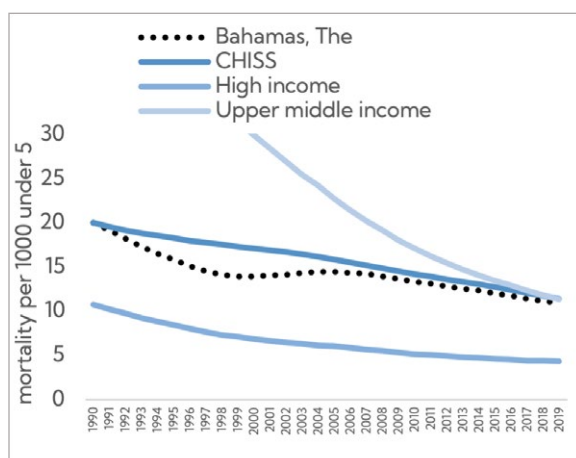
Delayed care and a lack of preventative or primary healthcare investments in the past could contribute to low life expectancy, low healthy life expectancy, and high obesity rates. Diabetes rates are middling, and HIV rates are fairly high but falling. Outcomes depicted below show that while infant mortality is lower than in other CHISS countries, it is considerably higher than the HIC average. Life expectancy is the third lowest of any high income country after the Seychelles and Trinidad and Tobago, and it is considerably lower even than the upper middle income average. Moreover, healthy life expectancy is lower than in Trinidad and Tobago.

Focus Areas cont'd

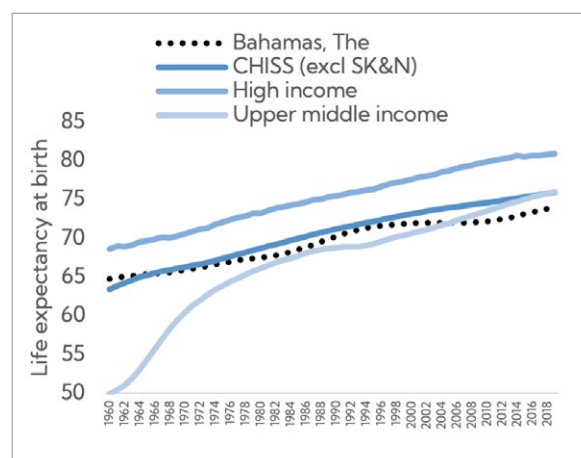
Figure 49: Selected health outcomes and inputs

Health outcomes

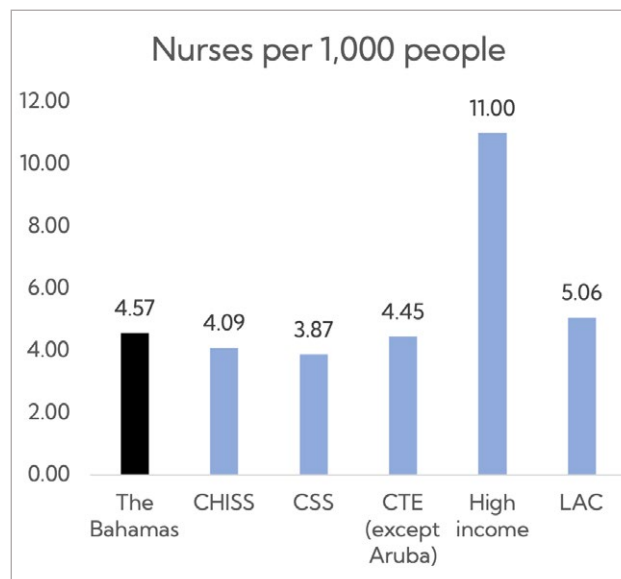
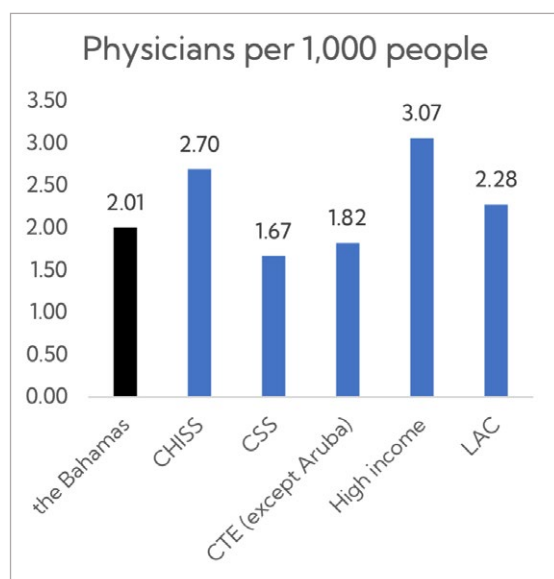
The **infant mortality rate** in The Bahamas is high relative to income level, but in line with average regional comparators.



Life expectancy is a key concern, two years below the UMIC group of countries in 2019. Recent primary care financing may have begun to address the gap.

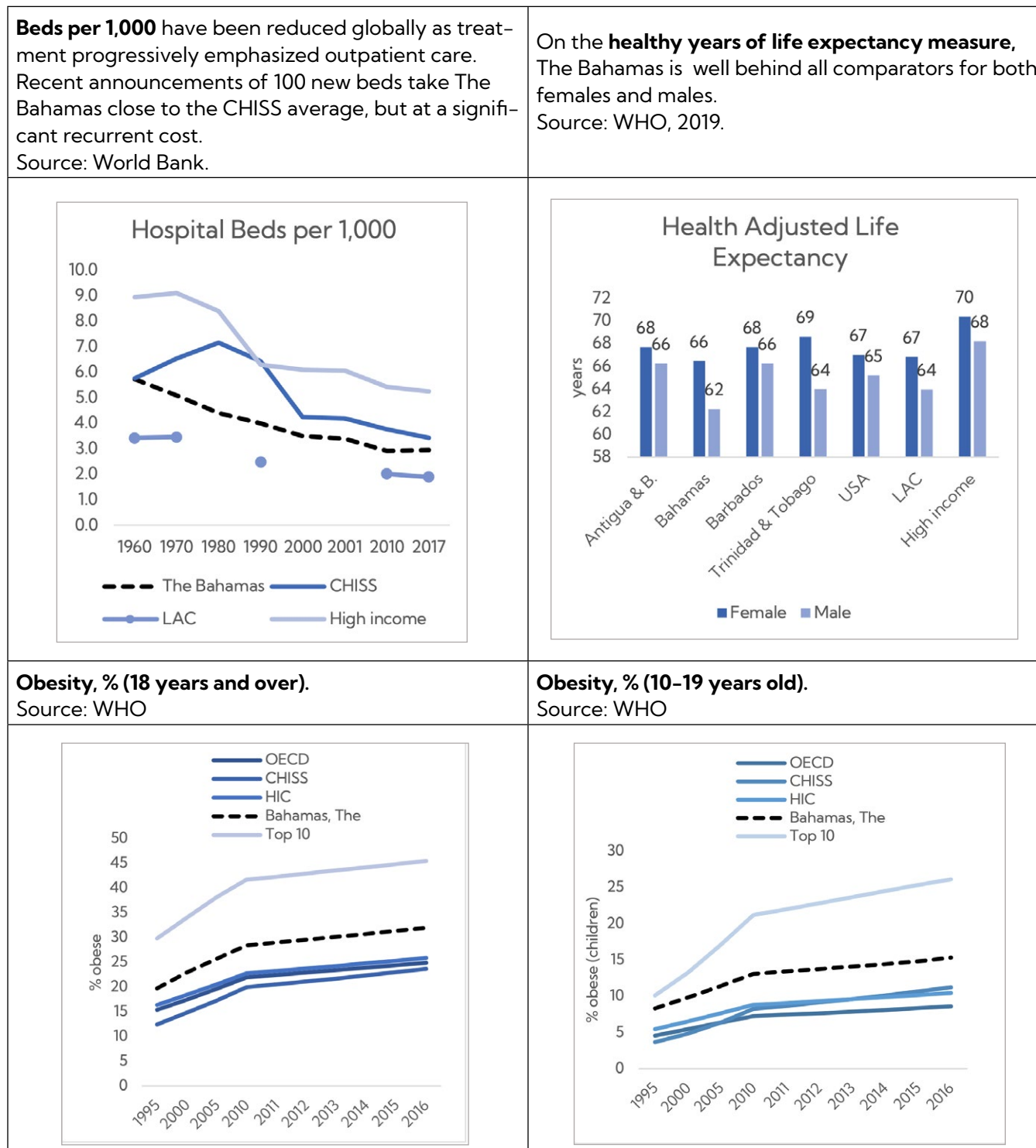


Physicians and nurse density. Source: World Bank. PHA nurses account for around three-fifths of nurse counts.



Focus Areas cont'd

Figure 49: Selected health outcomes and inputs cont'd



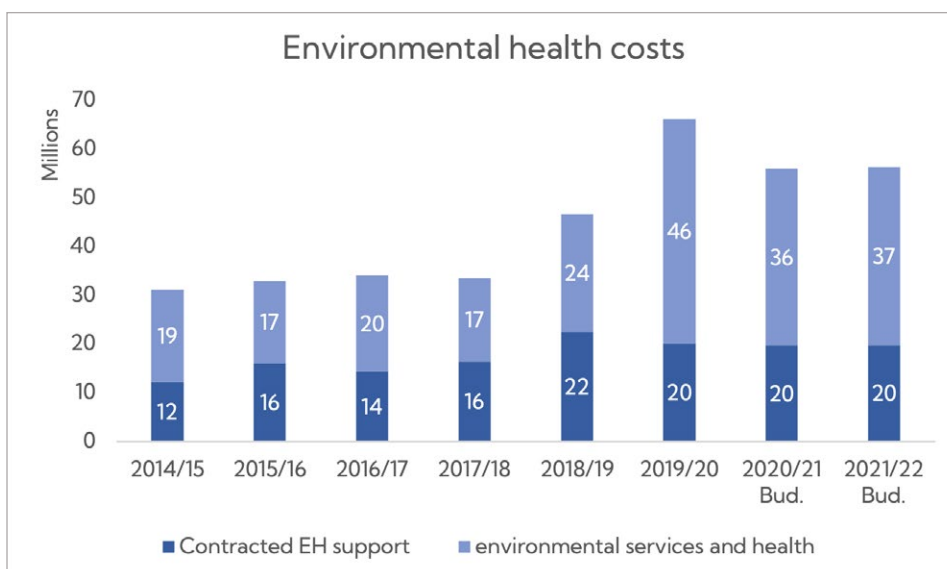
Note: St Kitts and Nevis does not regularly report life expectancy.

Focus Areas cont'd

Other spend

While not health spending strictly speaking, the Department of Environmental Health has seen increasing costs, particularly related to the Dorian clean-up and reconstruction. In many countries, there is direct cost recovery for some of the services (including household refuse) provided by this department. Total costs in 2021/22 were 80% higher than in 2014/15.

Figure 50: Department of environmental health costs



4.3.3 Social protection and related services

The main findings are that:

- » **Social protection spending as a share of GDP is low relative to the region, and relative to other high income countries.** This is partly, but not fully, explained by relatively high labour participation, and a relatively low share of older people.
- » **Coverage appears high for the aged, while NIB contributory and non-contributory replacement rates appear low relative to comparators. Coverage for the unemployed is more limited, at around three-fifths of jobseekers in 2017. No government-provided benefit in isolation brings claimants above the 'indigence' line;** but the indigence line is relatively high compared with average per-person income reported in the LFS and global poverty lines; and some benefits such as unemployment insurance are expected to cover recipients for less than a year.
- » **Both NIB and central government administration costs are very high relative to government managed funds.** Salaries and ben-

Focus Areas cont'd

efits for MoSS and DoSS civil servants costs totalled \$19.6 million in 2019/20¹⁰⁰, compared to \$1.3 million of central government grants to individuals and food assistance, plus \$3.5 million in social grants. The central government support to individuals prior to COVID-19 had fallen from \$2.8 million in 2015/16. DoSS and MoSS play a role in identifying the poor. The regional benchmark of around 5% for NIBs' administration costs as a percentage of recipient payments (which is still high relative to many countries' systems), is 19% in The Bahamas.

- » **Much of the administration has started to be digitised, but at present for individuals, this is just a case of sending the paper form by email.** 2013 recommendations to increase the contribution rate (currently 9.8% total for the employed) have not been adopted.
- » **Despite high administration costs and many cases against non-payment and false claims, many large companies continue to pay NIB contributions late according to media reports.** Among the self-employed, there appears to be widespread non-payment. Average implied insurable gross income per self-employed person is only \$2,850 annually based on contributions reported by NIB and the LFS count in 2017. This suggests that non-payment or average underpayment could be in the order of three- to four-fifths of the self-employed population.
- » **Until COVID-19, social assistance grants were among the lowest in the world as a share of GDP, totalling around 0.3%.** Other than the DoSS and MoSS wage bill, spending on non-transfer social services is virtually absent. However, COVID-19 has occasioned a considerable new program of unemployment assistance.
- » **Complementary labour market measures and housing are also sparsely funded.**

Detailed analysis

In normal (non-COVID) years, overall spending as a share of GDP on social protection are low in The Bahamas (graph below). COVID-19 has more-than-doubled social assistance (non-contributory support to households) on a temporary basis. Social protection transfers to individuals comprise of social benefits, predicated on prior defined contributions, and social assistance, which isn't based on contributions.

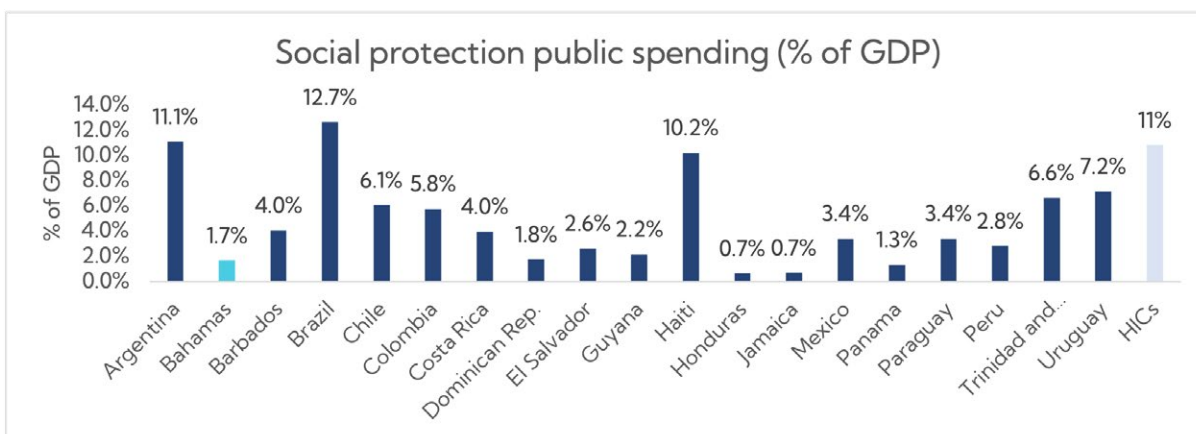
100

Even if subtracting \$3 million for the national drugs plan administration.

