U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

This document was updated on July 18, 2014, to correct information regarding international credit ratings.

Executive Summary

The Bahamas maintains a relatively stable environment for investment and demonstrates a long tradition of parliamentary democracy, respect for the rule of law, and **security** of life and personal property. It aggressively promotes its liberal tax environment and freedom from capital gains, inheritance, withholding, profit remittances, royalties, sales, corporate or personal income, dividends, payroll, and interest taxes. In recent years, The Bahamas' competitive edge as an investment destination, relative to other small island developing countries in the region, has deteriorated. Last year, it recorded less than half of the FDI it attracted in 2011 and has slipped in several important international investment climate rankings.

The Progressive Liberal Party (PLP) returned to power in May 2012 amid ambitious campaign promises of economic and fiscal reform. Proposed initiatives included the creation of 10,000 new jobs, implementation of a national mortgage bailout plan, and returning the majority shares in the national telecom company to state control. Two years later many of these campaign promises remain unfulfilled. Preliminary figures from the Bahamian Department of Statistics released in April 2014 indicate that economic growth in 2013 fell to just under 0.7 percent, compared to the IMF projections of 1.9 percent. The Bahamas continues to struggle with unemployment of 15.4 percent (down from a decade-high unemployment rate of 16.2 percent). The Central Bank of The Bahamas reported a 4.1 percent decline in stopover arrivals (the country's most profitable source of tourism) in 2013. Sluggish implementation of reforms coupled with growing public debt, a narrow revenue base, and heavy dependence on customs and property taxes led Moody's to conclude in early 2014 that the prospects for growth in The Bahamas were limited. (https://www.moodys.com) Both Moody's and Standard & Poor's affirmed the country's credit rating in 2013, following a rating reduction by Moody's and a long-term rating outlook revision to negative by Standard & Poor's in 2012. (http://www.standardandpoors.com)

In spite of this apparent stagnation, the International Monetary Fund (IMF) in its January 2014 Article IV consultations predicted 2.3 percent growth for the country in 2014 (http://www.imf.org/external/np/sec/pr/2014/pr1423.htm), and the Government of the Commonwealth of The Bahamas (GCOB) asserts that the long-awaited benefits from foreign-investment-led activities, particularly those in tourism and construction, are imminent.

Lackluster economic growth and continuing high unemployment have encouraged a shift in GCOB policy towards an aggressive and coordinated pursuit of new foreign direct investment and renewed efforts to implement promised reforms. After consulting with policy advisors, the IMF, and international experts, the GCOB acknowledged that its revenue base was "extremely narrow and ill-suited to the expanding needs and demands of modern Bahamian society." This explicit recognition inspired several policy changes, including expenditure cuts that resulted in a narrowing of the deficit by 22.6 percent to $209M and a growth in reserves to $912M in January 2014, as well as an overhaul of the existing tax system to include a proposal to introduce a Value Added Tax (VAT) in an effort to broaden the tax base.

The Bahamas is the only country in the Western Hemisphere that has not acceded to the World Trade Organization (WTO). The GCOB has committed to accelerating its efforts to acquire full membership, which will require it to remove barriers to international trade and take further steps to facilitate foreign investment. While its goals are commendable and vital to economic growth, the GCOB will likely face continued internal and external obstacles to their successful implementation.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude Toward FDI

Other than in the areas noted below, the GCOB does not give preferential treatment to investors based on nationality, and investors have equal access to incentives which include land grants, tax concessions, and direct marketing and budgetary support. The GCOB provides guidelines for investments through its National Investment Policy (NIP), which is administered by The Bahamas Investment Authority (BIA) in the Office of the Prime Minister.

Laws/Regulations of FDI

The BIA acts as a first point of contact for investors to the country and serves to channel and facilitate investment approvals. The agency is mandated to act as a “one-stop shop” for investors and works to assist them in navigating the tedious approval process. It is also the lead agency for international promotion of The Bahamas as a destination for investment. The BIA works to direct investment to specific sectors in the economy through its management of the national investment policy. The NIP provides guidance to policy makers, but is not codified in law.

Screening of FDI

Decision-making in The Bahamas is highly centralized and all investments by foreign nationals are subject to a time-consuming review and approval process by the Cabinet or the National Economic Council. Investment proposals must include economic and environmental impact assessments. Bahamian investors are not required to undergo this process.

Limits on Foreign Control (Please use DOC Key words, Industries in this section)

While the NIP explicitly “reserves” certain sectors of the economy exclusively for Bahamian investors, there have been notable exceptions. Areas in which the government specifically encourages Bahamian-only investment include wholesale and retail operations, commission agencies engaged in the import and export trade, real estate and domestic property management agencies, domestic newspaper and magazine publication, **building** supplies, **construction** companies, personal cosmetics/beauty establishments, shallow water fishing, auto and appliance service operations, and public transportation. In 2012, The GCOB amended the NIP to restore restrictions on foreign investment in restaurants and **entertainment** businesses not attached to a tourist development. The GCOB has made exceptions to this policy, granting approval to foreign nationals for joint ventures and other investment projects that do not meet the criteria specifically outlined by the letter of the NIP. In 2011, the GCOB increased the minimum investment requirement by international investors from $250,000 to $500,000.

Industrial Strategy

The NIP encourages and provides incentives for foreign direct investment in the following priority sectors: tourist resorts; condominiums; timeshare and second home developments; marinas; **information** and **data processing services**; assembly industries; high-tech **services**; ship repair and other **services**; light **manufacturing** for export; **agro-industries**; **food processing**; **aquaculture**; **banking** and other **financial services**; captive insurance; aircraft **services**; **pharmaceuticals**; and, offshore **medical** centers. The GCOB has also recently indicated strong interest in attracting FDI to non-traditional sectors, including alternative **energy** and **agriculture**.

Other Investment Policy Reviews

In the 2014 World Bank Doing Business Report (http://doingbusiness.org/rankings), The Bahamas dropped from 76th in 2013 to 84th in terms of the ease of doing business. The report also reflected a significant decline in the ease of starting a business and underscored the historically problematic issues related to property registration and contract enforcement. According to the 2014 Heritage Foundation Index of Economic Freedom (http://www.heritage.org/index/ranking), The Bahamas' score decreased by 0.3 point to 69.8, making its economy the 36th freest in the world. While its overall score remains higher than regional and world averages, the authors of the report note that government interference and lingering corruption have undermined its long-term prospects for broader-based economic expansion. On a positive note, the report also acknowledged The Bahamas' efforts to accede to the World Trade Organization (WTO). Positive initiatives stemming from these efforts include the circulation of draft intellectual property legislation and efforts to establish a national standards bureau and rules of origin regime.

Investment Trends

Related to these developments is the government's proposed effort to further reduce the number of tariff and non-tariff barriers to trade. Progress has been made in the reductions of tariffs but there are still several lingering non-tariff barriers. These barriers, coupled with the lengthy and bureaucratic approval process, hinder investment and undermine the development of a vibrant private sector, according to the 2013 Index of Economic Freedom Report.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2013	(22 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2014	(69.8: 36 of 177)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2014	(84 of 189)	http://doingbusiness.org/rankings

World Bank GNI per capita	2012	$20,600	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

Individuals and corporations resident in The Bahamas are subject to capital or exchange controls. These controls and the related regulations govern all foreign currency transactions between residents of The Bahamas and residents of foreign countries. The legal basis for the policy is in the Exchange Control Act of 1974 and the Exchange Control Regulations. According to the country's Central Bank, the controls are designed to ensure "the disciplined use of the country's foreign currency reserves and to assist in its balance of payments." The existence of the controls is not generally considered an impediment to investment.

The Bahamas is an Article VIII member of the IMF and has agreed not to place restrictions on currency transactions, such as payments for imports. In the administration of exchange controls, the Central Bank does not withhold approval for legitimate foreign exchange purchases for currency transactions and, in the interest of facilitating international trade, generally delegates this authority to major commercial banks and selected trust companies.

The current system allows international and local commercial banks to be registered by the Central Bank as 'Authorized Dealers.' This designation confers the authority to administer and conduct foreign currency transactions with residents of The Bahamas. Similarly, private banks and trust companies can be designated as 'Authorized Agents' and are permitted to act as depositories for foreign securities of residents and to conduct securities transactions for non-resident companies under their management.

Non-resident investors in The Bahamas must register with the Central Bank. If their projects are financed substantially by foreign currency transferred into The Bahamas, they will be given "approved status" meaning that profits and capital gains can be converted into foreign currency and repatriated. In practice, this has been done with minimal bureaucratic formalities and without limitations on the inflows or outflows of funds.

Foreign exchange transactions that fall outside of the delegated authority are approved directly by the Central Bank and include loans, dividends, issues and transfer of shares, travel facilities, and investment currency. These are generally routine and addressed at the Exchange Control Counter at the Central Bank or facilitated by correspondence with the Governor of the Central Bank.

Investment in The Bahamas will likely remain subject to exchange controls as policy makers maintain that this is an effective tool to preserve the country's external reserves, safeguard its capacity to meet its balance of payments, and maintain dollar parity with the United States. In January 2014 the country held just over half a billion dollars in excess reserves and 1.2B in excess liquid assets.

3. Expropriation and Compensation

Property rights are protected under Article 27 of The Bahamian Constitution, which prohibits the deprivation of property without prompt and adequate compensation. There have been recent compulsory acquisitions of property for public use by the GCOB to facilitate the New Providence Road Improvement Project (NPRIP), but in all instances there was satisfactory compensation at fair market value. There is no evidence that the GCOB has ever expropriated a business, and it remains unlikely that this will be an instrument of government policy.