Focus Areas cont'd

In 2017, The Bahamas spent almost nine times as much on non-contributory social transfers as contributory social transfers. This means the system has limited redistributive potential. Given that the recent education growth emphasis and baseline health spending focus is on tertiary provision, which appear to provide more for the upper income quintiles; and given the emphasis on indirect taxation (consumption taxes), this combines to provide a fiscal offer that does less than in many countries to support the poor and the near-poor.

Figure 51: LAC, HIC and The Bahamas: social protection as a share of GDP, pre-COVID-19

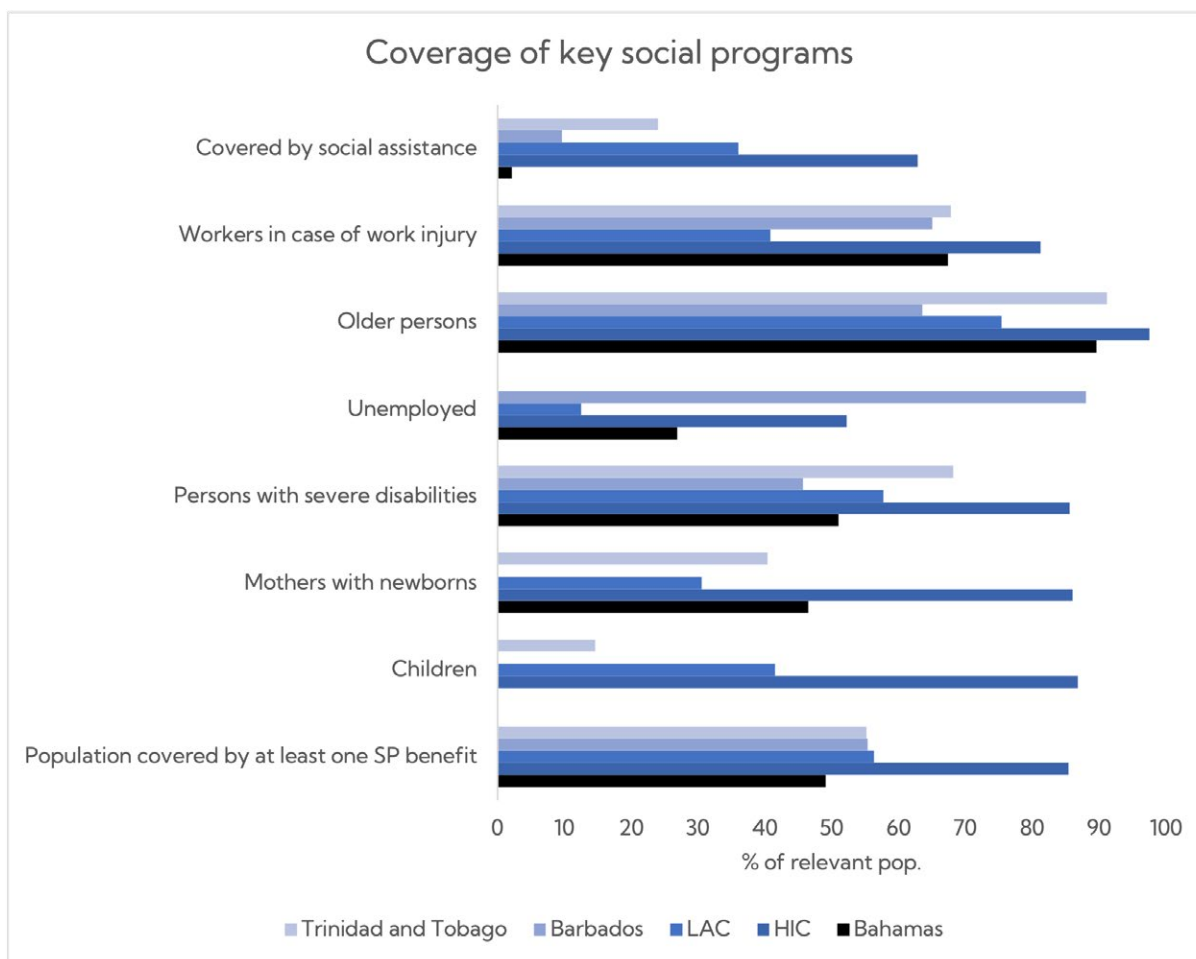


Source: WSPR 2020-22

In normal years, by ILO's reckoning, **coverage is particularly limited for children (there is no child assistance), the severely disabled, and the unemployed.** However, measures of unemployment coverage using the available LFS and NIS data in 2017 suggest 57% coverage (still less than many countries), and not the 27% that ILO record in the below graph. ILO estimates of old-age coverage are lower than calculations for this review and calculations in a recent IDB analysis¹⁰¹, which estimate coverage at 100%.

Focus Areas cont'd

Figure 52: Social protection coverage in context, ILO (% coverage)



Source: WSPR 2020–22. Note: social assistance coverage is not measured by ILO for several CHISS countries, and NIS maternity benefits are not measured for Barbados.

NIB is by far the largest provider of social transfers in The Bahamas, and social transfers are heavily geared towards contributory and old-age services. Many high-income countries¹⁰² use contributory-only working age social transfer systems, but mixed systems might be fairer, particularly given unstable working patterns, and are arguably readier for adaptation in the face of whole-of-economy crises such as COVID-19¹⁰³. Indeed, The Bahamas improvised unemployment assistance for some industries following April 2020, at a cumulative cost of \$204 million by September 2021, mostly paid from NIB reserves (this amount is not shown on graphs below). The graph below shows that social transfer assistance programs¹⁰⁴ total just 10% of the value of transfers to individuals in 2017 (which is the most recent year of NIB reporting available).

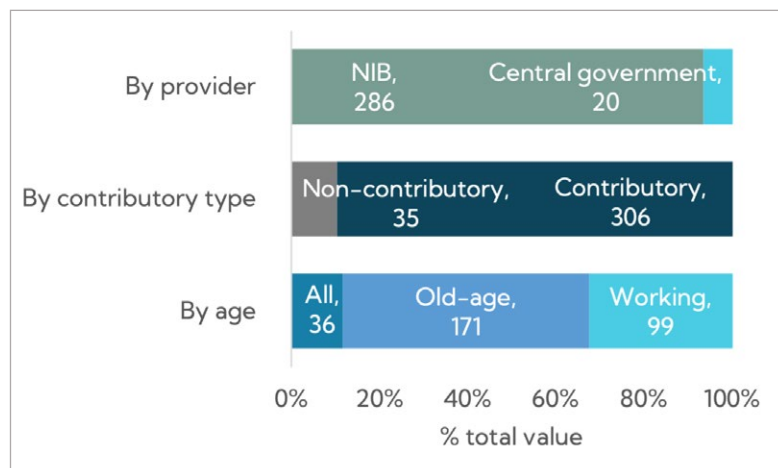
102 <https://www.oecd.org/els/soc/recipients-socr-by-country.htm#Trend>

103 The Gentilini et al/World Bank series of papers (2021) on the COVID-19 social protection responses worldwide stresses existing services – not digitization – as key to the ability to add additional forms of social protection.

104 Food assistance, foster care, school uniform assistance, social assistance, subsistence (central government); invalidity assistance, OANCP (NIB).

Focus Areas cont'd

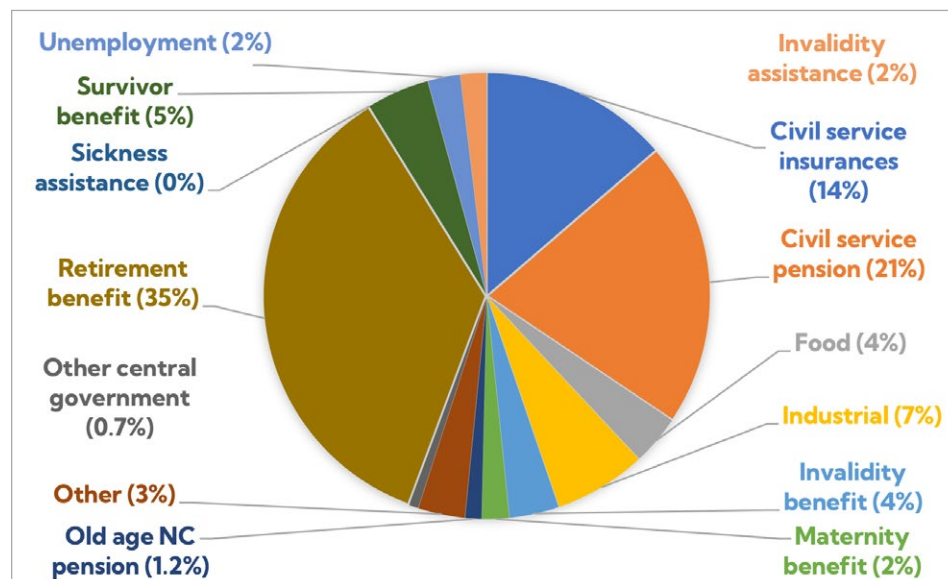
Figure 53: Division of social transfers to individuals by provider, age and contribution category, 2017



Note: excludes school feeding and civil servant pensions. 2017/18 budget actuals for central government. The all-age category includes food assistance and other support where age is not a condition. Source: NIS 2017, MoF data on expenditures for 2017/18.

Civil service pensions (which are not strictly speaking social transfers, and not included unless indicated in the rest of this review) help to cross-subsidise NIB, as civil servants are not entitled to claim from NIB based on their contributions. Their relative size compared to 'true' social transfers is shown below.

Figure 54: 2017 spending including pensions and insurance for civil servants



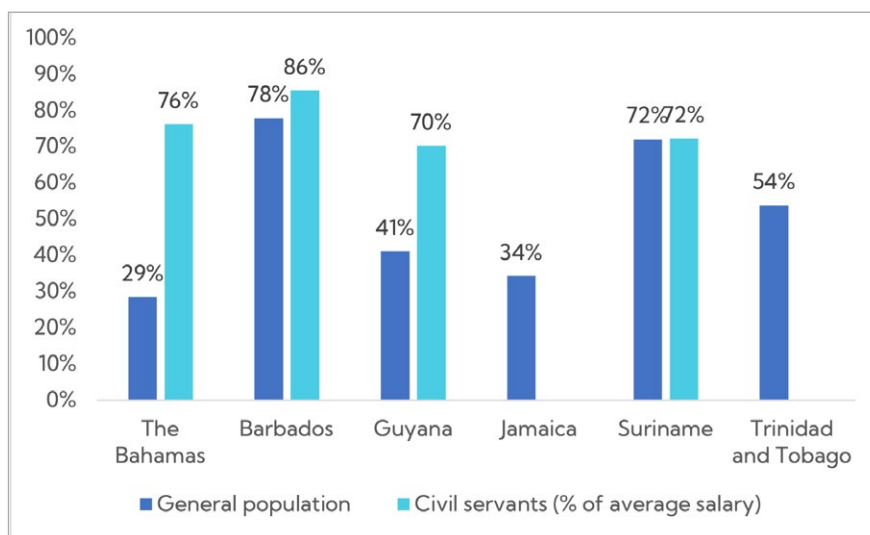
Note: NC= non-contributory. Source: 2017/18 actual spend (MoF) and NIB 2017.

Focus Areas cont'd

Civil service pensions are more generous than the wider NIB schemes. This is true in many countries, and is particularly so in The Bahamas. The graph below shows 2017 for The Bahamas as well as recent comparator country figures; there is a larger disparity between civil servant pensions and those of the rest of the population, insured via NIB. Recent government reforms announced in November 2021 could have deepened this disparity. The headline NIB rate is 60% of average income. Some of this disparity is due to the relatively low NIB insurable income thresholds in The Bahamas, particularly prior to reforms from 2010 to 2014. Insurable thresholds remain well below Barbados when compared to per-capita GDP. The civil servant pensions scheme is based on between 0 and 2/3rds of the final salary after 40 years' service¹⁰⁵ while the NIB scheme is based on 15% up to 60% of the average insured salary, with the 60% rate reached after 40 years of contributions. NIB is also a fairly recently established fund; it was 43 years old as of 1974, so few 2017 recipients could have a full contributions history.

The NIB system requires at least ten years of work, with social assistance for those below that limit and "needy", a status which is often not granted to prospective claimants, discussed below. Caregiving and child raising is not credited, however women newly receiving an NIB pension have an estimated replacement rate (as a share of their final salary) of 27% compared to 21% for men, possibly due to the low threshold on insurable earnings and higher relative male earnings. Both of these rates are very low (graph below) and comparisons to the OECD do not flatter The Bahamas; every system appears more generous in old age than the NIB.

Figure 55: replacement rates for pensions, % of average salary

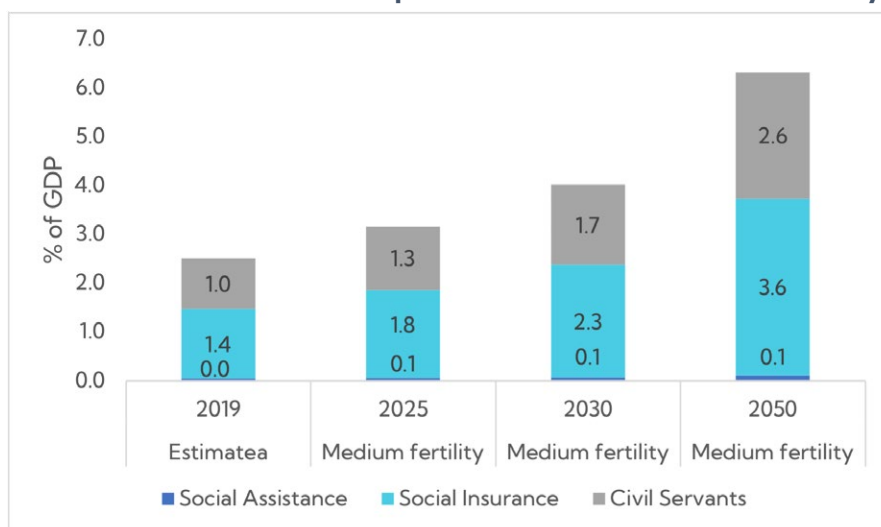


Source: IDB 2020.

Focus Areas cont'd

Costs of old-age pension provision are set to rise significantly in future years to around 6.3% of GDP by 2050, but from a lower base than comparator countries. Social assistance is so small that the increase barely registers. November 2021 changes will accelerate this trend (the below graph is taken from IDB 2021).

Figure 56: Estimated increases in pensions costs as a share of GDP by 2050



Source: IDB 2021, Economic institutions for a Resilient Caribbean

 Focus Areas cont'd

Overview of social transfers

The following table summarizes the support available.

Figure 57: Social transfers. Non-contributory in gray.

					Relative to 2018/19 actual	
Program	Direct cost, million (year)	Beneficiaries (year)	Coverage/need (non-COVID)	Unit direct cost, \$ annual (year)	Response in 2019/20, \$ million, budget	Response in 2020/21, \$ million, budget
Central government						
Food assistance	14.3 (2018/19)	–	5,875 (assumed all Household Survey under \$10,000 income in May 2019) ¹⁰⁶	\$2,442 per household (2018/19) ¹⁰⁷	+1.7	+29.6 ¹⁰⁸
Social assistance	0.12	–	–		0.15	–0.12
Foster care benefit	0.64 (2018/19)	–	–	–	–0.17	1.92
School uniform assistance	0.26 (2018/19)	–	–	–	0.12	1.70
Special needs child benefit	0.22 (2018/19)	–	–	–	–0.05	0.11
Support of persons	1.99 (2018/19)	–	–	–	2.85	4.10
Back to work VAT credit	40	2,500 (2021/22)		Up to \$16,000	–	–
Job retention	–	–	–	–	21	23
Civil service pension	97	–	Central C.S.	– ¹⁰⁹	–1.1	8.9
Civil service insurances	64	–	Central C.S.	–	–	–
NIB						
Non-contributory unemployment assistance (NIS)	Normally zero	Normally zero	–	–	(10 spent by NIB)	+118 (C.G.) ¹¹⁰ (165 total by NIB)
Unemployment benefit	11.0	5,737 (2017)	57% of unem- ployed in 2017 (LFS, NIS) ¹¹¹	\$1,916 (2017)	n/a	n/a
Maternity benefit	7.8	2,501	134% of births ¹¹²	\$3,124	–	–
Maternity grant	1.5	2,946		\$498	–	–
Funeral	3.2	1,697	79% of deaths	\$1,879		
Sickness assistance	0.0		–	–	–	–

¹⁰⁶ Note that the level of need is debatable. \$10,000 has been cited as a cut-off for indigence. IDB 2020 (<https://flagships.iadb.org/en/caribbean-region-quarterly-bulletin-2020-q2/the-bahamas>) estimated that one-quarter of the population are vulnerable to poverty. At the peak of the COVID crisis, more than half of households (57,000) registered for food assistance and 18,000 households still required it in 2021. <http://www.tribune242.com/news/2021/oct/04/open-letter-food-aid/>

¹⁰⁷ unknown if food assistance budget line includes indirect costs

¹⁰⁸ As of end March 2021, 2021/22 budget communication. FSR 2021 total is 40 for 2020/21.

¹⁰⁹ Replacement rate estimated at 76%; IDB 2021.

¹¹⁰ As of end March 2021, 2021/22 budget communication. Other communications suggest this includes additional unemployment benefit, and that cumulative spend on unemployment assistance was around \$100 million as of August 2021: <https://ewnews.com/support-pending-govt-undecided-on-whether-to-extend-unemployment-benefits-program-past-sept-says-brensil-rolle-minister-of-national-insurance-board-nib>

¹¹¹ Note NIS is at peak season (December) while the LFS is in May 2017.

¹¹² Vital statistics.

Focus Areas cont'd

Program	Direct cost, million (year)	Beneficiaries (year)	Coverage/need (non-COVID)	Unit direct cost, \$ annual (year)	Relative to 2018/19 actual	
					Response in 2019/20, \$ million, budget	Response in 2020/21, \$ million, budget
Non-contributory pension	5.5	1,584	6% (of 2017 LFS pop. Est.)	\$3,485	–	–
Contributory pension	165.7	25,669	100% (of 2017 LFS pop. Est.)	\$6,453	–	–
Disablement Benefits and Grants	8.4	1,020	–	8,277	–	–
Invalidity benefit	16.9	2,834	–	5,956	–	–
Invalidity assistance	8.9	2,628	–	3,393	–	–
Survivor benefit	20.6	5,519	–	3,726	–	–
Survivors assistance	0.8	264	–	2,951	–	–
Medical care	18.7	3,297	–	5,673	–	–
Injury	4.3	2,062	–	2,072	–	–
Industrial death	0.3	50	–	5,700	–	–

Note: the school lunch benefit has been included in education spending. It cost \$4.3 million in 2019/20. Indirect cost share and other details unknown. NIB grants and assistance are often contributory at a lower threshold. Sources include vital statistics, NIS 2017, budget estimates, budget communications, the 2021 FSR for the Unemployment assistance figure.

Complementary services

In addition to the above, **housing assistances and availability** are fully described in a 2016 IDB report (The State of Social Housing in Six Caribbean Countries), which found that mortgage assistance sufficient to buy or renovate a small house was not possible to be taken up by the poorest quintile, and that provision (the beneficiary count) of housing-related subsidies and direct support was well below need; need for housing support was estimated at around 20% of households.

Figure 22: Share and evolution of level-identifiable expenditure within the sector above bears out the lower share of GDP spent on government support for housing and community amenities in 2019 than in 2005. However, it is possible that some environmental health services would be better classified there than under the health sector¹¹³.

NIB

Outside of COVID-19, NIB provides a tiny non-contributory or assistance support for those they deem the poorest, alongside a more substantial contributory scheme. Many of the 'grants' in the NIB schedule are in fact contributory. The Bahamas has little in the way of cash-based child-centred or family support, and very limited support for foster care. Some support for care seems to flow through the justice system, whereas other countries might have a more generous social safety net prior to institutionalisation within the justice system.

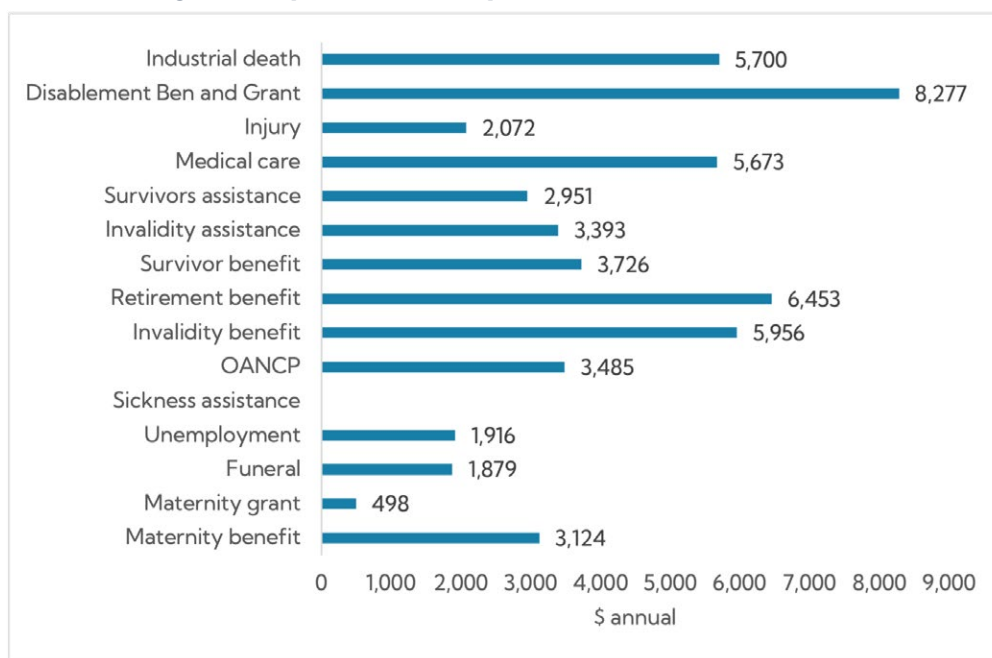
Focus Areas cont'd

In share-of-GDP terms, total payments from NIB (\$286 million in 2017) are small: around half the size of the Barbados equivalent in absolute terms and less than one-fifth the size in 2017 GDP terms. NI contribution rates are around half as high, at a 9.8% combined employee and employer rate¹¹⁴. A 2013 Actuarial Review conducted with ILO estimated that **13.6% was the bare minimum contribution rate required to sustain NIB**; rates that ensured non-exhaustion of the fund by 2088 were around 5 percentage points above 13.6%.

Pension insurable thresholds are higher in dollar terms for The Bahamas than Barbados, but not as a share of GDP per capita. As for Barbados, maternity support is for contributors and contributors' spouses only. This de facto does not cover many of the self-employed.

The following graph summarizes known NIB unit costs in 2017. Note that no social benefit or social assistance would fully insure an indigent person on average on its own, which would require \$10,920 annually. The number of beneficiaries for complementary policies managed by the central government, including food assistance, is not known. The pre-crisis unemployment benefit, even if it lasted for only 26 weeks, is surprisingly low.

Figure 58: per beneficiary annual unit costs, NIB 2017



Source: NIS 2017. Notes: Excludes admin. costs. "Ben" is short for benefit. Assistances such as the survivor assistances remain conditional on contributions and are not internationally regarded as social assistance, which is non-contributory, instead being classified internationally as social benefits. OANCP is the Old Age Non-contributory pension. Sickness assistance is not reported.

Focus Areas cont'd

The state subsidy for NIB comes in several forms; contributions from civil servants total \$36.4 million, but new civil servant pensioners (post-2013) are compensated on a pay-as-you-go system for most social insurance-type benefits. The NIB also rents a capital value of \$194 million¹¹⁵ to government as office space and civil servant dormitories. During the crisis, the central government budgeted \$30 million for extra unemployment assistance over the years 2020/21 and 2021/22, having provided no sizeable assistance system prior (except for the civil servant NI payment to NIB), with a larger support for food assistance.

A 2017 IDB pensions report¹¹⁶ concluded that long qualifying periods to claim pensions in LAC, disadvantage the intermittently employed, including women. This risk appears to be lessened in The Bahamas by a relatively small minimum number of pension contributions¹¹⁷, but not for unemployment insurance. The implicit subsidy rate for a full contributor in The Bahamas is estimated to be positive – in contrast to Barbados, where the subsidy rate is negative (ie contributors are taxed in order to cross-subsidise others)¹¹⁸. But this means that, even before any debt restructuring, the current pension system is untenable without significant subsidy in the long run. Maximum NIB replacement rates are in the middle of the LAC group, at up to 60% of insurable wages for pensions with 40 years of contributions. However, as discussed elsewhere, actual adequacy is low.

As a share of contributions, the administrative share of expenditure in NIB is almost two times higher than for Barbados¹¹⁹ NIS and four times higher than Trinidad and Tobago's NIS¹²⁰, which is around 5%. The Bahamas' NIB manages relatively simple range of services and far smaller scale of spend than Barbados. Administrative costs have barely fallen as a share of contributions since 2001 despite new technology and a larger Bahamian economy, which could have reduced and diluted administrative costs.

Administrative expenses absorbed \$4 million more than the entirety of investment income in 2016. **There is one member of NIB staff for every 65 recipients and every 285 contributors, which is inefficient, and should be unnecessary with increasing digitization.** A generous 2016 pay agreement pushed 2017 total NIB administrative expenses above \$80,000 per employee which includes pay and other benefits of \$64,000 average per employee (\$183 per contributor and recipient when combined), outstripping central government rates for similar work. For reference, the Auditor General's base pay was around \$65,000 in 2016, and a secondary head teacher earned around \$54,000 base pay in the top grade; even factoring in central government insurance and pension

115

2017 figure.

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Montoya et al.

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Montoya et al Figure 9. The unemployment system is not so generous, requiring at least 50% work engagement over the past year.

118

Montoya et al Figure 8

119

2017 Actuarial report: <https://www.nis.gov.bb/legislation/200067-16th-a-review-03/>

120

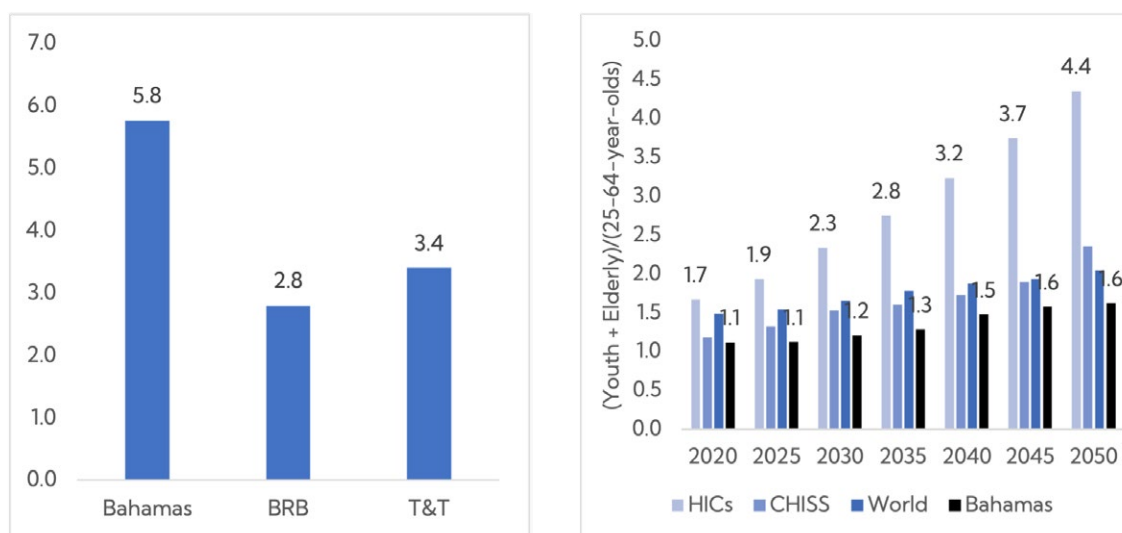
2015/16 Actuarial report: https://www.nibtt.net/Actuarial_Review/10th_actuarialreview.html

Focus Areas cont'd

benefits¹²¹ at around 31% of base pay¹²², NIB compensation appears high.