4. Dispute Settlement

Investment Disputes

There is no history of significant investment disputes in The Bahamas that directly involve the GCOB, although smaller contractual and other disputes between Bahamians and foreign investors or exporters are increasingly common. The Bahamas is not a signatory to an international trade agreement with a developed dispute settlement mechanism and, therefore, disputes must be settled within the judicial system or international arbitration. The Bahamian legal system is based on British common law and foreign nationals are afforded full rights in Bahamian legal proceedings.

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The judiciary, appointed by the Governor General, is independent and there is no evidence of governmental interference with the system. The Attorney General, the Chief Justice, and the magistrates administer justice. The Bahamas remains a member of the British Commonwealth and still uses the Privy Council in London as the final court of appeal. The country also contributes financially to the operations of the Caribbean Court of Justice and recently announced its intention to develop itself as a center for international arbitration.

The judicial system is regarded as relatively free from corruption, but there are allegations of malfeasance by some of the 930 local attorneys. The President of The Bahamas Bar Association (BBA) reported that, in 2013, there were 115 reports to the BBA's Ethics Committee, several instances of attorneys being suspended, and four cases of attorneys being disbarred. Complaints made to the Embassy about local attorneys have primarily involved real estate transactions. Judicial processes in The Bahamas are sluggish and the courts face a persistent backlog of cases. Civil cases, on average, take five years to resolve. The lengthy judicial process is sometimes manipulated by local defendants to evade payment of Bahamian civil judgments by deliberately dragging out court disputes, especially in cases involving non-resident plaintiffs. The Attorney General of The Bahamas has acknowledged this challenge, and has implemented a "swift justice" program that aims to improve the system by utilizing video-conferencing technology to minimize delays related to court testimony by non-residents. Corporate plaintiffs must generally engage a resident attorney to represent their interests in court.

Judgments by British Courts and selected Commonwealth countries can be registered and enforced in The Bahamas under the Reciprocal Enforcement of Judgments Act. Court judgments from other countries, including those of the United States, must be litigated in the local courts and are subject to all Bahamian legal requirements.

Bankruptcy
Personal bankruptcy laws are antiquated and rarely used or enforced. Companies are regularly liquidated (voluntarily or involuntarily) according to the law. Liquidations are routinely published in accordance with the legislation. Creditors of bankrupt debtors and liquidated companies participate in the distribution of the bankrupt debtor's or liquidated company's assets according to statute. The 2014 World Bank report notes that The Bahamas enhanced its insolvency process by implementing rules for the remuneration of liquidators, allowing voluntary liquidations, and outlining of clawback provisions for suspect transactions. (http://doingbusiness.org/rankings)
The Bahamas has been a member of the International Center for the Settlement of Investment Disputes since 1995 and is also a member of the Multilateral Investment Guarantee Agency. This agency insures investors against current transfer restrictions, expropriation, war and civil disturbances, and breach of contract by member countries.

Order 66 of the Rules of the Bahamian Supreme Court provides rules for arbitration proceedings. The 1958 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards entered into force for The Bahamas on March 20, 2007. This convention also provides for the enforcement of agreements for commercial disputes. Under the convention, courts of a contracting state can enforce such an agreement by referring the parties to arbitration. There are no restrictions on foreign investors negotiating arbitration provisions in private agreements.

5. Performance Requirements and Investment Incentives

Performance Requirements
The Bahamas does not maintain formal performance requirements for investments, but policy statements suggest that the government is more inclined to approve projects that can provide proof of funding and will create local employment. Recent agreements negotiated with individual investors indicate an ad hoc approach to performance requirements that are not specifically supported in policy or law. In these cases, and particularly with larger developments, performance requirements are written into "heads of agreement," between the government and the investor. It is noteworthy that these heads also include GCOB obligations to the investor.

WTO/TRIMS
The Bahamas is an observer in the WTO and does not belong to the agreement on Trade Related Investment Measures (TRIMS). It has signed an Economic Partnership Agreement (EPA) with the countries of the Forum of the Caribbean Group of African, Caribbean, and Pacific (ACP) states (CARIFORUM) and the European Union.
Compliance with the terms of the EPA has resulted in reductions to both the range and rate of tariffs applied to goods originating from countries party to the agreement. While there is no specific discrimination based on rules of origin and, at the moment, no rules of origin regime in the country over the long term, the agreement could have implications for U.S. investment. The reciprocal agreement requires that The Bahamas eliminate duties on 87 percent of its tariff headings in five, ten, and fifteen year baskets. Provided that a trade agreement is not finalized

between the U.S. and The Bahamas, and that The Bahamas does not accede to the WTO, the EPA could result in an advantage to EU and/or CARIFORUM producers over the long term.

Investment Incentives

Tax relief is the most significant investment incentive in The Bahamas. Currently the GCOB does not impose taxes on income, sales, estates, or inheritances in the country, and the only direct tax is real property tax. Bahamian nationals are not required to pay real property tax on undeveloped land or land outside of the major city centers. Casinos are specifically taxed, and there is a $25 departure tax included in airline tickets. The government has initiated public consultations on the possible implementation of a Value Added Tax (VAT).