The beneficiary: contributor ratio is low relative to two other schemes in the region (graph below). Demographic pressure is rising, but is set to be less pronounced in The Bahamas than in comparators.

Figure 59: Contributor/Beneficiary ratios (left) and old and young combined ratio to 25–64 year olds (right)



Sources: Actuarial reviews and annual reports and UN WPP. Bahamas and Barbados figures for 2017, Trinidad and Tobago for 2020.

Measures of adequacy of pensions present a mixed picture. For various reasons, including healthcare charge exemptions, household costs decrease in retirement¹²³, and by sharing household costs, poverty can be avoided. The OECD average rate of over-65 income to national average income per person is 87% while the least-generous country, South Korea, allocates 65%¹²⁴. The figure for The Bahamas is 56% in 2017. However, similar to many high-income countries, 35% of over-65s work¹²⁵ and many over-65s receive private pensions, support from other household members or other people, and can dis-save. Average pensions in 2017 in The Bahamas were above the poverty line but below the indigence line (see below), and non-contributory pensions were below the 2013 national line as well as the indigence line. Both OANCP and contributory pensions are well above the international \$5.50 PPP poverty line¹²⁶.

¹²¹ This is a crude estimate of pension benefit value, and the real value is likely to be higher.

¹²² This is a naïve calculation (and is likely an underestimate) based on present pay-as-you-go civil service pension payouts.

¹²³ The Bahamas lacks a public transport system.

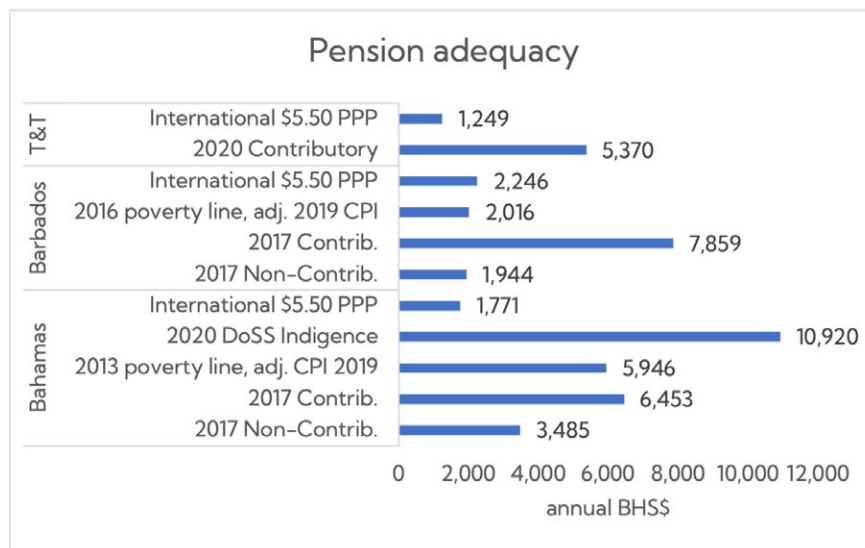
¹²⁴ <https://stats.oecd.org/index.aspx?queryid=69414>

¹²⁵ The Statistics Department might be able to come up with a more exact estimate using a cross tabulation of age and incomes.

¹²⁶ Interpreted as \$5.50 adjusted for PPP in each country.

Focus Areas cont'd

Figure 60: Pension adequacy in context



Sources: DoSS, World Bank, NIS T&T, NIB Bahamas and NIS Barbados.

Social assistance transfers

Until COVID-19, overall social protection support in The Bahamas was, compared to many other countries, heavily geared towards the old and the insured. Coverage of social assistance is very low: total identifiable NIB assistance recipients numbered 4,476 (only 1.1% of the population)¹²⁷. Claimants' counts have been reduced in recent years. NIB approved assistance to just 172 new claimants in 2017, rejecting almost half of the old-age contributory pension requests, and over a third of the invalidity requests.

Including central government social assistance, which totalled just \$17.6 million in 2018/19¹²⁸ – of which \$14.3 million was food assistance – as well as non-contributory pensions of \$5.6 million total, plus invalidity assistance of \$8.9 million, identifiable **total social assistance transfers totalled around 0.4 percent of GDP in 2017** (compared with about 0.9 percent of GDP in Barbados in 2018/19¹²⁹ and far higher shares of GDP in many high-income countries). COVID-19 unemployment assistance was significant, at a cumulative \$204 at end-September 2021, but had been mostly unwound as of 2021/22.

NIB working-age benefits and assistance combined were less than 0.7% of GDP in 2017. \$36.4 million was paid out in sickness, unemployment, maternity and funeral benefit in 2017, along with just \$1,000 in sickness assistance¹³⁰ nationwide, and only \$24,000 in disabled grants.

¹²⁷ This excludes food assistance and subsistence recipients; these are central government programs. For context, over 3% of the population are expected to be severely disabled in most countries.

¹²⁸ For a national lunch benefit, Foster Care Benefit, School Uniform Assistance, other social assistance benefits and special needs children.

¹²⁹ This included a IDB project which incorporated social assistance.

¹³⁰ Actually a type of benefit for NIS members strictly speaking; sickness benefit has tighter contribution thresholds than sickness assistance.

Focus Areas cont'd

Medical care benefit, at \$18.7 million in 2017, was the largest work-related compensation; the average industrial pay-out in 2017 was \$4,240. Unemployment coverage was estimated by the ILO at 27% for 2020 pre-COVID-19, but appears higher using the LFS and NIB figures.

Unemployment benefits outside of COVID are contributory-only and are not extended to the self-employed. The share of self-employed workers remains fairly reasonable¹³¹: ILO estimated this at 14% of employment in 2020, up from 12% in 1995. However, based on contributions from the self-employed of only \$7.4 million in 2017, it can be inferred that few are contributing.

A system of cut-offs requires work for at least half the year for eligibility for working-age benefits. This might be impossible for many given a short peak season. **The unemployment benefits system has not been modernized for modern patterns of work; seasonal workers should at least be able to 'cash out' or otherwise accumulate some benefit from the scheme.**

The number of non-contributory pension recipients fell from 2,024 in 2012 to 1,584 in 2017, continuing a falling trend since at least 2008¹³² while the number of contributory retirement benefit pensioners rose from 19,288 in 2012 to 25,599 in 2017. Compared with the census, coverage in 2017 appeared to exceed 100% of 65-year-olds and older¹³³. Invalidity assistance recipients fell from 2,648 in 2012 to 2,628 in 2017, and survivors' assistance claimants fell from 405 to 280.

On a pay-as-you-go basis within the NIB, working-age short-term schemes (unemployment-related) run a considerable surplus, while all other active schemes were in deficit in 2017. Reserves were \$1.7 billion in 2017, falling from 2016, but the reserve: benefit ratio remains higher than Barbados pre-haircut and Trinidad and Tobago.

Investment holdings are mostly in government assets and government enterprise finances, and operational independence is limited, with NIS being ordered to increase further its domestic portfolio recently. Of course this does not spread risks optimally (best practice is to situate the vast majority of assets internationally), particularly as write-downs are possible in any restructuring of debt. However, the ratio of pensioners to contributors is lower than in Trinidad and Tobago, and in Barbados.

Since 2015, the government also provides 100% of the National Drugs Plan costs, managed in NIB, and discussed in the previous section of this review under health – given relatively high administrative costs at NIB and the emergence of the NHIA, which reimburses clinics, one must wonder whether this is the optimal host institution. NIB covers the poor (certified below \$10,960 annually per head by the Department of Social

¹³¹ This is around the median of OECD rates: <https://data.oecd.org/emp/self-employment-rate.htm>

¹³² 2012 Actuarial Review.

¹³³ If UN population figures are used, this figure indicates 95% coverage (IDB 2020).

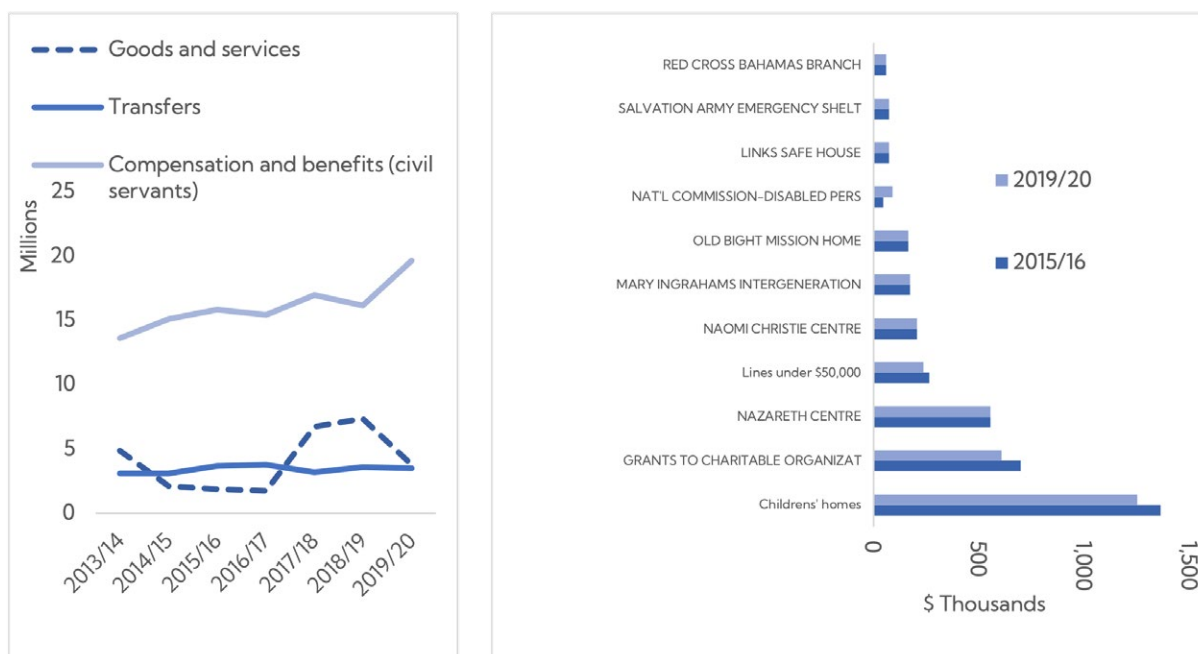
Focus Areas cont'd

Services) but the process of certifying indigence might be affected by the same challenges that cause a high rejection rate and a low coverage rate for non-contributory NIB services.

Non-transfer social services¹³⁴

The government provides a very limited amount of financial support for other (non-cash, non-food) social services¹³⁵. A summary of identifiable actual expenditures in 2018/19 is below (right); budgeted transfer figures did not increase for COVID-19 nor Dorian. The main takeaway is that other than civil service salaries, much of which might be devoted to running social assistance programs and screening potential recipients, there is very modest central government support relating to the poorest, and support for many institutions has been reduced over the period 2015/16 to 2019/20.

Figure 61: Non-social-transfer social services, \$. Summary (left); institutions supported, right.



Source: MoF data. Lines under \$50,000 were combined.

¹³⁴ This includes DoSS and MoSS but not the Ministry nor Department of Labour.

¹³⁵ We exclude two schools more associated with the justice sector here, even though they are funded under the Ministry of Education

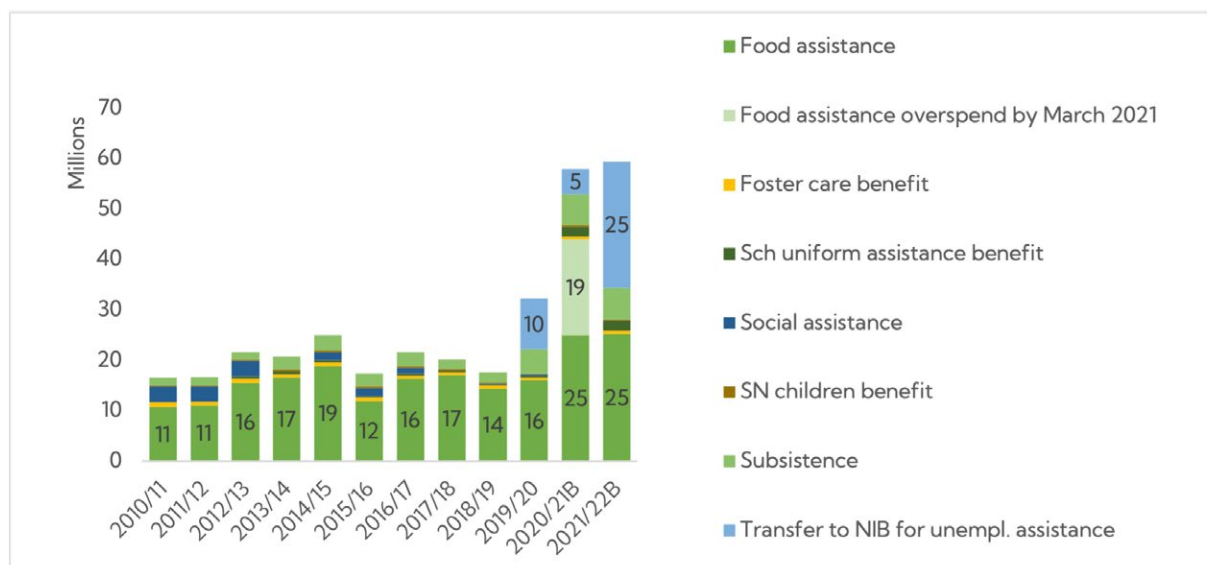
Focus Areas cont'd

There was a notable surge in DoSS and MoSS compensation and benefits in 2019/20. Driven by higher unemployment claims and a new non-contributory unemployment program, social assistance including central government cash and food increased in the period 2019/20 – 2021/22 substantially, but remained below 1% of GDP in 2019/20, exceeding 2% of GDP in 2020/21. Half-year projections suggest around 1% to 2% of GDP for 2021/22¹³⁶.

Social assistance provided by central government is dominated by food assistance but the recipient count is not known and there is little information available about the modality or cost-effectiveness.

NIB payments under the new unemployment assistance program have exceeded the central government transfer; the program by August 2021 had paid out over \$100m¹³⁷ against a cumulative allocation of \$40 million according to MoF budget data.

Figure 62: Social assistance from central government



Sources: MoF actuals data and draft budget book (marked B). NIS has paid out at least \$60 million more than depicted above.

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Based on the 2021 FSR.