Other incentives for investment include concessions on import duties, property tax abatement, and, in some cases, land grants for private development.

The GCOB has acknowledged the need for customs and tax modernization and has recently begun reforms in this area. Progress has been slow, but current efforts are now being supported with financial assistance from the Inter-American Development Bank.

Industry and region-specific incentives are offered to any qualifying individual and available under the following legislation:

- *Industries Encouragement Act*
- *City of Nassau Revitalization Act*
- *Family Island Development Act*
- *Hawksbill Creek Agreement Act*
- *Free Trade Zone Act*
- *Export Manufacturing Industries Act*
- *Hotels Encouragement Act*
- *Agricultural Manufacturers Act*
- *Bahamas Vacation Plan and Time-Sharing Act*
- *Spirits and Beer Manufacturers Act*
- *Bahamas Investment Incentives Act*

Details of the these and related legislation is available at **http://www.bahamas.gov.bs**

There is no policy of forced localization or a requirement for technology transfers, but there is official encouragement to direct benefits to local producers and the transfer of skills. This engagement is a part of the negotiations with government and it is not uncommon for an investor to gain greater concessions where there is direct benefit to local business or for an investment in economically depressed regions.

Work permits are generally facilitated for key foreign employees as part of the investment approval process, but government policy generally favors the employment of Bahamian nationals and, to a lesser degree, residents. Fees for work permits have developed as a revenue measure and, depending on the category of employee, can cost up to $12,500 annually. Work permits for less senior employees and those without specialized skills are generally more difficult and time-consuming to obtain. Given the high unemployment rate, the Department of Labor is currently reviewing the work permit policy with an aim to making it more stringent. Work permits, like investment permission, are also subject to a time-consuming review process and require Cabinet approval.

6. Right to Private Ownership and Establishment

Beyond the areas "reserved" for Bahamian participation in the NIP, rights to private ownership and establishment are maintained and respected. With the assistance of a local attorney, investors can create the following types of businesses: sole proprietorship, limited or general partnership, joint stock company, or a subsidiary of a foreign company. However, the most popular all-purpose vehicles for foreign investors are the International Business Company (IBC) and the Limited Duration Company (LDC). Both benefit from income, capital gains, gift, estate, inheritance, and succession tax exemptions.

The right of establishment is subject to licensing and approval by the relevant authorities, but generally foreign and domestic private entities may engage in all forms of remunerative activity. They may also freely establish, acquire, and dispose of interests in their business enterprises. However, any foreign investment is subject to a high level of scrutiny and approval by the BIA.

7. Protection of Property Rights

Real Property

The Bahamas' score for ease of "registering property" in the World Bank's 2014 Doing Business Report remains unchanged at 182 out of 189 countries. (http://doingbusiness.org/rankings) The GCOB supports and encourages joint venture and partnership investments in some sectors of the economy (see National Investment Policy) and allows 100 percent foreign ownership of an enterprise. All international investments are subject to review by the National Economic Council/Bahamas Investment Authority and can benefit from the incentives as legislated by the government.

The legal system facilitates the investor's secured interest in both mobile and immobile property and is recognized and enforced in law. Mortgages in real property and security interests in personal property are recorded with the Registrar General of The Bahamas. A noteworthy development in 2014 has been the reduction of stamp duties in the country, making it easier to register property. The duties now range between 4-10 percent of the value of conveyances.

Intellectual Property Rights

The Bahamian government is taking positive steps to strengthen Intellectual Property Rights (IPR) protection as part of its WTO accession process. The Bahamas is a member of the World Intellectual Property Organization (WIPO) but has not ratified the WIPO Internet treaties. There is no legislation relating to geographical indications, rules of origin, or technological protection measures, and there are recognized shortcomings in the current industrial design and patents legislation. To this end, the GCOB has implemented a "Plan of Action", which includes proposed legislative amendments to address gaps in the current IPR legislation. The goal of the proposed amendments is to provide greater IPR protections and more stringent penalties for violations. The new legislation will bring The Bahamas into compliance with the terms of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement of the WTO as well as its obligations under the Economic Partnership Agreement.

The Bahamas is signatory to the following intellectual property conventions and agreements:

- Berne Convention for the Protection of Literary and Artistic Works
- Paris Convention for the Protection of Industrial Property
- Universal Copyright Convention (UCC)
- Convention establishing the World Intellectual Property Organization (WIPO)
- Convention on the means of prohibiting and preventing the illicit import, export and transfer of ownership of cultural property

The Bahamas is not listed the U.S. Trade Representative (USTR)'s 2014 Special 301 Report. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/."
Embassy point of contact: Dawn Beaupain BeaupainDE@state.gov

8. Transparency of the Regulatory System

The Bahamas' regulatory environment ranks highly when compared with that of other countries in the Western Hemisphere, but there are some areas that continue to show structural weakness, including the ease of registering property, trade policy, and bureaucratic hurdles that undermine the investment environment. The 2014 World Bank Report highlights these challenges and, consequently, reduced The Bahamas' ranking in all but two categories, citing the bureaucratic and archaic judicial system and a slow reform of its land registry. While the government does advertise a market environment where transparency, fair play, and equality of treatment are protected under the law, The Bahamas does not currently have legislation governing competition policy, antitrust policy, and government procurement.

Government procurement has been particularly problematic in The Bahamas. Successive administrations have reneged on or renegotiated contracts executed by previous administrations. Over the last year, the Embassy has received several complaints from U.S. companies alleging a lack of transparency and undue government interference with bidding and procurement processes.

From a practical standpoint, each ministry or governmental agency may employ any method to select a goods or services supplier. The Financial Administration and Audit Act state that a minister can approve any purchase up to $50,000. In the case of purchases equal to or greater than $50,000, but less than $250,000, the Tenders Board, chaired by the Financial Secretary, will make a recommendation to the Minister of Finance for approval. Amounts exceeding $250,000 must receive Cabinet approval. The process lacks transparency, there is no requirement to engage in open public tenders, and award decisions are not subject to challenge or review. The GCOB has implemented procurement procedures in the management of funds from international lending agencies but appears reluctant to implement best international practices for the management of national finances.

Other areas of concern include the discretionary issuance of approvals and licenses from various government agencies, the National Economic Council and other related authorities. In most instances, there is a general lack of transparency with an extremely limited to no possibility for review or appeal of a decision.

To encourage and maintain foreign investment and comply with new international agreements, the GCOB has undertaken a review of its investment policies with an aim to simplify the process and reduce ambiguity and suggested reorganization of The BIA to institute greater efficiency in the investment approvals process.

The Bahamas does not currently have legislation or institutions for the development and implementation of national standards. The government has indicated its commitment to developing a national standards bureau and is receiving technical assistance from the Department of Agriculture, Foreign Agricultural Service (FAS), the Caribbean Export Development Agency (CEDA) and the Caribbean Regional Organization for Standards and Quality (CROSQ).

9. Efficient Capital Markets and Portfolio Investment

The financial sector of The Bahamas is highly developed and dynamic, providing a wide array of services by several types of financial intermediaries. The Central Bank of The Bahamas and the Financial Intelligence Unit (FIU) are the regulatory bodies of the financial sector which consists of savings banks, trust companies, offshore banks, insurance companies, a development bank, a publicly controlled pension fund, a housing corporation, a public savings bank, private pension funds, cooperative societies, credit unions and commercial banks – which dominate financial intermediation. In January 2014, The Bahamas boasted 280 banks and trust companies licensed in the country. Of this number, 115 are subsidiaries of institutions from 23 countries including Switzerland, the United Kingdom, Canada, and the United States. These institutions have a combined balance sheet of more than $300B and over $1 trillion in assets under administration. The free flow of capital to markets is encouraged by the GCOB and supported by the functions of the publicly funded Bahamas Development Bank and the Bahamas Mortgage Corporation. The Small Business Loan Guarantee Program and the Bahamas Venture Capital Fund are initiatives of the previous Ingraham Administration (2007 – 2012) to fund 100 percent Bahamian-owned businesses through debt and equity financing. These initiatives have had poor results but continue to receive priority from the government. The GCOB proposed new legislation that would provide technical and financial support for small and medium-sized business development in 2014, to include a reorganization of the Bahamas Development Bank and The Bahamas Agricultural Industrial Corporation.

There are no legal limitations on foreigners' access to the domestic credit market, and credit is available on market terms through commercial banks. Bahamian-foreign joint venture businesses are encouraged by the government and are eligible for financing both through commercial banks and the Bahamas Development Bank.

10. Competition from State-Owned Enterprises

State-Owned Enterprises (SOEs) are active in the **utilities** and **services** sectors with a few notable monopolies still maintained by the GCOB. There has been a reduction in the number of SOEs in The Bahamas with the privatization and recent liberalization in the **telecommunications** sector, but, to date, the following SOEs are still maintained and funded by the GCOB:

- *Bahamas Air (National Flag Carrier)*
- *Bahamas Electricity Corporation*
- *Water and Sewerage Corporation*
- *Broadcasting Corporation of The Bahamas (ZNS)*
- *The Bahamas Hotel Corporation*

The Water and Sewerage Corporation (WSC) and the Bahamas Electricity Corporation (BEC) are the largest public corporations in The Bahamas. Both utility providers operate as monopolies and are supported by legislation. The GCOB has permitted limited exceptions to these monopolies, and has provided licenses to private suppliers of electrical and water and sewerage **services**. These licenses have been issued for private real estate developments or in locations in which there is limited government capacity to own and operate the utility. An additional exception was made for the city of Freeport on the island of Grand Bahama, which has its own licensing authority for the provision of electricity and sanitation **services**.