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<https://ewnews.com/support-pending-govt-undecided-on-whether-to-extend-unemployment-benefits-program-past-sept-says-brensil-rolle-minister-of-national-insurance-board-nib>

5. Recommendations, action plan, and suggestions for review exercises

Given the requirement for fiscal sustainability – and for efficiencies to fund new measures if desired – the table below lists prioritised savings that would be required to reduce existing spending. It roughly estimates gains and timescales.

However, this is a preliminary list undertaken as part of a desk review, and requires careful discussion on viability for most of these measures as well as detailed costing to enable a realistic overall target. As stated previously, expenditure savings take place against a backdrop of a very limited state in The Bahamas which does relatively little in the way of redistribution compared to other high income countries.

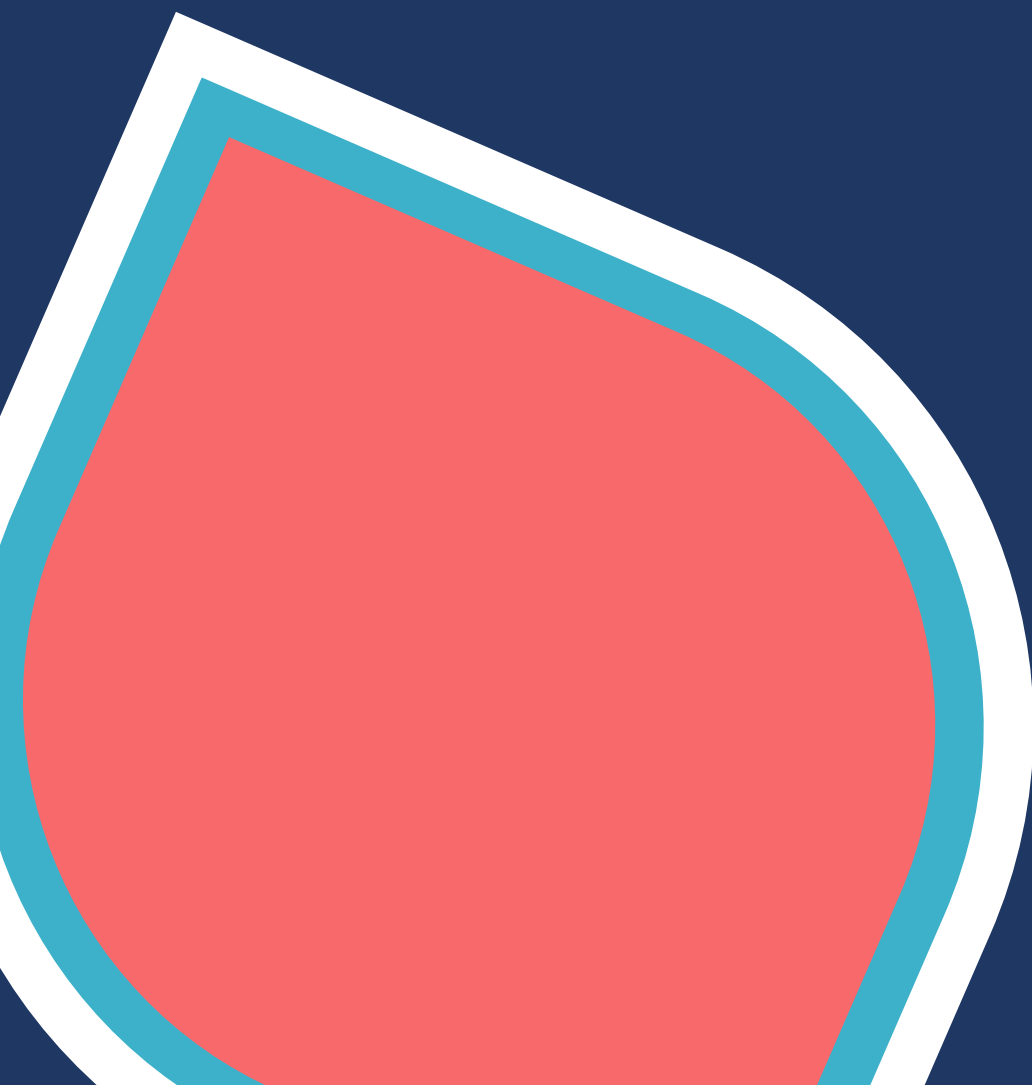




Table 6: costed action plan for potential efficiencies and savings

Expenditure

Entity	Policy	Timescale	Estimated extent of annual savings, \$
Department of Environmental health	Rationalize contracting and other expenses to revert to a 50% increase on 2010/11 levels.	2 years	Around \$10 million
UB	Reduce Student Teacher Ratio to within 2 of OECD average	3 years, phase in 1/3 each year.	\$7–\$10 million annual, significant upfront costs depending on contract conditions
UB	Franchise out food and bookshops	1 year.	Likely less than \$1 million
MoE	Reduce international tertiary scholarships to 2015/16 levels.	3 years, phase-in 1/3 per year.	\$7 million
MoE	Halve independent school support to target underprovided islands and communities	1 year	\$7 million, but unlikely to realize savings if there are many opportunities to retarget the subsidy.
PHA	Recover half of uncollected PHA fees and index fees to prices, 25% fee increase.	18 months	\$29 million. Ambitious, but far less ambitious than the PwC proposal.
PHA	Sanction civil servants and PHA if civil servant insurance billing is not carried out properly.	12 months	Perhaps \$5–\$10 million.
PHA	Link future subsidy to revenue and cost-effectiveness performance targets	6 months	Unclear, likely large savings if there is political will.
Central government	Review insurance options	Contract-dependent	Unclear.
PHA	Means test pensioners	2 years. Requires accurate assessment of pension income.	At least \$10 million. May require long lead-in and additional anti-poverty measures delivered elsewhere in the system.
PHA	Means test children	3 years	Unclear, at least \$7 million
PHA	Increase task shifting to nurses and allied professions, and to primary care settings	3 years	Unclear, already underway to some extent.
PHA	Examine whether cleaning, driving could be done more readily by the private sector. Review services and diagnostics outsourcing for VfM.	18 months	Unclear.
PHA	Reduce ALOS in hospital to 5 days	2 years	No overall fiscal saving but could free-up resources for other uses within the health sector.

Recommendations cont'd

Entity	Policy	Timescale	Estimated extent of annual savings, \$
PHA	Reduce headcount by 10%–15%, in line with regional comparators and international shift norms.	3–4 years	Perhaps \$10 million annually. Would require much further analysis to discover whether this was viable.
PHA	Explore early retirement options for half of older workers	2 years	Significant upfront costs (perhaps 15 million, contract dependent), up to \$10 million eventual annual savings.
PHA	Reduce allowances to central government 2016/17 norms	3 years, difficult.	At least \$15 million
NIB	Raise contribution rates to 15% from 9.8%.	5 to 7 years	Roughly \$110 million (revenue).
NIB	Increase self-employed contributions by 200% on 2017 levels	18 months; more self-employed people on the books after the introduction of COVID UA.	14.8 million on 2017 levels. Eventually results in higher claims, net effect attenuated by OANCP.
NIB	Reduce administrative expenses by 25%.	3 years	11 million, significant upfront costs for deeper online services.
Central government-wide	Review allowances	12 months	Unclear, potentially large
WSC	Reduce first-tier water limit by two-thirds and introduce monthly billing	2 years.	4 million initially and then 16 million after 4 years (PwC)
WSC	Increase tariff for higher tiers 3 and 4 by 25% initially, target economic cost over next nine years	1 year for initial increase	Unclear.
NIS/MoH	Review National Drugs Plan targeting	1 year, possibility of financing and handling exemptions via NHIA arrangement.	Unknown, depends whether NHIA targeting and listing is credible and can be re-used.

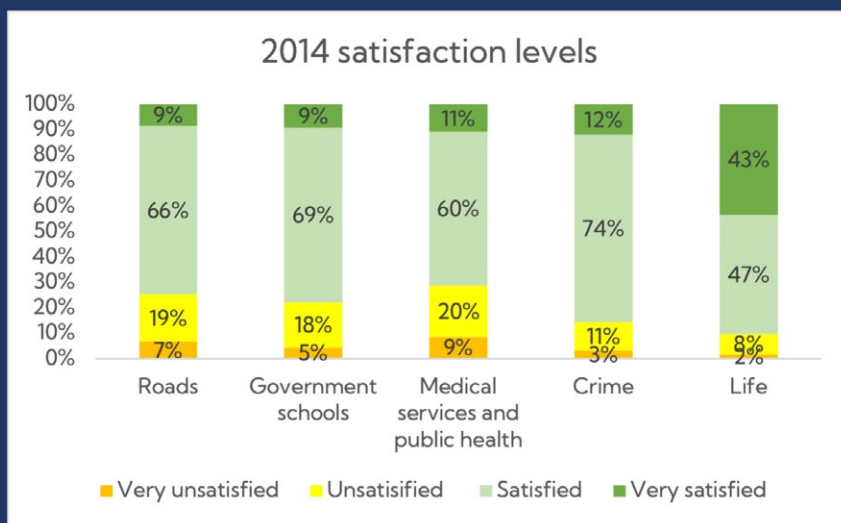
 Recommendations cont'd

Areas of concern for equity are listed below.

Policy area	Background	Recommendation
DoSS indigence certification	Many unknown parameters from the perspective of this Review – but this is clearly a point at which streamlining of identification and certification processes across government is possible, and where high claimant rejection rates and potentially prosecutions may be mitigated.	Streamline.
Tertiary education grant targeting	Establish the basis for this and assess for equity and economic growth alignment.	Reform current targeting practices to balance economic growth alignment and equity considerations.
Exemption categories across NDP, PHA and NHIA	A credible targeting mechanism could build support for NHIA subscriptions and decreased non-payment at PHA, and would also be fairer and potentially less costly.	Move away from age-based to resource-based exemption or discounts or co-pay. Consider whether civil servants should enjoy both exemption and private sector insurance.
Review queuing and targeting procedures at PHA	Access appears heavily biased toward the richer quintiles.	Update survey data to see whether access has improved.
Devise credible plan to balance NHI provider costs and subscriptions.	Current plan is disproportionate to low-paid workers and encourages piecemeal work offers to low-paid workers.	Make public existing costings and develop options for alternatives to age-based exemptions.
Examine indigence, recertification, and investigation models.	Other systems pursue non-remitting companies rather than individuals on the basis that individuals can rarely repay the amounts owed. Criminalisation of social assistance is unlikely to be constructive at helping people back to work.	Review incidence of NIB prosecutions to establish cost-effectiveness, fairness, and ideally reduce cost of administration through voluntary compliance. Link government systems to better identify income, assets, and the poor.
Tax	Health taxes (as well as carbon taxes) usually have to be accompanied with a social assistance offer that ensures that the revenues and choices incentivised are reasonable for the poor. NHIA subscriptions are currently designed with insufficient attention to equity and to the incentives employers face regarding vulnerable work.	Review capped revenues and fees, for instance stamp duty and the proposed NHIA head tax. Review excises with respect to obesity.
Regional tax harmonization	Tourists can and should pay their way. The region still offers a series of high-quality, unique experiences for tourists, but often taxation has been a race to the bottom.	Examine the scope for regional initiatives particularly on day cruise fees, air passenger duty, and taxation policy towards multinational leisure investments.
Working-age benefit and assistance adequacy	Current arrangements offer sparse and insufficient coverage, particularly for working age families.	Review possibilities for a single payment that is adequate and combines food assistance with cash and housing support. Could be combined with contribution uprating.

6. Annexes

Satisfaction for public services and life satisfaction in 2014 were extremely high in The Bahamas.



Source: LAPOP Vanderbilt University data.

The Bahamas in 2014 ranked second highest among surveyed LAC countries for police performance, third highest for roads, 4th highest for public health, and 7th for government schools. Given levels of economy-wide spending and the share of GDP, this was remarkable. Life satisfaction was 12th highest, but this is well above Barbados and Bermuda¹³⁸.

Annex cont'd

Allowances

Figures below are in millions.

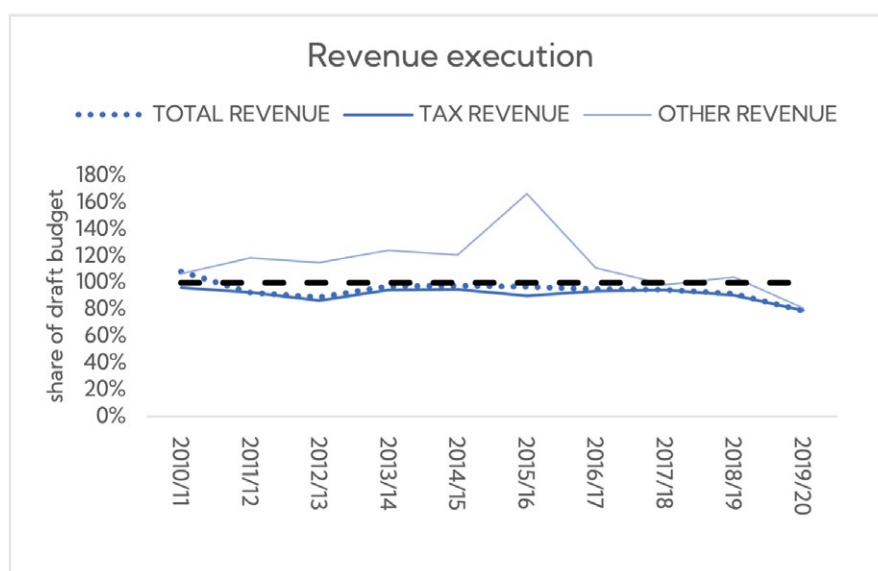
Allowance and gratuity description	2015/16	2016/17	2017/18	2018/19	2019/20	Growth to 2018/19	Growth to 2019/20
PUBLIC OFFICIALS/STAFF GRATUITY	29.0	26.3	30.2	35.5	30.0	23%	4%
OVERTIME	8.0	7.8	14.7	9.4	12.2	18%	53%
UNIFORM ALLOWANCE	7.2	7.5	6.8	9.1	10.3	26%	42%
SPECIAL ALLOWANCES	0.0	0.0	0.0	0.0	8.1		
GENERAL ALLOWANCE	6.8	6.2	6.4	6.7	6.7	-1%	-2%
RESERVES ALLOWANCE	7.0	7.6	6.5	6.1	6.3	-13%	-10%
SCARCITY ALLOWANCE	2.4	2.8	2.6	2.3	5.4	-5%	124%
HOUSING ALLOW(RENT/HSEHLD/SUBS	0.8	1.1	1.3	2.4	4.8	185%	464%
RESPONSIBILITY ALLOWANCE	4.2	2.7	2.9	3.7	3.8	-12%	-10%
RISK AND HAZARDOUS ALLOWANCES	3.3	3.4	4.0	3.8	3.6	15%	9%
DISTURBANCE ALLOWANCE	1.6	1.5	2.2	2.5	2.6	61%	66%
TRANSPORT & MILEAGE ALLOWANCES	1.2	1.1	1.6	2.7	2.5	120%	110%
HONORARIA	0.8	1.3	1.1	1.0	2.1	35%	175%
FRGN SER GRANTS/ALLOW(HOME LV)	3.2	2.7	2.7	2.7	1.8	-15%	-44%
SHIFT AND ON CALL ALLOWANCES	1.5	1.7	1.5	1.9	1.4	25%	-9%
EXAM SUPERVISION & MARKING FEE	1.2	1.7	0.5	1.1	1.2	-14%	-7%
OTHER ALLOWANCES	1.3	0.8	0.9	1.0	1.0	-22%	-25%
DOCTORS ON CALL	0.2	0.6	0.5	0.5	0.5	104%	108%
SPECIALIST ALLOWANCE	0.3	0.3	0.4	0.4	0.4	22%	33%
COACHING ALLOWANCE	0.1	0.1	0.0	0.1	0.4	95%	460%
HARDSHIP ALLOWANCE	0.7	0.3	0.3	0.3	0.4	-60%	-47%
DUTY ALLOWANCE	0.2	0.3	0.3	0.2	0.2	1%	-8%
SPECIAL ALLOW (ADDL QUALS)	0.1	0.1	0.1	0.1	0.2	21%	42%
ACTING ALLOWANCE	0.1	0.1	0.1	0.2	0.2	89%	69%
RESETTLEMENT ALLOWANCE	0.0	0.1	0.1	0.1	0.2	142%	299%
TECHNICAL ALLOWANCE	0.2	0.1	0.1	0.1	0.1	-2%	-6%
EDUCATIONAL ALLOWANCE	0.0	0.5	0.4	0.1	0.1		
CLOTHING ALLOWANCE	0.0	0.0	0.0	0.0	0.1	-31%	1080%
AIDES ALLOWANCE	0.1	0.1	0.0	0.1	0.1	41%	31%
HOME LEAVE ALLOWANCE	0.0	0.0	0.0	0.0	0.0		
OFFICIAL ENTERTAINMENT ALLOWANCE	0.0	0.1	0.0	0.0	0.0	-40%	-43%
OFFICIAL FUNERAL	0.0	0.0	0.0	0.0	0.0		