The GCOB has had a mixed record on privatization of telecommunications. The Ingraham Administration took some positive steps to divest ownership and sold 51 percent of the Bahamas **Telecommunications** Company (BTC) to Cable & Wireless (DBA LIME) in April 2011. The government retained ownership of 49 percent of the company. In 2014, at the initiative of the Christie Administration, Cable & Wireless agreed to transfer two percent of shares to a trust to fund social programs, while board and management control would remain with the investors. The GCOB has recently announced liberalization of the sector, which would be overseen by a yet-to-be named national committee.

There is no immediate plan for the divestment of the national flag carrier, Bahamas Air. Privately owned airlines providing service to the various markets have consistently complained of the market distortions created by the national carrier. The private operators believe that the practice should be regulated by a competition authority and cite the fact that the national airline uses state funds to undercut fares as proof of unfair competition in the sector. Bahamas Air has operated at a loss for more than two decades.

The Bahamas Electricity Corporation is equally challenged and is seen by potential local and international investors as an impediment to diversification and development of an alternative **energy** platform. The corporation is the largest SOE in the country and has recently accumulated losses of more than half a billion dollars of debt. This debt has hampered its ability to independently fund the replacement of its decades old plants and the necessary expansion to meet the needs of the country. These factors combined with the increase in global oil prices have resulted in **energy** prices in The Bahamas being among the highest in the hemisphere. Investors recognized this confluence of issues as an opportunity and many have entered the market to offer solutions ranging from the introduction of utility scale alternative **energy** solutions to new generation plants fueled by CNG/Propane and other gas options. In response, the GCOB released and recently concluded three rounds of a request for proposal to divest 49 percent of the generation responsibilities of the corporation and for a privately owned management company to address the issues related to transmission and distribution. Five companies have been shortlisted as finalists and the expectation is that the process will conclude in mid-2014. The current monopoly makes limited provisions for self-generation and no coordinated policy for the introduction of renewable **energy** or the regulation of the sector.

Each SOE has a board of directors chaired by senior politicians, and includes board members drawn from the Chambers of Commerce, trade unions, governing party members, and broader civil society. Board memberships are paid and not subject to public vetting. Oversight is under the purview of a member of the Cabinet. Historically, these corporations were used to employ party supporters and, with few exceptions, none have demonstrated sustained profitability.

11. Corporate Social Responsibility

There is a growing awareness of and commitment to Corporate Social Responsibility (CSR) by local and foreign companies operating in The Bahamas. Companies resident in The Bahamas tend to set their own standards for levels of CSR, as it is not a requirement by law. There are no fiscal incentives available to companies that choose to demonstrate this responsibility. International companies have led CSR-related initiatives, including educational programs directed at capacity-building for specific industries, the maintenance of public spaces and financial and technical assistance to charitable organizations.

12. Political Violence

The Bahamas has no history of political violence and, barring a few incidents leading up to the last general elections, the political process is violence-free and transparent. These incidents were relatively minor and included damage to political party installations, signage, billboards, and a few reported altercations between opposing party members.
Outside the context of elections, labor disputes have become unruly on occasion, and strikes and demonstrations are becoming more common in the country. These incidents are usually confined to the public sector where there is a larger percentage of unionized workers. The recent transition of the telecommunication company to private ownership was marked by employee protests.

13. Corruption

According to Transparency International's 2014 Corruption Index, corruption "remains a problem at all levels of government with top officials frequently facing allegations of administrative graft, domestically and from abroad." (http://cpi.transparency.org/cpi2013/results)
In The Bahamas, giving a bribe to, or accepting bribes from, a government official is a criminal act under the Prevention of Bribery Act. The penalty under this act is a fine of up to $10,000, or a maximum prison term of four years, or both. That said, there has never been a prosecution under the Act and anecdotal evidence suggests there is widespread patronage with contracts routinely directed to party supporters and benefactors. At this point, there has not been a sustained effort to ensure that opportunities for abuse of the system are minimized.
The Bahamas has been a State Party to the Inter-American Convention against Corruption since signing in 1998 (ratified in 2000), and a party to the Mechanism for Follow-Up on the Implementation of the Inter-American Convention against Corruption (MESICIC) since June 2001. U.S. firms operating in The Bahamas are generally aware of the 1977 US Foreign Corrupt Practices Act and have not been accused of breaches of this law.

The Bahamas is not a signatory to the U.N. Convention Against Corruption.