Annex cont'd

Brief facts about other sectors

Budget basics

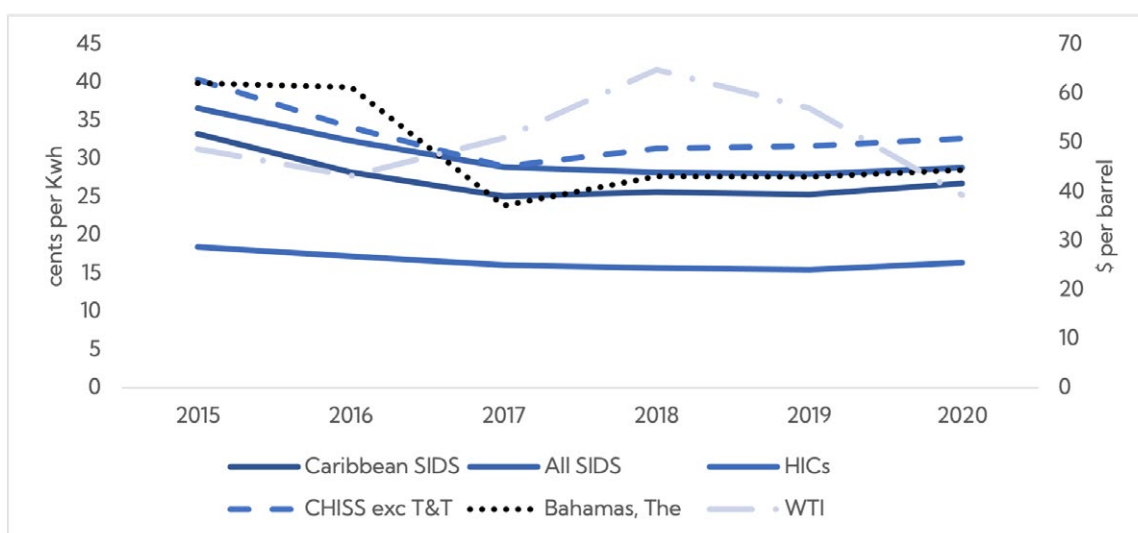
Revenue credibility at an aggregate level is good, latterly affected by multiple external shocks.



Source: Ministry of Finance

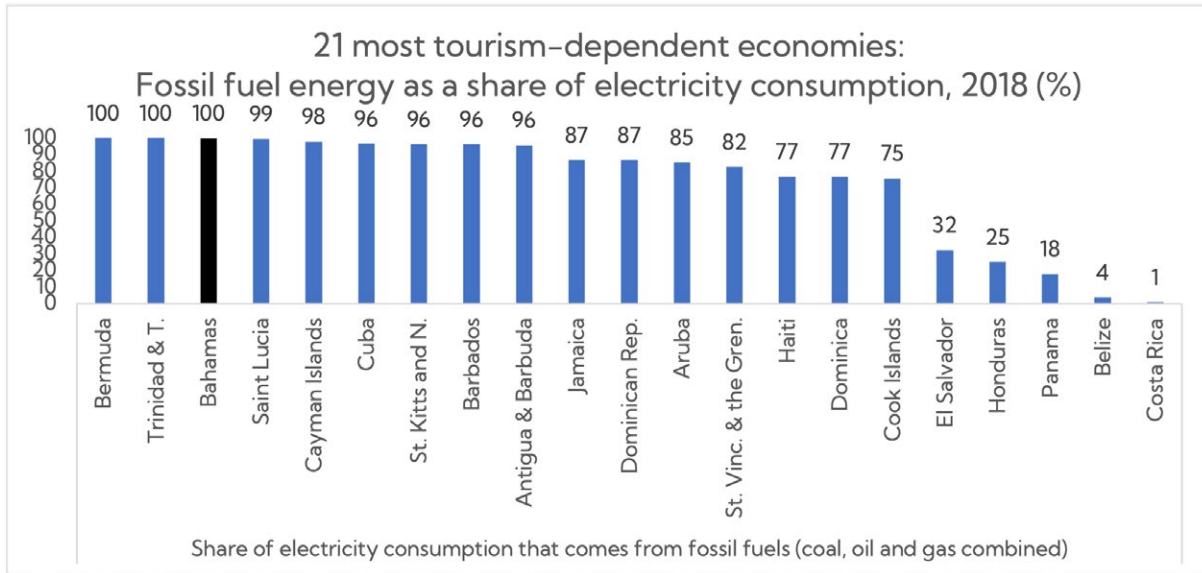
ELECTRICITY AND CLIMATE

Commercial electricity prices compared to similar countries and the oil price (right-hand axis). Source: Doing Business 2020 and World Bank pink sheet. WTI is the West Texas Intermediate price.



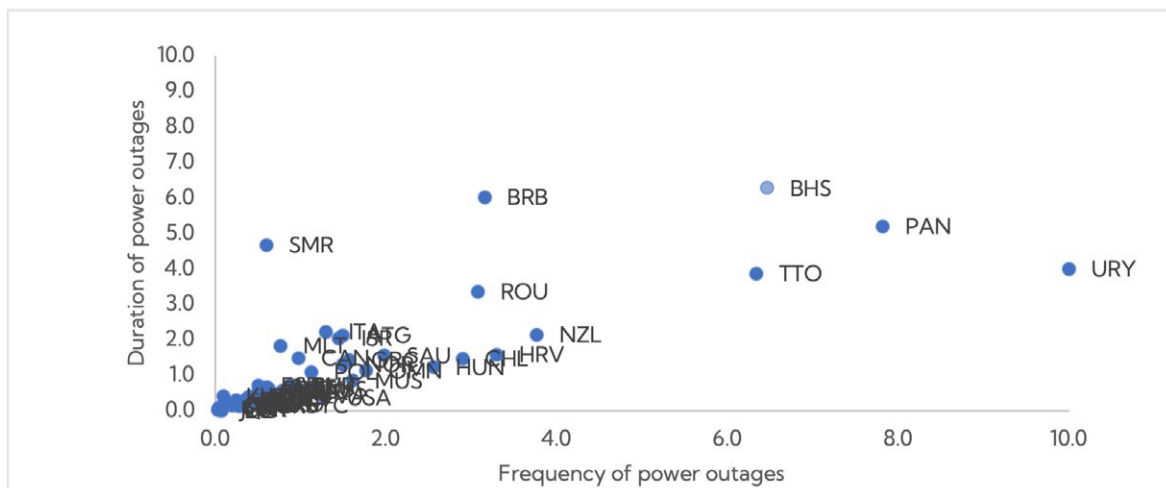
Energy mix for electricity. Sources: Our World in Data and IDB TDI June 2020 (Mooney).

Annex cont'd



Bahamas is an electricity supply quality outlier. Likely some of this is Dorian-related.

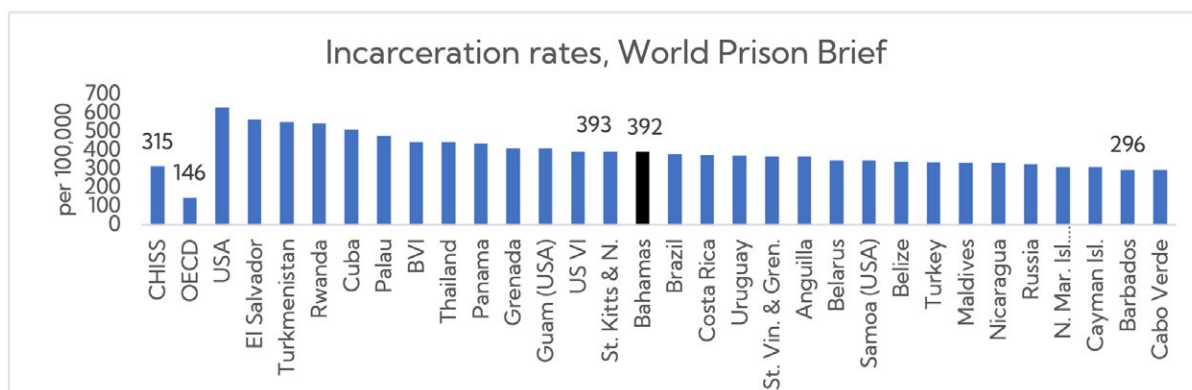
Source: World Bank Doing Business 2020. HICs only. Palau is hidden (extreme outlier).



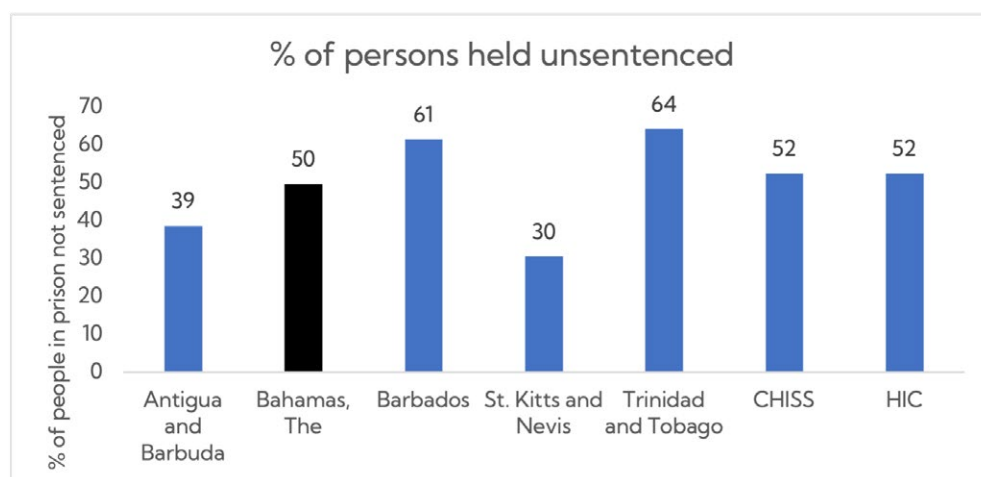
Annex cont'd

JUSTICE AND SECURITY

Incarceration, top countries worldwide, and comparator averages. Source: World Prison Brief, Bahamas figures are for December 2020, other countries' dates vary. Overcrowding is 162%.



Unsented incarceration is pretty efficient, but there are better regional examples. Source: UNODC, 2017

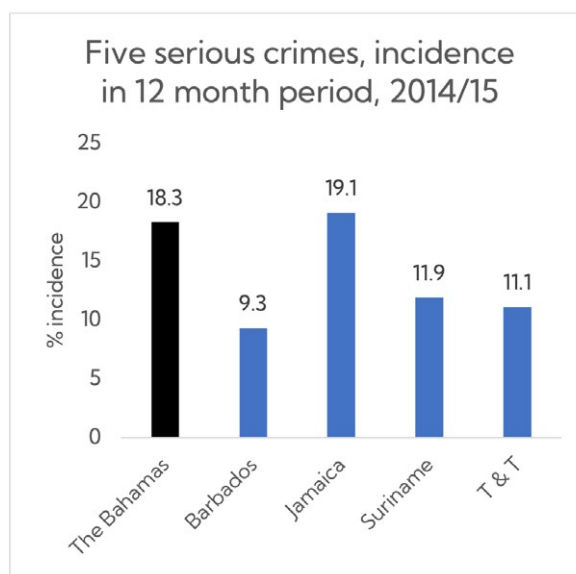
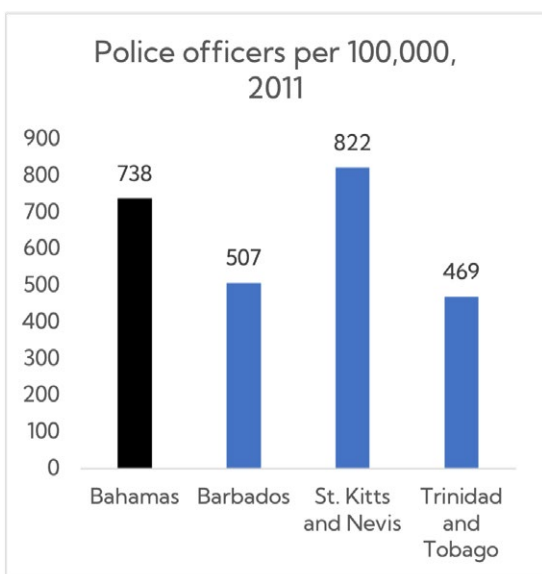


As a share of expenditure, The Bahamas has the fourth-highest share of spending on public safety among LAC countries. High spending share is driven by high police spending. Spending is regarded as relatively inefficient (because it is high relative to crime levels), but capability is relatively high too.

Graph is figure 7.5 in the IDB BSfBL book. Other claims are from the same book.

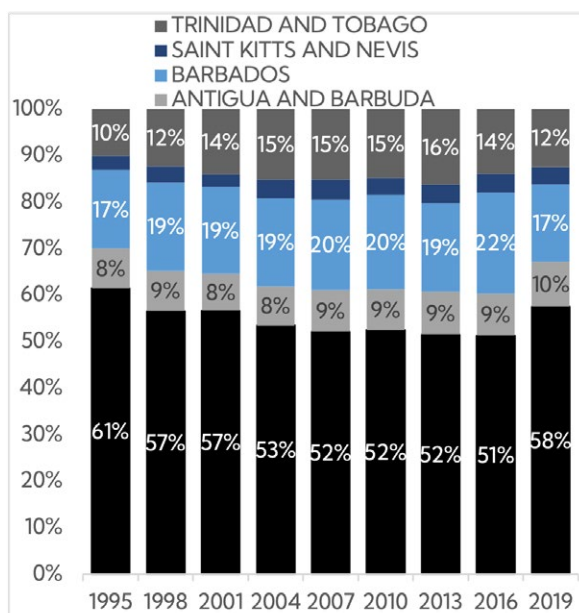
Annex cont'd

Police officer density (left). Source: UNODC. Incidence of serious crime was relatively high in 2014/15 (right), but not compared to most of LAC (Figure 7.2b in IDB 2018, BSfBL book)

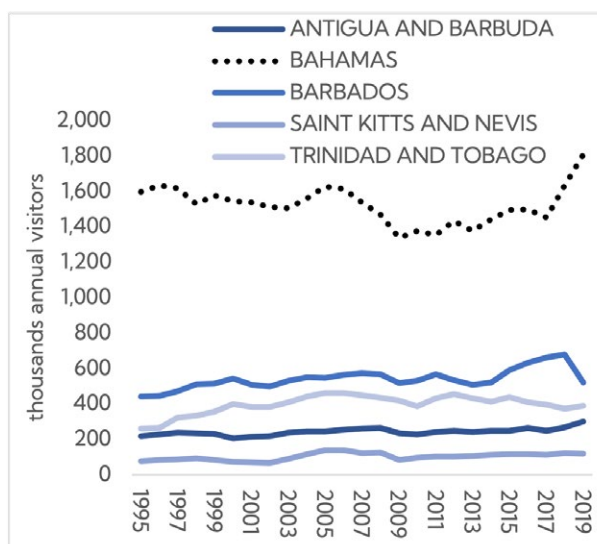


TOURISM

Share of market. Source: UNWTO. Overnight only.



Overnight visitors. Source: UNWTO

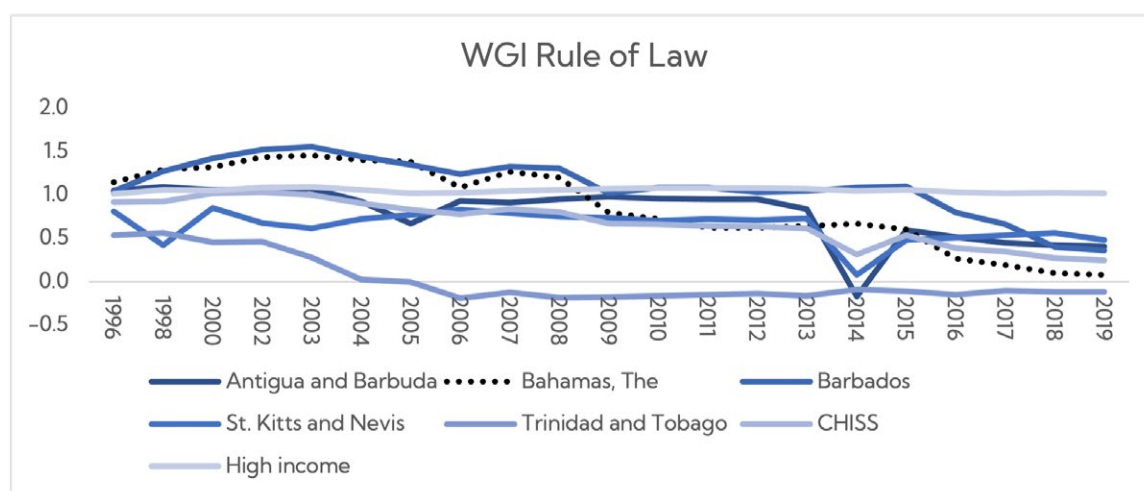


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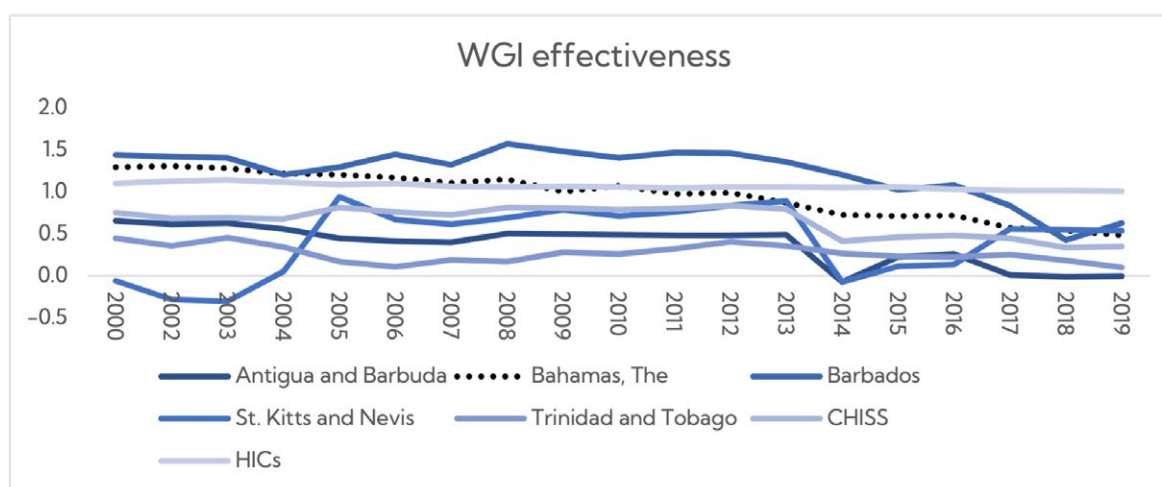
GOVERNANCE

Governance is diverging from other HICs and the CHISS group. Source: World Bank.

WGI Rule of Law



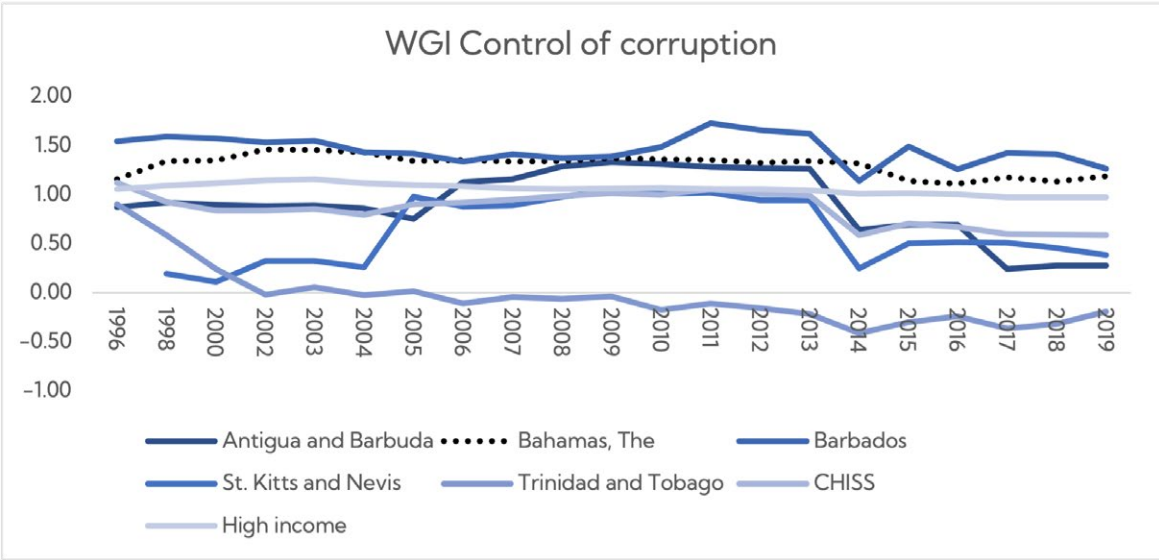
WGI effectiveness



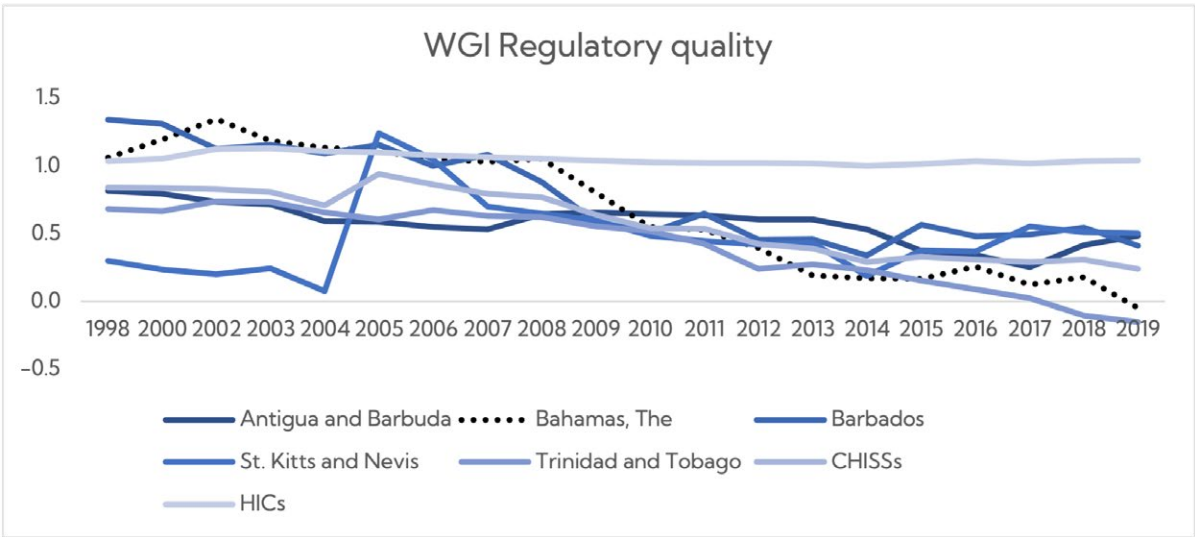


Annex cont'd

WGI Control of Corruption

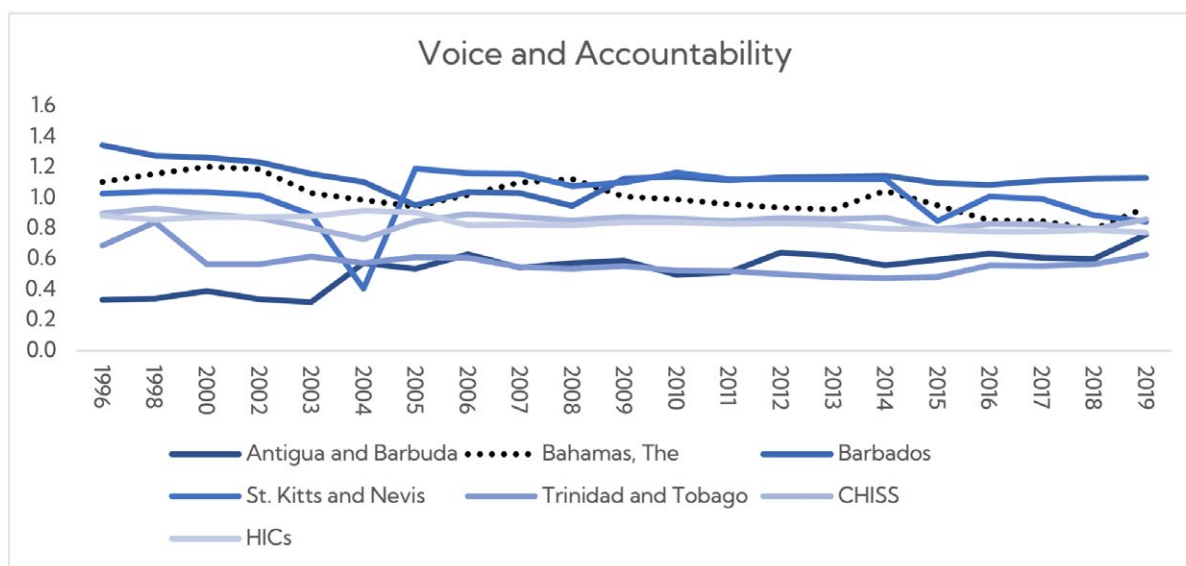


WGI Regulatory Quality



Annex cont'd

WGI Voice and accountability



Note: political stability not included as The Bahamas is a democratic multi-party state.

Suggestions for regular MoF-led expenditure review exercises

Who should be involved, and how to get them involved?

Increasing involvement from institutions with knowledge (and with the power to actually change things) outside the MoF is challenging, but many countries' experiences suggest that it is worth it. There are various tools MoF uses to align incentives of line ministries with efficiency, effectiveness and expenditure control. Conducting a spending review or providing detailed data for a spending review and incorporating learnings from it, can be integrated with other compliance tasks for SOEs and line ministries in the MoF as part of the budget process.

In some countries, fiscal councils, fiscal review bodies and even non-state organisations provide the staffing or at least the convening to do the technical work on expenditure reviews or very similar activity, which might relieve pressure on the MoF.

However, the MoF might still need to provide the 'sticks' to get ministries departments and GA/GBEs involved with a non-MoF convenor. Furthermore, the more players, the more costly it is for the MoF to manage the review. Opportunities for cost-increasing behaviour from line ministries, SOEs and entities outside of the government might result in efficiency-seeking work not achieving its main outcome.