14. Bilateral Investment Agreements

There is no Bilateral Investment Treaty (BIT) between The Bahamas and the United States. The Bahamas was designated a beneficiary of the Caribbean Basin Initiative (CBI) in 1985 and has established a Tax Information Exchange Agreement with the United States—one of twenty-nine that The Bahamas has ratified. The agreement establishes The Bahamas as a qualified jurisdiction and allows U.S.-registered companies to qualify for tax credits for conventions and related corporate expenses in The Bahamas. The Bahamas is also nearing completion of an Inter-Governmental Agreement under the Foreign Account Tax Compliance Act (FATCA). The benefits under CBI provide products manufactured in The Bahamas that meet defined rules of origin duty-free and quota-free entry into the United States, such as the country's largest export to the United States, polystyrene beads used in the production of Styrofoam products. The Bahamas has had modest success for exports under the agreement with some businesses citing high labor and other production costs being a major impediment to achieving maximum benefits. The objective of CBI is to promote economic development through private sector initiatives in Central America and the Caribbean by expanding foreign and domestic investment in non-traditional sectors, diversifying CBI country economies and expanding their exports. The Bahamas continues to use this access guaranteed by waiver from the WTO as an incentive for investments in manufacturing in the domestic economy. The CBI agreement expires at the end of 2015 and prospects for an additional waiver are unknown at this time. The issue is of growing concern to current and potential investors in the region.

Other noteworthy agreements include CARICOM, the Economic Partnership Agreement (EPA), and CARIBCAN.

The Caribbean Community (CARICOM) was established in 1973 by the then-independent countries of the English-speaking Caribbean. The Bahamas joined in 1985 and has voiced strong support for the political and social objectives of the agreement, but has opted to only functionally cooperate on matters related to economic policy and regional trade. The Bahamas financially supports the work of CARICOM and contributes to the operations of the Caribbean Court of Justice even though it does not recognize the court for settlement of disputes originating in The Bahamas' jurisdiction.

The CARIFORUM – EU Economic Partnership Agreement was concluded between CARIFORUM states (CARICOM and the Dominican Republic) and the European Union and its member states in 2008. The EPA replaces the expired non-reciprocal trade relationship that existed under the Cotonou Agreement between these former European colonies. The overarching objectives of the EPA are to alleviate poverty in CARIFORUM states, to promote regional integration and economic cooperation, and to foster the gradual integration of CARIFORUM states into the world economy by improving their trade capacity and creating an environment conducive to investment. The agreement promotes trade-related developments in areas such as competition, intellectual property, public procurement, the environment, and protection of personal data.

CARIBCAN is an economic and trade development assistance program for Commonwealth Caribbean countries in which Canada provides duty free and quota free access to its national market for the majority of products which originate in Commonwealth Caribbean Countries. The agreement is currently being renegotiated and is expected to become reciprocal with strong support for development initiatives and integration within the region.

Additionally, The Bahamas has applied for benefits under the Caribbean Basin Trade Partnership Act (CBTPA) and is awaiting ratification.

15. OPIC and Other Investment Insurance Programs

Since 1992, the U.S. Overseas Private Investment Corporation (OPIC) has approved two investment projects in The Bahamas. It guaranteed up to $10.8 million in loans to Uniroyal Chemical Company, Ltd. to assist in the purchase and refurbishment of a plant in Freeport. The Uniroyal plant has since closed. In addition, OPIC committed up to $1.6 million to Landquest, Ltd., for the development of a cruise ship facility on the island of Eleuthera. The facility at Princess Cay, Bannerman Town, Eleuthera, is currently operational and a major source of employment for residents of the southern end of the island.

In 1999, OPIC signed with Citibank to establish a $200 million investment facility for the Caribbean and Central America, as one means of encouraging investment and stimulating economic development. The Caribbean Development Bank, of which The Bahamas is a member, administers the program and provides financing and political risk insurance to viable private sector projects in these emerging markets.

The Bahamas is also associated with the Multilateral Investment Guarantee Agency of the World Bank, which insures investors against currency transfer restrictions, expropriation, war, civil disturbances and breach of contract by member countries.

16. Labor

According to the Bahamian Department of Statistics, the labor force grew from 195,660 at the beginning of 2013 to 196,880 by the end of 2013. The Bahamian labor force is generally considered to be well-educated by international standards. Despite this fact, national unemployment increased from 14.2 percent in 2013 to 15.4 percent in 2014. The island of Grand Bahama continues to experience the greatest challenge with local unemployment estimated by the Department of Statistics as upwards of 18 percent and unemployment among those under 30 years of age as high as 32.3 percent.

Wage rates, while lower than in the United States, are higher than elsewhere in the Caribbean. Well-qualified accountants and secretaries, and others with skills appropriate to the financial **services** industry, command a premium wage while wages for low-skilled labor, mostly found in hotels and restaurants, hover around the minimum rate. In the 2000/2001 Government Budget, the GCOB increased its minimum wage for public sector employees from $4.12 per hour to $4.45 per hour. The minimum wage for private sector workers is $4 per hour. The Fair Labor Standards Act requires at least one 24-hour rest period per week, paid annual vacations, and employer contributions to National Insurance (Social Security). The Act also requires overtime pay (time and a half) for hours in excess of 40 or on public holidays. A 1988 law provides for maternity leave and the right to re-employment after childbirth. A new Minimum Labor Standards Act, including the Employment Act, Health and Safety at Work Act, Industrial Tribunal and Trade Disputes Act, and the Trade Union and Labor Relations Act were passed in 2001 and in early 2002.

The Bahamian Constitution specifically grants labor unions the right to free assembly and association. These rights are exercised extensively, particularly in state-owned industries and in the hotel industry (where 80 percent of the employees are unionized). The right to strike is governed under the Industrial Relations Act, which requires a simple majority of union members to vote in favor of a strike before it can commence. The Ministry of Labor oversees strike votes. Although prolonged strikes are still rare, work slow-downs and protests occur, and workers often use labor actions to force management to act on issues of concern to them. Labor unions and others involved in disputes with foreign-owned enterprises have not been above using the fact of foreign ownership as a lever to gain popular support for their demands. Labor relations are generally strained and, within the past 12 months, there have been several issues of concern raised by at least six major unions. These issues are being addressed within the law, but there have been at least two instances where employees have abandoned their jobs in protest of terms and conditions of work. On April 30, Bahamian attorney and trade union leader Obie Ferguson stated that there has been a complete breakdown in labor relations between the government and unions in The Bahamas. He warned that this breakdown could lead to a massive strike if the government does not resolve outstanding labor issues.

There is significant concern in The Bahamas about increasing immigrant labor and the growing number of undocumented workers, in particular. The Immigration Act requires foreigners to obtain work permits before they can legitimately be employed in The Bahamas. The GCOB permits foreign employees to work in a technical, supervisory or managerial capacity, provided no similarly qualified Bahamians are available for the job. Foreign business owners are expected to train as many of their Bahamian employees as possible to eventually fill technical and managerial positions. Work permit fees range from $500 to $12,500 per year.

17. Foreign Trade Zones/Free Ports

The 1955 Hawksbill Creek Agreement established Freeport on the island of Grand Bahama. Freeport is the country's second-largest city and has developed as a free trade and economic development zone under private ownership and control of the Grand Bahama Port Authority (GBPA).

Firms licensed by the GBPA to operate within the 230-square mile free trade zone are granted the right to import equipment and materials duty-free and benefit from the exemption from real property taxes and business license fees ordinarily payable to the central government. However, there are fees imposed by the GBPA for businesses operating in Freeport that are not subject to national regulation and, in some instances, lack transparency.

The founders and current owners of the GBPA have facilitated the investment of billions of dollars into the infrastructure of the island, but have had modest success in creating sustained economic activity. To its credit, the GBPA has facilitated the development of a deep-water harbor, container port, and the largest privately owned airport in the region. With the assistance of joint venture partners, Freeport is also home to a significant cruise ship terminal, industrial park, and is poised to become The Bahamas' leading industrial city.

In 1993, the GCOB extended the Hawksbill Creek property tax exemptions to 2015 and duty exemptions to 2054, but withdrew real property tax exemptions for foreign individuals and corporations. Renegotiation of this aspect of the agreement between the government and the Port Authority are expected to begin in 2014, but there is already debate as to whether the GCOB should maintain and extend the benefits of the free zone or return the management of this area to the control of central government. The issue has been raised in the WTO membership negotiations, specifically regarding the capacity of the GBPA's ability to conduct operations and act as an effective independent regulatory authority.

The GCOB has hinted at plans to extend the exemptions granted to the Free Zone to the entire island of Grand Bahama.

Additional information is available at **www.gbpa.com**

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	N/A	N/A	2012	$8,149	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other

Inward FDI Flows (*Millions U.S. Dollars)*	N/A	N/A	2012	1,094	United Nations Conference on Trade and Development World Investment Report 2013: http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx
Outward FDI Flows (*Millions U.S. Dollars)*	N/A	N/A	2012	367	United Nations Conference on Trade and Development World Investment Report 2013: http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx

TABLE 4: Sources of Portfolio Investment
The Bahamas, 2012

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	12,113	100%	All Countries	1,795	100%	All Countries	10,318	100%
United States	5,381	44%	United States	994	55%	Brazil	4,936	48%
Brazil	5,340	44%	Brazil	404	23%	United States	4,387	43%
Guatemala	460	4%	United Kingdom	166	9%	Guatemala	460	4%
United Kingdom	190	2%	Sweden	85	5%	Germany	129	1%
Argentina	147	1%	Netherlands	47	3%	Argentina	108	1%

Source: http://cpis.imf.org/

The Bahamas is experiencing growth in the investment fund sector, and has seen significant increases in investments from Brazil, in particular. According to the Securities Commission of The Bahamas, the increase is due to the development and approval of SMART Funds – risk-adjusted, low-cost investment structures. The Bahamas was recently designated a Status A signatory of the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding.

Sources of portfolio investment are not known to be tax havens; however, the BIA actively promotes The Bahamas' tax-free environment for investors.

19. Contact Point at Post for Public Inquiries

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