 Annex cont'd**What should spending review exercises focus on?**

A lot of the usefulness of review exercise depends on how spending adjustments get made. For some SOEs it was intimated that there is no formal negotiation of their budgets, in which case a host of other reforms and practice changes would be required to implement anything learned from a review exercise. In many countries, a 'flat' cut is the way spending is adjusted during the budget process – for instance a 10% cut to external travel for all ministries, a 20% cut to all transfers to public corporations, with some scope to 'protect' politically prioritised spending areas. In that case, review exercises should be focused on line items rather than policies, if the purpose of the review exercise is to reduce spending.

In contrast to this document, **PERs can be a couple of pages long!** A suggested list of areas to conduct mini-reviews:

- » **Bottlenecks for private sector activity or bottlenecks for wider government effectiveness.** Examples could include slow processing of the necessary documents for property purchase; the purpose of a review could be to find out whether this is a wage, non-wage or other organisational issue.
- » **Areas where it is known that there is an issue but where facts could be usefully established and clarified.** The example in this PER is allowances, where MoF were aware of an issue (rightly) and where, hopefully, some information has been provided in this PER.
- » Where economic-type lines within a ministry or department is **unusually large or small** relative to other ministries; where there are outliers in terms of **year-to-year growth in expenditure**, year on year growth multiplied by budget share (known as "force" in the literature), or where year-on-year growth which is accelerating over the past three to four years. An example of this for the 2019/20 actual budget is annexed.

International comparison may be useful more periodically (it might not be possible annually) and in a more focused way (on smaller items of expenditure).

- » Benchmarking is pretty straightforward. However it requires continued progress on several groups of comparator countries have been suggested as part of this exercise:
 - The CHISS group – five nation states with "high income" levels as defined by the World Bank; US Cayman Islands and Bermuda not included. The Bahamas is higher income, significantly, than the rest of the group, but has a similar size of government in terms of spending per capita.
 - OECD countries – it is easier to provide comparable statistics for this group of 38 countries than any other group, and The Bahamas has a very similar income level to the median OECD country. However, for various reasons, it is typically easier to deliver services in a country containing 30 million people surrounded by other similar countries than an archipelago with less than 400,000 people and 30 inhabited islands. So, dollar for dollar, performance might be expected to be towards the lower end of the OECD grouping in areas where there are economies of scale. This notwithstanding, in many areas The Bahamas can do as well as or better than any OECD country.
- » Specific areas of spending have specific appropriate comparators:
 - For pensions, Trinidad and Tobago and Barbados have similar configurations, similar issues in some ways, and very easily accessible (although out-of-date) data from Actuarial and Annual Reviews.
 - The IDB has a couple of very useful recent books which focus on spending quality; "Better Spending

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for Better Lives”, which offers sector-by-sector comparable data on LAC, including on the justice sector; and “Economic Institutions for a Resilient Caribbean”, which includes comprehensive and recent comparisons on pensions and several other areas.

- It may also be worth looking at specific reformer paths. For example, for pre-tertiary education, there are some recent ‘improvers’ for quality of education. An example in the education sector in terms of 15/16 –year-old student knowledge are Albania, Brazil, Indonesia, Mexico, Turkey and Uruguay, who have approached education reform in distinctive ways amid often-tight levels of resourcing¹³⁹. A small state example of improvements in education and government effectiveness more generally is Mauritius. Spending is clearly a part of, although not sufficient for, successful government reform.
- » Several sources provide useful outlines for governments to conduct their own spending reviews.
- » GTAC, a government executive body in South Africa (gtac.gov.za) offer sectoral and economic category-oriented spending reviews which offer useful sets of headings for analysis, useful examples of tables for re-use, and dozens of examples of ‘deep dives’, for example looking at non-wage costs in hospitals. Notably, some of these exercises appear to be completed by students. In combination they offer a comprehensive jumping-off point for deep-dive exercises (The Bahamas might want to look at obtaining detailed data from PHA on tertiary health salaries cost drivers) that might be useful to examine why expenditures are off-track, or to better illuminate areas where the government suspects more value for money is possible.
- » The Government of Slovakia also list their

spending review activities on their website, although these tend to be wider in scope: mfsr.sk/en/finance/value-money/spending/spending-reviews.html

Other periodic questions to ask

- **Is budget rigidity increasing?** Is the amount left over after wages, recurrent and debt-related transfers, interest increasing or decreasing?
- **Is the mix of tax expenditures and classic government expenditures optimal?**

Information that is useful to reduce the costs and effort of annual or mini-reviews

Regularly collecting this information in an easy-to-use format might make review exercises easier.

- » **Unit costs components** such as the number of patients and students, ideally disaggregated. Unit costs allow for comparison and work on horizontal equity. Unit costs are collected by some countries as part of line ministry/SOE budget submission templates. Under the PFMA, ministries should be providing “management information” and MoF could use this requirement to gather specific types of information for policy areas that are likely to present concerns.
- » **Reference prices** can be used to examine value for money of procured items under different entities. Some of this information may already be collected by CPI exercises via CBOB.
- » **Moving toward a common chart of accounts and whole-of-government accounting efforts, at least at a high level**, makes comparing expenditure across agencies and central government easier. Because there are a manageable number of public corporations in The Bahamas relative to many countries,

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a reasonably detailed common chart (say at the block-spending unit level or equivalent for Gas and major GBEs) could be reasonably cost-effective and would allow any premia charged by agencies to be identified more easily. “Deeper dives” would require additional information.

Other basic expenditure analysis

All spend by expenditure head. Some spending heads are combined into subsectors.

	Total spend													
	Absolute change					Percentage change					Share			
	To 2019/20	Since 2010/11	Since 2015/16	To 2018/19	Since 2010/11	Since 2015/16	To 2019/20	Since 2010/11	Since 2015/16	To 2018/19	Since 2010/11	Since 2015/16	level	change
Agriculture and Marine	5	17	3	15		18%	120%	10%	103%	1%	1%	1%	1%	0.0%
Centre of Government	178	300	131	252		57%	159%	42%	134%	12%	12%	14%	19%	0.6%
Defence	-15	19	-17	18		-18%	40%	-20%	38%	3%	0%	6%	0.2%	0.0%
Digital	29	31	15	18		1113%	-	579%	-	0%	0%	0%	0.3%	0.0%
Education	68	106	38	75		23%	-	12%	-	14%	14%	15%	0.5%	0.8%
Environment	28	37	16	25		240%	1969%	135%	1331%	0%	0%	0%	0.0%	0.0%
Finance	188	178	134	125		90%	82%	64%	57%	12%	12%	7%	-4.7%	-5.0%
Health	90	127	45	82		34%	55%	17%	36%	12%	12%	12%	-0.1%	0.2%
Housing, sanitation and amenities	33	29	14	10		93%	72%	41%	25%	2%	2%	2%	-0.2%	-0.2%
Immigration	19	21	16	18		122%	155%	106%	137%	1%	1%	1%	0.1%	0.1%
Information	-1	-2	0	-2		-17%	-39%	-7%	-32%	0%	0%	0%	0.0%	0.0%
Interest	70	144	53	127		26%	71%	19%	63%	11%	10%	11%	-0.3%	0.9%
Justice	3	8	1	5		11%	28%	3%	19%	1%	2%	1%	0.0%	-0.2%
Labour	2	-1	2	-2		37%	-13%	31%	-17%	0%	0%	0%	-0.2%	-0.2%
Lands	1	0	0	-1		15%	1%	3%	-9%	0%	0%	0%	0.0%	0.0%
LG	2	1	4	2		10%	3%	17%	10%	1%	1%	1%	-0.1%	0.0%
Meteorology	0	0	0	0		24%	6%	26%	7%	0%	0%	0%	0.0%	0.0%
Police	5	2	0	-3		4%	2%	0%	-2%	7%	7%	7%	0.4%	0.5%
Port	4	3	4	3		95%	50%	114%	64%	0%	0%	0%	0.0%	0.0%
Post	-1	-2	0	-2		-14%	-27%	-7%	-21%	0%	0%	0%	0.0%	0.0%
Prison	1	4	2	5		6%	17%	10%	22%	1%	1%	1%	-0.1%	0.0%
Roads	0	0	0	0		8%	-8%	6%	-10%	0%	0%	0%	0.0%	0.0%
Social services	13	15	4	6		31%	37%	10%	15%	2%	2%	3%	0.3%	0.5%

	Total spend													
	Absolute change							Percentage change						
	Share							level						
	To 2019/20	Since 2015/16	Since 2019/20	Since 2015/16	Since 2010/11	Since 2019/20	Since 2015/16	To 2018/19	Since 2010/11	2010/11	2015/16	2018/19	2019/20	2010/11 to 2018/19
Tax	14	18	22	25	25	49%	68%	74%	96%	1%	1%	1%	2%	0.1%
Tourism and air	-80	25	-100	5	5	-37%	23%	-47%	5%	6%	6%	8%	6%	2.6%
Transport	3	12	0	9	9	33%	-	-4%	-	0%	0%	1%	0%	0.5%
Youth, sports	-15	1	-14	1	1	-43%	-	-41%	-	1%	1%	1%	1%	-0.1%
Other	-1	1	24	26	26	-31%	-	1115%	-	0%	0%	0%	1%	0.1%
Total	-24	-13	-4	7	7	-12%	-7%	-2%	4%	100%	100%	100%	100%	

Note: health includes solid waste management.

Capital expenditure

	Capital spend													
	Absolute change							Share						
	Level							Change						
	To 2019/20	Since 2015/16	Since 2010/11	Since 2019/20	Since 2015/16	Since 2010/11	Since 2019/20	To 2018/19	Since 2010/11	2010/11	2015/16	2018/19	2019/20	2010/11 to 2018/19
Agriculture and Marine	2	0	0	1	-1	1%	0%	0%	1%	0%	0%	0%	1%	-0.6%
Centre of Government	16	15	15	5	4	0%	0%	0%	0%	2%	0%	0%	0%	1.8%
Defence	-24	5	5	-21	7	1%	1%	1%	1%	1%	1%	1%	30%	-0.2%
Digital	1	1	1	0	0	0%	0%	0%	0%	0%	0%	0%	0%	0.0%
Education	39	57	57	13	31	9%	9%	7%	10%	10%	10%	10%	9%	2.5%
Environment	2	2	2	2	2	0%	0%	0%	0%	0%	0%	0%	0%	0.0%
Finance	113	88	88	-15	-40	68%	68%	77%	44%	44%	44%	44%	44%	-33.3%
Health	16	11	11	12	7	3%	3%	4%	4%	4%	4%	4%	0%	0.5%

	Capital spend											
	Absolute change						Share					
	To 2019/20			To 2018/19			Level			Change		
	Since 2015/16	Since 2010/11	Since 2015/16	Since 2018/19	Since 2010/11	Since 2015/16	2010/11	2015/16	2018/19	2019/20	2010/11 to 2018/19	2015/16 to 2018/19
Housing sanitation and amenities	0	-1	1	0	0	1%	1%	1%	1%	3%	-0.3%	0.1%
Justice	0	0	0	0	0	0%	0%	0%	0%	0%	0.0%	0.0%
Meteorology	0	0	0	0	0	0%	0%	0%	0%	0%	0.0%	0.0%
Police	0	-1	0	-1	-1	1%	1%	1%	3%	2%	2.2%	1.9%
Port	0	0	0	0	0	0%	0%	0%	0%	0%	0.0%	0.0%
Prison	0	0	0	0	0	0%	0%	0%	0%	0%	-0.2%	0.0%
Roads	0	0	0	0	0	0%	0%	0%	0%	0%	0.0%	0.0%
Tax	2	2	0	-1	-1	1%	1%	0%	0%	0%	-0.3%	0.0%
Tourism and air	8	-9	0	-18	-18	13%	13%	9%	34%	8%	21.2%	25.7%
Transport	3	3	0	0	0	0%	0%	0%	0%	0%	0.0%	0.0%
Youth, sports	0	-1	0	-1	-1	1%	1%	1%	1%	3%	0.3%	0.3%
Total	177	170	-3	-10	-10	100%	100%	100%	100%	100%	0.0%	0.0%

Annex cont'd

Recurrent, share by block. Wage bill is coloured on the left while transfers are italicised.

	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21B	2021 /22B
Wages & Salaries	34%	29%	26%	29%	26%	26%	25%	24%
Subsidies to Public Corps.	13%	17%	16%	14%	14%	16%	13%	13%
Interest	14%	13%	11%	14%	14%	14%	15%	17%
Services	5%	5%	4%	4%	5%	7%	7%	8%
Transfers N.E.C.	3%	6%	8%	6%	6%	7%	6%	7%
Pensions & Gratuities	6%	6%	5%	6%	6%	6%	5%	5%
Special Financial Trans.	0.5%	1.1%	1.0%	1.2%	5%	3%	4%	4%
Utilities & Communication	3%	2%	5%	3%	4%	3%	4%	4%
Allowances	2%	3%	2%	3%	2%	3%	3%	3%
Premiums, Fees & Claims	3%	1.3%	3%	3%	2%	3%	3%	3%
Rent	2%	2%	2%	2%	3%	3%	2%	3%
Supplies & Materials	2%	2%	6%	3%	2%	2%	2%	1.3%
Social Assistance Benefits	2%	1.4%	2%	2%	2%	2%	5%	4%
Employer's Social Contribution	2%	1.5%	1.3%	1.5%	1.3%	1.1%	1.3%	1.3%
Subsidies to Private Enterprises	0.7%	0.6%	0.8%	0.6%	2%	1.0%	1.1%	0.9%
Finance Charges (Hedging/Charges)	0.7%	0.3%	0.2%	2%	1.0%	0.9%	1.0%	1.1%
Operational Expenses	0.9%	0.8%	0.7%	0.9%	1.0%	0.5%	0.4%	0.4%
Local Government Expenses	0.8%	0.6%	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%
Travel & Subsistence	0.4%	0.2%	0.2%	0.3%	0.2%	0.4%	0.4%	0.4%
Grants to International Organizations	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Tourism Related	4%	5%	4%	3%	2%	0.3%	0.3%	0.2%
Minor Capital Repairs	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%
Subsidies to Other Sectors	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%
Other	0.1%	0.2%	0.7%	0.2%	0.0%	0.0%	0.1%	0.0%
School Board Expenses	0.3%	0.3%	0.2%	0.3%	0.2%	0.0%	0.0%	0.0%

Note that some of the special financial transactions and tourism lines also contain transfers.



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